

**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

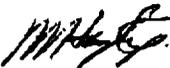
Re: Proposed Gandy 1-19 Unorthodox Location  
SW/4 NE/4 Section 19-T16S-R36E  
Lea County, New Mexico

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**