

Permian North Land Department

February 21, 2006

VIA FACSIMILE (817) 870-2316
AND U.S. MAIL

Mr. Robert Ebeier
Range Operating New Mexico, Inc.
777 Main Street, Suite 800
Fort Worth, Texas 76102

Re: Loving East Waterflood
N/2 & N/2 S/2 Section 23-T23S-R-28E
Eddy County, New Mexico

Dear Mr. Ebeier:

Pursuant to Range Operating New Mexico Inc.'s proposal letter dated February 9, 2006, Chesapeake Operating, Inc. on behalf of Chesapeake Exploration Limited Partnership, ("Chesapeake") hereby elects to participate in the workovers of the captioned waterflood. Please find the executed election and AFE enclosed.

Please furnish Chesapeake with daily drilling reports and all other well information in accordance with the enclosed Well Data Requirements sheet. Chesapeake will provide its own insurance with respect to its share of liabilities incurred in the drilling, completion and operation of the captioned well. A copy of our certificate of insurance will be provided upon request.

Should you have any questions, give me a call at (405) 767-4458.

Sincerely,

Chesapeake Operating, Inc.

Lynn McGuire
Land Technician

Enclosures

\\chkenergy.net\Departments\Land\Permian_North\Non-Operated Wells\Loving EastWaterflood(Range)\Election Letter 2-21-06.doc

RANGE OPERATING NEW MEXICO, INC.

777 MAIN STREET, SUITE 800
FORT WORTH, TEXAS 76102
817.870.2601
817.870.2316 (FAX)

February 9, 2006

Chesapeake Permian, L.P.
Attn: Ms. Kathy Blick
6100 N. Western Avenue
Oklahoma City, OK 73118

Re: **Waterflood Proposal:** N/2 and N/2 S/2 of Section 23,
T23S, R28E, NMPM
Eddy County, NM

Gentlemen:

Range Operating New Mexico, Inc. hereby proposes to implement a lease waterflood covering all of the N/2 and N/2 S/2 of Section 23 in T23S, R28E, Eddy County, NM. To flood the proposed area seven workovers will be performed on twelve producers at a cost of \$1,345,000 (included is the cost to drill a water producer, if needed). Five injectors will be drilled and one producer converted to an injector at a cost of \$3,650,000. Facilities, equipment and lines will be installed at a cost of \$420,000. The total project cost is estimated to be \$5,415,000 (see the attached AFE). Chesapeake Permian, L.P.'s working interest is 50%.

In the event you agree to participate in the proposed lease waterflood as outlined above, please acknowledge your participation by signing and returning one (1) copy of this proposal letter.

Should you have any questions, please do not hesitate to contact me at 817.870.2601. For technical questions, please call Mr. Andrew Tullis at 817.870.2601.

Very truly yours,

Robert Ebeier
Senior Landman

AGREED TO AND ACCEPTED THIS 17th DAY OF

February, 2006.

Chesapeake Exploration Limited Partnership

By: 

Aubrey K. McClendon

Title: Chief Executive Officer of

Chesapeake Operating, Inc., General Partner of
Chesapeake Exploration Limited Partnership an
Oklahoma limited partnership



LOVING EAST PROPOSED WATERFLOOD AFE

RANGE OPERATING NEW MEXICO

Producers

| Well | Zones Open | Zones Below CIBP | Work Required | Estimated Cost |
|-------------------|-----------------------|------------------|-----------------------|----------------|
| Donaldson Comm #1 | A,C,D | None | None | \$0 |
| SCB #3B | A,AA,D | None | Add C | \$150,000 |
| SCB #4B | Pardue | C,D | Knock out CIBPs | \$70,000 |
| SCB 23-1 | AA,A,B | D | Knock out CIBP, add C | \$170,000 |
| SCB 23-2 | Pardue,AA,A,C,D | None | None | \$0 |
| SCB 23-4 | B | D | Knock out CIBP, add C | \$170,000 |
| SCB 23-5 | AA,A,B | D,Basil | Add C | \$70,000 |
| SCB 23-6 | A,C,D | None | None | \$0 |
| SCB 23-7 | Pardue | C,D | Knock out CIBPs | \$70,000 |
| SCB 23-8 | A,C | None | None | \$0 |
| SCB 23-11 | Pardue,AA,A,B,C,D | None | None | \$0 |
| SCB 23-12 | AA,A,B | C,D | Knock out CIBP | \$70,000 |
| Water Producer | Cherry Canyon (4500') | | Drill and Complete | \$575,000 |

TOTAL PRODUCERS

\$1,345,000

Injectors

| | | | | |
|-----------------|----------|------|---------------------|-----------|
| SCB 23-15 | AA,A,C,D | None | Convert to injector | \$50,000 |
| SCB 23-17 | None | None | Drill and complete | \$700,000 |
| SCB 23-18 (dir) | None | None | Drill and complete | \$750,000 |
| SCB 23-19 (dir) | None | None | Drill and complete | \$750,000 |
| SCB 23-20 | None | None | Drill and complete | \$700,000 |
| SCB 23-21 | None | None | Drill and complete | \$700,000 |

TOTAL INJECTORS

\$3,650,000

Facilities

| | | | | |
|-------------------|----------------|--|--|----------|
| Pump | | | | \$80,000 |
| Tanks & Battery | | | | \$70,000 |
| Lines | 9000' @ \$8/ft | | | \$72,000 |
| Valves & Fittings | | | | \$50,000 |
| Water Knock out | | | | \$40,000 |
| Electrical | | | | \$10,000 |
| Contingency | | | | \$50,000 |
| Labor | | | | \$20,000 |
| Meters | | | | \$8,000 |
| ROW / Damages | | | | \$20,000 |

TOTAL FACILITIES

\$420,000

TOTAL PROJECT

\$5,415,000

| | | |
|----------------------------|-----------|--------------------|
| | WI | Net Capitol |
| Range Operating New Mexico | 50% | \$2,707,500.00 |
| Chesapeake | 50% | \$2,707,500.00 |

**GEOLOGY DEPARTMENT
WELL DATA REQUIREMENTS
CHESAPEAKE OPERATING, INC.**
P. O. BOX 18496 Oklahoma City, OK 73154

OPERATOR: Range Operating New Mexico, Inc.
WELL NAME: Loving East Waterflood

LOCATION: Section 23-T23S-R28E
COUNTY/STATE: Eddy County, NM

SPECIFIC INFORMATION REQUESTED PRIOR TO SPUD:

1. Name, address and phone numbers of landman, geologist and engineer who will service the well, and one (1) copy of each: final AFE, Survey Plat, Regulatory Permit, Geological Prognosis, Drilling Prognosis, and Directional Plan.

DAILY REQUIREMENTS: - DRILLING & COMPLETION REPORTS:

1. **PRIMARY** E-Mail or Fax to **CHK Non-Ops Reports** ASAP each day.
Voice #: 405/879-9115 Fax #: 405/879-9534 E-mail: NonOpsRpts@CHKEnergy.com
2. **SECONDARY** E-Mail or Fax to **Lee Wescott** ASAP each day.
Voice #: 405/767-4572 Fax#: 405/879-9577 E-mail: lwescott@chkenergy.com

Also to include:

Daily Electric and Mud Logs, and E-Mail any field reports pertaining to operations or Daily Directional Survey when applicable.

NOTICES:

1. Notify the following 24 hour notice of intention to SPUD, LOG, CORE, FORMATION TESTING, COMPLETION, SIDETRACK OR ABANDON:

Primary Geologist: Lee Wescott

Office Phone: 405/767-4572

Office Fax: 405/879-9577

Home Phone: 405/324-6067

E-mail: lwescott@chkenergy.com

Secondary Geologist: Mike Brown

Office Phone: 405/879-9223

Office Fax: 405/879-9577

Home Phone: 405/216-0817

E-mail: mbrown2@chkenergy.com

LOGS AND DATA:

Mail to 6100 N. Western, Oklahoma City, OK 73118

Attention: Erin Allen

E-Mail to: LogData@chkenergy.com, mdaigle@chkenergy.com and lwescott@chkenergy.com LAS and Tiff (raster) files w/ all open hole log data.

1. All open hole and cased hole logs.....Final Prints 6
-includes Dipmeter, FMS, etc.-
2. Mud Logs.....Final Prints 6
3. Oil, gas and water analysis.....Final Print 1
4. Directional Survey.....Final Print 1
5. Bottom hole pressure surveys and reports.....Final Print 1
6. Geological & Paleotological Reports.....Copies 1
7. **PRODUCTION DATA:** E-Mail or fax monthly for the first ninety (90) days to productionnonop@chkenergy.com, Fax 405/879-7860 and Lee Wescott E-mail: lwescott@chkenergy.com, Fax 405/879-9577. Production data includes all information, specifically, but not limited to, choke size, FTP, flow rates, gas mcfd, bopd, bwpd, method of production (free flow, rod pumping, etc.)

For notification, or if we could offer some assistance, please call Lee Wescott, geologist 405/767-4572, Kathy Blick, landman 405/767-4432, Andrew McCalmont, engineer 405/879-7852.

Thank you.

INJECTION AGREEMENT

STATE OF NEW MEXICO §
 § KNOW ALL MEN BY THESE PRESENTS THAT:
COUNTY OF EDDY §

This agreement is made by and between **John Draper Brantley, Jr., a/k/a Draper Brantley, Jr.**, whose mailing address is 706 W. Riverside Dr., Carlsbad, NM 88220, hereinafter called "Owner", and Range Operating New Mexico, Inc., a Delaware corporation, whose mailing address is 777 Main St., Suite 800, Fort Worth, Texas 76102, hereinafter called "Operator".

WHEREAS, Owner hereby represents and warrants that they are the owner of the surface estate covering all of the SW/4 and the N/2 SE/4 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM (hereinafter referred to as "the Lands");

WHEREAS, Operator plans to drill the South Culebra Bluff "23" #17, #20 and #21 wells located in the N/2 SW/4 and the N/2 SE/4 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM ("the Wells"), the plat of which is set out on the Exhibit "A" attached hereto;

WHEREAS, Operator is proposing to implement a pilot lease waterflood covering all of the N/2 and the N/2 S/2 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM, and is seeking the approval of the Owner to inject off-lease salt water and other produced fluids into the Wells; and

WHEREAS, Owner and Operator are desirous of reducing to writing their mutual agreement as to the operation of the Well for the purpose of the injection of salt water and other produced fluids.

NOW, THEREFORE, for the adequate, mutual and reciprocal considerations hereinafter set forth, Owner and Operator hereby agree as follows:

1. Owner hereby grants unto Operator the right to make use of the Lands for the injection of salt water and other produced fluids into the Wells which are produced from all lands, whether produced from the Lands or not. The injection interval shall be limited to the Delaware formation at depth from 5,500 feet to 6,300 feet beneath the surface of the earth.
2. Operator is granted the right to construct, maintain, and operate all equipment and facilities required for the injection of salt water and other produced fluids on the lands, with exception to that excluded herein. Owner does further grant and convey to operator, an easement and right-of-way limited to no greater than 25 feet in total width for purposes of, installation, operation, maintenance, repair,

and replacement of up to, but not to exceed, four pipelines to be utilized for the transportation of salt water and other produced fluids to and from the wells across the lands. To the full extent possible, Operator shall lay the pipelines along the same path and directly adjacent to any flowlines which are already in existence on the premises. And the locations shall be consistent with that shown on the plat attached hereto as Exhibit "A". No storage tanks of any kind shall be erected on the premises. The initial drilling pad shall not exceed a size of 250 feet x 250 feet. Following completion, the permanent injection facility shall be contracted to a size of no larger than 150 feet X 150 feet, and shall have an earthen berm surrounding it on all sides. All other lands within the initial drilling pad shall revert to Owner once the drilling and completion activities have concluded. No soil, rock, caliche or other materials from Owner's lands shall be taken or otherwise utilized by Operator other than that located within the initial drilling pad and utilized only during the period of drilling and/or completion operations. No combustible engine pumps shall be located or permitted on any locations or facilities following well completion. No blasting shall be undertaken by Operator, its contractors, employees, or agents. All pipelines shall be buried to a depth of no less than 36 inches of cover at all distances where the pipelines shall cross any cultivated lands.

3. The primary term of this agreement is one (1) year from the date of this agreement, and as long thereafter as Operator continues to use the Well for the purposes set out herein, with no cessation of use of more than 180 consecutive days.
4. Operator shall conduct its operations on the Lands in compliance with all applicable laws, rules, and regulations of state agencies, regulatory commissions, and other governmental or regulatory authorities having jurisdiction over Operator's operations. Operator shall hold Owner harmless from any losses, damages, liabilities, or claims of any kind which may be suffered by or brought against Owner as a consequence of, in connection with, or resulting from the existence and/or operations on the Lands, the Well, and Operator's related facilities and operations.
5. Operator has the right at any time prior to, and the duty and responsibility within 180 days after the termination of this agreement, to remove any and all improvements and equipment owned or placed by Operator on the Lands. Operator shall promptly restore the surface estate as near as possible to its original condition.
6. This agreement is contingent upon the Operator obtaining the approval of the New Mexico Oil Conservation Division to its East Loving-Delaware Leasehold waterflood project (Case No. 13705) within 90 days from date of the execution of this agreement.
7. This agreement shall be binding upon and shall inure to the benefit of the heirs, successors and assigns of the parties hereto. This agreement shall be promptly recorded in the records of Eddy County, New Mexico by the Operator and the Operator shall promptly furnish such recorded copy to the Owner or their

representative.

IN WITNESS WHEREOF, this instrument is executed this ____ day of _____, 2006.

OWNER:

John Draper Brantley, Jr.

OPERATOR:

Range Operating New Mexico, Inc.

D. Neal Harrington, Vice President

STATE OF NEW MEXICO §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by **John Draper Brantley, Jr.**

Notary Public in and for the State
of New Mexico.

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me on the _____ day of _____, 2006, by **D. Neal Harrington, Vice President of Range Operating New Mexico, Inc. a Delaware corporation**, on behalf of said corporation.

Notary Public in and for the State of
Texas.

INJECTION AGREEMENT

STATE OF NEW MEXICO §
 § KNOW ALL MEN BY THESE PRESENTS THAT:
COUNTY OF EDDY §

This agreement is made by and between **Johnny L. Reid et ux, Jackie Louise Reid**, whose mailing address is 245 E. London Road, Loving, NM 88256, hereinafter called "**Owner**", and **Range Operating New Mexico, Inc.**, a Delaware corporation, whose mailing address is 777 Main St., Suite 800, Fort Worth, Texas 76102, hereinafter called "**Operator**".

WHEREAS, Owner hereby represents and warrants that they are the owner of the surface estate covering all of the NW/4 and W/2 NE/4 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM (hereinafter referred to as "the Lands");

WHEREAS, Operator plans to drill the South Culebra Bluff "23" #18 and #19 wells located in the NW/4 and W/2 NE/4 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM ("the Wells"), the plat of which is set out on the Exhibit "A" attached hereto;

WHEREAS, Operator is proposing to implement a pilot lease waterflood covering all of the N/2 and the N/2 S/2 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM, and is seeking the approval of the Owner to inject off-lease salt water and other produced fluids into the Wells; and

WHEREAS, Owner and Operator are desirous of reducing to writing their mutual agreement as to the operation of the Well for the purpose of the injection of salt water and other produced fluids.

NOW, THEREFORE, for the adequate, mutual and reciprocal considerations hereinafter set forth, Owner and Operator hereby agree as follows:

1. Owner hereby grants unto Operator the right to make use of the Lands for the injection of salt water and other produced fluids into the Wells which are produced from all lands, whether produced from the Lands or not. The injection interval shall be limited to the Delaware formation at depth from 5,500 feet to 6,300 feet beneath the surface of the earth.
2. Operator is granted the right to construct, maintain, and operate all equipment and facilities required for the injection of salt water and other produced fluids on the lands, with exception to that excluded herein. Owner does further grant and convey to operator, an easement and right-of-way limited to no greater than 25 feet in total width for purposes of, installation, operation, maintenance, repair, and replacement of up to, but not to exceed, four pipelines to be utilized for the

transportation of salt water and other produced fluids to and from the wells across the lands. To the full extent possible, Operator shall lay the pipelines along the same path and directly adjacent to any flowlines which are already in existence on the premises. And the locations shall be consistent with that shown on the plat attached hereto as Exhibit "A". No storage tanks of any kind shall be erected on the premises. The initial drilling pad shall not exceed a size of 250 feet x 250 feet. Following completion, the permanent injection facility shall be contracted to a size of no larger than 150 feet X 150 feet, and shall have an earthen berm surrounding it on all sides. All other lands within the initial drilling pad shall revert to Owner once the drilling and completion activities have concluded. No soil, rock, caliche or other materials from Owner's lands shall be taken or otherwise utilized by Operator other than that located within the initial drilling pad and utilized only during the period of drilling and/or completion operations. No combustible engine pumps shall be located or permitted on any locations or facilities following well completion. No blasting shall be undertaken by Operator, its contractors, employees, or agents. All pipelines shall be buried to a depth of no less than 36 inches of cover at all distances where the pipelines shall cross any cultivated lands.

3. The primary term of this agreement is one (1) year from the date of this agreement, and as long thereafter as Operator continues to use the Well for the purposes set out herein, with no cessation of use of more than 180 consecutive days.
4. Operator shall conduct its operations on the Lands in compliance with all applicable laws, rules, and regulations of state agencies, regulatory commissions, and other governmental or regulatory authorities having jurisdiction over Operator's operations. Operator shall hold Owner harmless from any losses, damages, liabilities, or claims of any kind which may be suffered by or brought against Owner as a consequence of, in connection with, or resulting from the existence and/or operations on the Lands, the Well, and Operator's related facilities and operations.
5. Operator has the right at any time prior to, and the duty and responsibility within 180 days after the termination of this agreement, to remove any and all improvements and equipment owned or placed by Operator on the Lands. Operator shall promptly restore the surface estate as near as possible to its original condition.
6. This agreement is contingent upon the Operator obtaining the approval of the New Mexico Oil Conservation Division to its East Loving-Delaware Leasehold waterflood project (Case No. 13705) within 90 days from date of the execution of this agreement.
7. This agreement shall be binding upon and shall inure to the benefit of the heirs, successors and assigns of the parties hereto. This agreement shall be promptly recorded in the records of Eddy County, New Mexico by the Operator and the Operator shall promptly furnish such recorded copy to the Owner or their representative.

IN WITNESS WHEREOF, this instrument is executed this ____ day of _____, 2006.

OWNER:

Johnny L. Reid

Jackie Louise Reid

OPERATOR:

Range Operating New Mexico, Inc.

D. Neal Harrington, Vice President

STATE OF NEW MEXICO §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on the ____ day of _____, 2006, by **Johnny L. Reid et ux, Jackie Louise Reid**.

Notary Public in and for the State
of New Mexico.

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me on the _____ day of _____, 2006, by **D. Neal Harrington, Vice President of Range Operating New Mexico, Inc. a Delaware corporation**, on behalf of said corporation.

Notary Public in and for the State of
Texas.

INJECTION AGREEMENT

STATE OF NEW MEXICO §
 § KNOW ALL MEN BY THESE PRESENTS THAT:
COUNTY OF EDDY §

This agreement is made by and between **Maria T. Stennis Revocable Trust**, whose mailing address is 200 Michelle Drive, Santa Fe, NM 87501, hereinafter called "**Owner**", and **Range Operating New Mexico, Inc.**, a Delaware corporation, whose mailing address is 777 Main St., Suite 800, Fort Worth, Texas 76102, hereinafter called "**Operator**".

WHEREAS, Owner hereby represents and warrants that they are the owner of the surface estate covering all of the E/2 NE/4 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM (hereinafter referred to as "the Lands");

WHEREAS, Operator is a working interest owner and operator of the South Culebra Bluff "23" #15 well located 1,430' FNL & 1,150' FEL of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM ("the Well"), the plat of which is set out on the Exhibit "A" attached hereto;

WHEREAS, Operator is proposing to implement a pilot lease waterflood covering all of the N/2 and the N/2 S/2 of Section 23, T-23-S, R-28-E, NMPM, Eddy County, NM, and is seeking the approval of the Owner to inject off-lease salt water and other produced fluids into the Well; and

WHEREAS, Owner and Operator are desirous of reducing to writing their mutual agreement as to the operation of the Well for the purpose of the injection of salt water and other produced fluids.

NOW, THEREFORE, for the adequate, mutual and reciprocal considerations hereinafter set forth, Owner and Operator hereby agree as follows:

1. Owner hereby grants unto Operator the right to make use of the Lands for the injection of salt water and other produced fluids into the Well which are produced from all lands, whether produced from the Lands or not. The injection interval shall be limited to the Delaware formation at depth from 5,500 feet to 6,300 feet beneath the surface of the earth.
2. Operator is granted the right to construct, maintain, and operate all equipment and facilities required for the injection of salt water and other produced fluids on the lands, with exception to that excluded herein. Owner does further grant and convey to operator, an easement and right-of-way limited to no greater than 15 feet in total width for purposes of installation, operation, maintenance, repair, and replacement of one (1) pipeline to be utilized for the transportation of salt water and other produced fluids to and from the well across the lands. To the full extent possible, Operator shall lay the pipelines along the same path and directly adjacent to any other pipelines which are already in existence on the premises. The location and the pipeline route shall be consistent with that shown on the plat attached hereto as Exhibit "A". No storage tanks

of any kind shall be erected on the premises. Following completion the location shall have an earthen berm surrounding it on all sides. No combustible engine pumps shall be located or permitted on the location or facilities following well completion. No blasting shall be undertaken by Operator, its contractors, employees, or agents. All pipelines shall be buried to a depth of no less than 36 inches of cover at all distances where the pipelines shall cross any cultivated lands.

3. The primary term of this agreement is one (1) year from the date of this agreement, and as long thereafter as Operator continues to use the Well for the purposes set out herein, with no cessation of use of more than 180 consecutive days.
4. Operator shall conduct its operations on the Lands in compliance with all applicable laws, rules, and regulations of state agencies, regulatory commissions, and other governmental or regulatory authorities having jurisdiction over Operator's operations. Operator shall hold Owner harmless from any losses, damages, liabilities, or claims of any kind which may be suffered by or brought against Owner as a consequence of, in connection with, or resulting from the existence and/or operations on the Lands, the Well, and Operator's related facilities and operations.
5. Operator has the right at any time prior to, and the duty and responsibility within 180 days after the termination of this agreement, to remove any and all improvements and equipment owned or placed by Operator on the Lands and restore the surface of the Lands as close as possible to its original condition.
6. This agreement is contingent upon the Operator obtaining the approval of the New Mexico Oil Conservation Division to its East Loving-Delaware Leasehold waterflood project (Case No. 13705) within 90 days from date of the execution of this agreement.
7. This agreement shall be binding upon and shall inure to the benefit of the heirs, successors and assigns of the parties hereto. This agreement shall be promptly recorded in the records of Eddy County, New Mexico by the Operator and the Operator shall promptly furnish such recorded copy to the Owner or their representative.

IN WITNESS WHEREOF, this instrument is executed this _____ day of _____, 2006.

OWNER:

Maria T. Stennis Revocable Trust

Maria T. Stennis, Trustee

OPERATOR:

Range Operating New Mexico, Inc.

D. Neal Harrington, Vice President

STATE OF NEW MEXICO §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by **Maria T. Stennis, Trustee of the Maria T. Stennis Revocable Trust, on behalf of said Trust.**

Notary Public in and for the State
of New Mexico.

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me on the _____ day of _____, 2006, by **D. Neal Harrington, Vice President of Range Operating New Mexico, Inc. a Delaware corporation,** on behalf of said corporation.

Notary Public in and for the State of
Texas.

Thomas Kellahin

From: "W. T. Martin, Jr." <martinlaw@zianet.com>
To: "W. Thomas Kellahin" <kellahin@earthlink.net>
Sent: Wednesday, May 10, 2006 3:39 PM
Subject: Re: OCD Case 13705 (Stipulation)

Tom:

The basic language is "OK." Some changes obviously need to be made. The parties that may make a written request are as follows: (i) John Draper Brantley, Jr.; (ii) Will Brantley; (iii) Merland, Inc.; (iv) Claibourne Power and (v) Johnny Reid. This agreement pertains only to Candelario Well No. 1 disposal well. If you are in agreement with the changes, then we have an agreement as to Candelario Well No. 1 disposal well. This does not dispose of compensation due Draper Brantley, Jr., for water injection per barrel on his land and land damages. If in the event an issue arises at the hearing tomorrow, I will be available telephonically.

Tom Martin

--
W. T. Martin, Jr.
Martin Law Firm
509 W. Pierce St.
P.O. Box 2168
Carlsbad, NM 88221-2168
(505) 887-3528
Fax (505) 887-2136
E-mail: martinlaw@zianet.com

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On 5/10/06 9:12 AM, "Thomas Kellahin" <kellahin@earthlink.net> wrote:

Tom: Attached is that portion of Order R-12224 that contains the stipulation that Range and your clients agreed to for the Salt Water Disposal well.

If acceptable to your clients, Range has agreed and if so, I will advise the OCD examiner at the hearing tomorrow that the parties have agreed that this stipulation be included in any Order issued in this new case (#13705)

Please confirm.

Tom
505-982-4285

5/10/2006

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 13313
ORDER NO. R-12224

APPLICATION OF RB OPERATING COMPANY
FOR APPROVAL OF A SALT WATER DISPOSAL
WELL, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 19, 2004, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 25th day of October, 2004 the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, RB Operating Company ("Applicant"), seeks approval to utilize its Candelario Well No. 1 (API No. 30-015-26536), located 660 feet from the North and West lines (Unit D) of Section 24, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to dispose of produced water into the Cherry Canyon formation of the Delaware Mountain Group through perforations from 4,304 feet to 4,656 feet.

(3) RB Operating Company initially filed this application for administrative review with the Division's Santa Fe office on June 16, 2004 (*administrative reference No. pSEM0-4169441400*) for this well using Division Form C-108 representing that it had sent appropriate notice to all parties within a one-half radius of this well that might be adversely affected by the application as required by Division Rule 701 (C) (3). No objection was timely filed by any of those parties.

(4) However, as required for public notice by Division Rule 701, Applicant

caused its application to be published in the Carlsbad Current-Argus, a newspaper of general circulation in Eddy County, New Mexico, on June 1, 2004 that resulted in the Law Office of Martin & Lara, L.L.P. of Carlsbad, New Mexico filing a letter of objection with the Division on June 8, 2004 on behalf of: (i) Harry McDonald; (ii) Johnny Reed; and (iii) John Draper Brantley, Jr. a/k/a Draper Brantley, Jr., George Henry Brantley, general partners in Brantley Brothers, a New Mexico General Partnership, and Delaware Ranch, Inc., a New Mexico Corporation, owners of surface water rights.

(5) Due to the objection filed by Martin & Lara, L.L.P., RB Operating Company's application was set for hearing before a Division examiner.

(6) No affected or other interested party appeared at the hearing in opposition to this application.

(7) RB Operating Company appeared at the hearing with legal counsel and presented two witnesses and evidence demonstrating that:

(a) The Applicant drilled the above-described Candelario Well No. 1 in late 1990 to a total depth of 6,310 feet and subsequently completed the well in the East Loving-Brushy Canyon Pool (40350) through perforations from 6,150 feet to 6,162 feet.

(b) Applicant, a wholly owned subsidiary of Range Resources Corporation, proposes to: (i) abandon the Brushy Canyon perforations and plug-back into the Cherry Canyon interval; and (ii) set 2-7/8 inch J-55 internally plastic lined tubing in a packer at a depth of 4,200 feet.

(c) The Cherry Canyon interval is not productive of oil and gas within the 1/2-mile radius of the above-described Candelario Well No. 1 and injection into this interval will remain confined and that such injection into the Cherry Canyon interval can be accomplished without adversely affecting current or future oil and gas production operations.

(d) The Applicant has the right to use the above-described Candelario Well No. 1 for water disposal purposes and that it has obtained an agreement from the surface owner of the site of this well.

(8) The evidence presented further demonstrates that the above-described Candelario Well No. 1 is cased and cemented adequately to preclude the movement of fluid from the injection zone into other formations, including fresh water aquifers.

(9) Approval of this application will prevent the drilling of unnecessary wells

and will otherwise prevent waste, promote sound engineering practices, and serve to protect correlative rights.

(10) As an accommodation to the objecting parties, RB Operating Company has agreed that the following stipulation shall be made a part of the findings of this order:

The operator of this disposal well, upon the written request of Draper Brantely, Jr. or George Henry Brantley or Henry McDonald or Johnny Reed (or their heirs or assigns), shall obtain a water analysis for each of the following water sources, but not more frequently than once every two years and provide a copy to the Division and to each of the parties:

- (i) *SCB water well No. 1, located approximately 3500 feet from the East line and 1300 feet from the North line of Section 23, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico;*
- (ii) *SCB water well No. 2, located approximately 1320 feet from the East line and 720 feet from the North line of Section 23;*
- (iii) *SCB water well No. 3, located approximately 850 feet from the West line and 2600 feet from the North line of Section 23; and*
- (iv) *the Pecos River at a point approximately 700 feet East of the above-described Candelario Well No. 1.*

IT IS THEREFORE ORDERED THAT:

(1) The applicant, RB Operating Company, is hereby authorized to utilize its Candelario Well No. 1 (API No. 30-015-26536), located 660 feet from the North and West lines (Unit D) of Section 24, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to dispose of produced water into the Cherry Canyon formation of the Delaware Mountain Group through perforations from 4,304 feet to 4,656 feet.

(2) The operator shall take all steps necessary to ensure that the injected fluids enter only the proposed injection interval and are not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(3) Injection shall be accomplished through 2-7/8 inch internally plastic-lined tubing installed in a packer set at approximately 4,200 feet. The casing-tubing annulus shall be filled with an inert fluid and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing, or packer.

(4) The injection well or pressurization system shall be equipped with a pressure control device or acceptable substitute that will limit the surface injection pressure to no more than 860 psi.

(5) The Division Director may administratively authorize a pressure limitation in excess of the above upon a showing by the operator that such higher pressure will not result in the fracturing of the injection formation or confining strata.

(6) Prior to commencing injection operations and every five years thereafter, the casing shall be pressure tested throughout the interval from the surface down to the proposed packer setting depth to assure the integrity of such casing.

(7) The operator shall give advance notice to the Supervisor of the Division's Artesia District Office of the date and time disposal equipment will be installed and the mechanical integrity pressure test will be conducted on the above-described Candelario Well No. 1, so these operations may be witnessed.

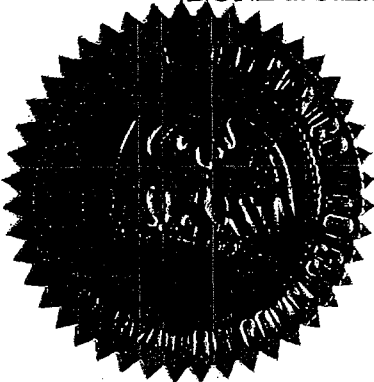
(8) The operator shall immediately notify the Supervisor of the Division's Artesia District Office of the failure of the tubing, casing or packer in the disposal well or the leakage of water, oil or gas from or around any producing or plugged and abandoned well within the area, and shall take all steps as may be timely and necessary to correct such failure or leakage.

(9) The operator shall submit monthly reports of the disposal operations on the appropriate form in accordance with Division Rules No. 706 and 1120.

(10) The injection authority granted herein for the above-described Candelario Well No. 1 shall terminate one year after the date of this order if the operator has not commenced injection operations into the well; provided, however, the Division, upon written request by the operator, may grant an extension for good cause.

(11) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P. E.
Director