

**RESOLUTION OF THE LOVINGTON-LEA COUNTY  
EXTRATERRITORIAL ZONING AUTHORITY**

At a regular meeting of the Lovington-Lea County Extraterritorial Zoning Authority held on October 3, 1996, the following action was taken:

WHEREAS, Chesapeake Operating, Inc., a corporation, whose address is PO Box 18496, Oklahoma City, Oklahoma, 73154 (Hereinafter the "Petitioner"), has filed a Petition for Variance to drill up to two oil and gas wells in the Lovington-Lea County Extraterritorial Zone on a five-acre tract more particularly described as the West Half of the Northeast Quarter of the Northwest Quarter of the Southwest Quarter (W/2NE/4NW/4SW/4) of Section 4, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico; and

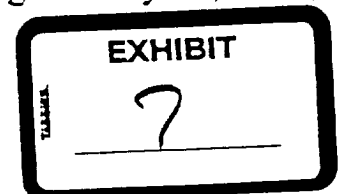
WHEREAS, Lovington 5 #1 well is to be drilled at a surface location which lies 825' from the west line and 2181' from the south line of said Section 4, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico; and then if Petitioner's Lovington 5 #1 is successfully completed, or the information developed by drilling of said well warrants, then a second well may be drilled within the above five-acre tract to be known as the Lovington Bus Barn 4 #1 well; and

WHEREAS, Petitioner has complied with legal notice requirements to adjoining and nearby landowners; and

WHEREAS, the strict adherence to the R-1, Single Family Residential, requirements of the Lovington-Lea County Extraterritorial Zoning Ordinance would result in peculiar, exceptional and undue hardship upon the Petitioner and mineral owners in and under said five-acre tract; and

WHEREAS, a variance from such strict application of the Lovington-Lea County Extraterritorial Zoning Ordinance should be granted to relieve such difficulties and hardships to and upon Petitioner, and to allow the drilling, operating, maintaining, and improvement of such well or wells, including facilities for the production, short term storage and marketing of product therefrom; and

WHEREAS, the Lovington-Lea County Extraterritorial Zoning Commission has previously held extensive public meeting on July 18, 1996,



and on August 20, 1996, and has recommended to the Extraterritorial Zoning Authority approval of Petitioner's variance request, subject to certain conditions; and

WHEREAS, the Lovington-Lea County Extraterritorial Zoning Authority finds that said Authority should approve the Petition of Petitioner for a variance to drill the two oil and gas wells subject to the twenty-one (21) conditions made a part hereof below; and:

WHEREAS, although the Lovington-Lea County Extraterritorial Zoning Authority finds that, due to the exceptional topographical, geological, and seismological conditions peculiar to the location of the underground mineral and also peculiar to the surface area involved, the variance requested by the Petitioner should be approved, the Lovington-Lea County Extraterritorial Zoning Authority does further find that it should adopt as conditions to its granting the variance request of Petitioner the twenty-one (21) conditions incorporated hereinbelow, all so that the interests of adjoining and adjacent land owners will be reasonably and adequately protected.

NOW, THEREFORE, BE IT RESOLVED that the Lovington-Lea County Extraterritorial Zoning Authority grant a variance to Chesapeake Operating, Inc., to drill, operate, maintain and improve up to two oil and gas wells, including facilities for the production, storage, and removal of product therefrom, upon the five-acre tract hereinabove described, with Petitioner's first of such two wells hereby authorized to be drilled at a surface location inside such five-acre tract that is 825 feet from the west line and 2,181 feet from the south line of Section 4, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and with the second well authorized, to be drilled within such five-acre tract subject to, and conditioned upon full compliance with, the following twenty-one (21) conditions.

1. Chesapeake shall install H<sub>2</sub>S monitoring equipment during the drilling and completion phases of Chesapeake's proposed operations which will shut down drilling operations if unsafe levels of H<sub>2</sub>S are detected.

In addition, Chesapeake shall maintain a post-completion monitoring system which will automatically shut the well in if unsafe levels of H<sub>2</sub>S are detected. Chesapeake shall have all H<sub>2</sub>S monitoring equipment checked for accuracy each 30 days and shall have same recalibrated as necessary to detect unsafe levels of H<sub>2</sub>S.

2. To insure a secure drill site location, which will prevent inadvertent entry by children or animals, Chesapeake will build a seven foot chain link fence surrounding the proposed drill site prior to drilling.
3. To reduce disturbance to residents in close proximity to Chesapeake's drilling operations and mitigate dust transmission, our company will also construct a seven foot stockade-type wooden fence at the North frontage of Chesapeake's five acre tract. This stockade fence will remain in place during the entire drilling and completion phase of Chesapeake's operations.
4. To further reduce security concerns as well as to minimize noise and inconvenience to adjoining residents, Chesapeake will move its proposed second location back to the same drill site area where the company's initial well is to be drilled. Chesapeake shall not drill any well upon this five acre tract which will within 400 feet of any existing residence or other building.
5. After this well(s) has been successfully completed, Chesapeake shall install high-security fencing and security lighting around the production facilities. Furthermore, the production facilities shall be maintained to an extraordinary standard with the premises to be kept clear of debris or trash.
6. Chesapeake's drilling operation on subject lands shall be conducted with a closed mud circulation system. All mud and cuttings shall be removed from the premises.
7. Chesapeake shall not engage in nor allow any disposal of produced water or waste liquids in, under or upon this five acre tract.
8. Chesapeake shall utilize biocides to reduce any offensive odors which might be generated from its operations.
9. Chesapeake will build a caliche road during the drilling and completion phase of its activities. The road shall be dampened as needed to minimize dust caused by ingress and egress to its location. After the well has been successfully completed, Chesapeake shall upgrade the road to a gravel or chat composition which will further inhibit the transmission of dust. Chesapeake shall maintain this lease road after completion of its well(s). This lease road shall provide access to this five acre tract only from 17th Street and shall be

utilized to provide such access while Chesapeake conducts its operations.

10. To reduce engine noise, Chesapeake shall utilize an electric pumping unit(s) on this production facility.
11. Chesapeake shall install tank batteries equipped with lightning arresters to reduce the likelihood of lightning strikes on its production facility.
12. After completion of this well(s), Chesapeake shall plant trees indigenous to the area and which can be maintained easily at various locations outside the production facility fencing, and Chesapeake shall maintain said trees with suitable watering.
13. The drilling location site shall be reduced in size to an area compatible with the location of the four dead man anchors after drilling and completion operations have concluded. Chesapeake shall restore the location to as near its original condition as reasonably possible by replacing topsoil and reseeding with natural grasses.
14. Subsequent to all completion and restoration exercises of whatever kind or character, Chesapeake will donate the Northernmost two acres of its five acre tract to the municipality. Upon plugging and abandonment of the well(s), the balance of the five acre tract shall be donated to the City of Lovington, provided that the first two acres have been donated to the City of Lovington, and provided that the City of Lovington is agreeable to accepting same.
15. Should Chesapeake decide to sell its interest in the well(s) to another party, the conditions under which Chesapeake is granted this variance shall extend to any such party and such party shall be bound by all these obligations. Prior to any such assignment, Chesapeake shall notify the Zoning Enforcement Officer of such planned transfer of interest. Any sale or assignment by Chesapeake of its interest in the well(s), in whole or in part, to another party shall not relieve Chesapeake, its successors and/or assigns, from responsibilities or obligations which are required of Chesapeake under the terms and conditions of any variance granted with respect to the City of Lovington-Lea County Extraterritorial Zoning Ordinance.
16. Chesapeake agrees to indemnify, save and hold harmless the Extraterritorial Zoning Commission/Authority, the City of Lovington, the County of Lea, their respective commissioners, officers, employees, agents and their respective heirs, legal representatives, successors, and assigns, from and against all claims, demands, injuries, losses, damages, costs, expenses, and attorney's fees, which

in any manner result from or arise out of or relate to Chesapeake's drilling, equipping, and production operations including its acts or omissions in connection therewith. This Agreement shall continue in force, beginning with the date Chesapeake commences such operations and shall extend beyond termination of any zoning variance granted to it for this five acre tract.

17. Chesapeake shall test all domestic water wells located in the North Half of the SouthWest Quarter of Section 4 and shall test any existing wells on the property to the South owned by Joe Sanders and shall thereafter test such water wells every six months until Chesapeake plugs and abandons the well(s) on this five acre tract, provided the owners of such real property consent to such testing. After plugging and abandonment have been accomplished, Chesapeake shall continue to test such domestic water wells and provide copies of the test reports, all as provided above, for a period of five (5) years. Chesapeake shall furnish the property owner, as well as the Lovington-Lea County Extraterritorial Zoning Commission/authority, with a copy of the test report for each test upon their respective property.
18. Chesapeake shall develop and implement spill prevention plans for its drilling and production operations and an overall emergency plan for its drilling and production operations, all acceptable to the Lovington-Lea County Extraterritorial Zoning Commission/Authority.
19. Chesapeake shall develop a plan for clean-up and closure upon plugging and abandonment of the well(s) upon this five acre tract. As a minimum, Chesapeake shall timely remove all of its equipment and other property; clean up any spill areas; remove caliche from pads and from the road; restore the surface to the contour of surrounding land; reseed with native grasses; and water sufficiently and maintain weed control until the grass turf is established. This plan must be acceptable initially to the Lovington-Lea County Extraterritorial Zoning Commission/Authority and, at the time of clean-up and closure, the Commission/Authority may require Chesapeake to do additional clean-up and closure over and above that required by the initial plan.
20. Petitioner shall be required to limit its tank battery or batteries on the five-acre tract to a total of no more than four 210 barrel oil tanks, two 210 barrel water tanks, and two heater treaters.
21. Chesapeake having specifically agreed to a condition that it mediates any claim by an owner of real property identified in Chesapeake's Proof of Notice and Supplemental Proof of Notice filed in the records of the Lovington-Lea County Extraterritorial Zoning Commission/Authority, for property damage of less than \$5,000.00 if

such a property owner requests mediation of the claim. Chesapeake shall contact such property owner to select a mediator within ten (10) business days after receiving a request for mediation from such property owner. If the parties cannot agree on a mediator, the parties will request a District Judge of Lea County, New Mexico, to select a mediator on their behalf who shall be a licensed and/or trained mediator. The costs of mediation shall be borne equally by the parties or otherwise as they may agree. All attorneys' fees shall be paid by the party who employs that attorney. The general procedure of mediation shall conform to the laws of the State of New Mexico. No legal proceedings may be brought by either party until the mediation process has been completed.

AND the Extraterritorial Zoning Commission/Authority reserves jurisdiction to modify, to amend, and/or require additional conditions of Chesapeake during the term of this variance in the event that there is a change in conditions in order to meet and to satisfy the purposes of the City of Lovington-Lea County Extraterritorial Zoning Ordinance, namely, "to promote health, safety, morals, and the general welfare" of the public.

DATED this 3rd day of October, 1996.

LOVINGTON - LEA COUNTY  
EXTRATERRITORIAL ZONING AUTHORITY

by Don Field  
of Lovington-Lea County Extraterritorial  
Zoning Authority

ATTEST:

Pat Chappell Lea County Clerk  
By Melinda Hughes Deputy