

CHESAPEAKE OPERATING, INC.

P.O. BOX 18496
OKLAHOMA CITY, OKLAHOMA 73154-0496
405/848-8000, EXT. 416
405/879-9560 FAX

LAND DEPARTMENT

MIKE HAZLIP, CPL
LANDMAN

August 29, 1997

VIA FACSIMILE (915) 687-8483 AND CERTIFIED MAIL

Mr. Joe Rusnak
Marathon Oil Company
P.O. Box 552
Midland, Texas 79702-0552

Re: Proposed Gandy 1-19 Unorthodox Location
SW/4 NE/4 Section 19-T16S-R36E
Lea County, New Mexico

Dear Joe:

Chesapeake has been advised that Marathon is opposing our Gandy 1-19 unorthodox location. We understand your concern for the proximity of our location to your lease but our work indicates there will be insignificant if any drainage from your lease due to the size and shape of the anomaly. In order to avoid a protested hearing at the New Mexico Oil Conservation Division, Chesapeake hereby offers a voluntary reduction in production allowable of 25% and a mirror location with a like production allowable on Marathon's lease.

Should you determine our offer to be a reasonable remedy, please sign in the space provided below and return to my attention no later than Tuesday, September 2, 1997
Thank you for your consideration.

Most sincerely,


Mike Hazlip

AGREED TO AND ACCEPTED this _____ day of November, 1996.

MARATHON OIL COMPANY

By: _____

Title: _____

NEW MEXICO
OIL CONSERVATION DIVISION
CO1 EXHIBIT **3**
CASE NO. **11844**