



LAW DEPARTMENT

May 2, 2007

Ms. Cindy Raines
Oil & Gas Conservation Commission
601 57th Street
Charleston, WV 25304

Re: Special Field Rules

Dear Ms. Raines:

Pursuant to West Virginia Code §22C-9 and the Title 39, Series One, Rules of the Commission, Chesapeake Appalachia, L.L.C. ("Chesapeake") hereby requests a hearing before the Oil & Gas Conservation Commission ("Commission") for the establishment of Special Field Rules. This request is based upon the following facts and circumstances.

Chesapeake is active in drilling wells to the Marcellus Shale formation in portions of McDowell, Mingo and Wyoming Counties, West Virginia. The Marcellus Shale sits directly above the Onondaga Limestone. In West Virginia, pursuant to West Virginia Code §22C-9-2(12), a deep well is defined as any well, other than a shallow well, drilled and completed in a formation at or below the top of the uppermost member of the Onondaga Group. The definition of a shallow well pursuant to West Virginia Code §22C-9-2(11) is any well drilled and completed in a formation above the top of the uppermost member of the "Onondaga Group": Provided, that in drilling a shallow well the operator may penetrate into the "Onondaga Group" to a reasonable depth, not to exceed twenty feet, in order to allow for logging and completion operations, but in no event may the "Onondaga Group" formation be otherwise produced, perforated or stimulated in any manner.

By virtue of the twenty (20) foot drilling limitation in the Onondaga Group, Chesapeake is not able to completely evaluate, treat and stimulate the entire section of the Marcellus Shale. Accordingly, in the area shown on the attached map, Chesapeake wishes to drill wells to a total depth not to exceed seventy-five (75) feet into the Onondaga Limestone. Chesapeake has no intention to produce, perforate or stimulate the Onondaga in any manner at the present time. The purpose for drilling seventy-five (75) feet into the Onondaga is to allow sufficient rat-hole for logging and completion of the Marcellus Shale. Although the Marcellus Shale is a shallow formation, Chesapeake is required to apply for a deep well permit by virtue of the above definitions. In order to avoid leaving natural gas reserves in place, it is not prudent to develop the Marcellus Shale fields

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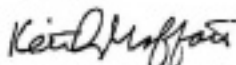
utilizing the required deep well spacing of 3000 feet between wells and 400 feet from the lease line or unit boundary. Therefore, Chesapeake is requesting Special Field Rules establishing 1000 foot spacing between wells, and providing that each well be located not less than 50 feet from the lease line or unit boundary. The Special Field Rules would apply to those wells drilled by Chesapeake to a total depth not to exceed seventy-five (75) feet into the Onondaga Limestone. Chesapeake would agree not to produce, perforate, frac or otherwise stimulate the Onondaga Group, unless and until it obtained a further Order from the Commission. In addition, with regard to deep well permits for Marcellus Shale wells in the subject area, Chesapeake requests that the Special Field Rules provide that Chesapeake would not have to conduct a pre-spud meeting prior to commencing drilling operations or prepare and submit a well site safety plan for each such deep well.

As you know, the public policy of this State is to foster, encourage and promote exploration for the development, production, utilization and conservation of oil and gas resources. The Commission is charged with the obligation to prohibit waste of oil and gas resources and encourage the maximum recovery of same. Chesapeake's request for Special Field Rules is consistent with this public policy because it will permit Chesapeake to efficiently and adequately explore, stimulate, treat and produce the Marcellus Shale.

Chesapeake realizes that a notice of a pre-hearing conference to the Commission and affected operators is required pursuant to the West Virginia Code of State Regulations, Title 39, Series 1 section 6.1. Chesapeake will provide this notice to the Commission after it receives notice that a hearing date has been set. Since Chesapeake does not anticipate any opposition to its request for Special Field Rules, Chesapeake requests that the Commission schedule the pre-hearing conference and hearing on the same day.

Thank you for your consideration of this matter. If you have any questions, please feel free to call me at the above number or Brett Loflin at 391-5518.

Sincerely,



Keith E. Moffatt

Attachment

cc: Brett Loflin - Chesapeake Appalachia, L.L.C.
Eddy Grey - Chesapeake Appalachia, L.L.C.

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BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

IN THE MATTER OF THE REQUEST BY CHESAPEAKE
APPALACHIA, L.L.C., FOR AN ORDER FROM THE
COMMISSION ESTABLISHING SPECIAL FIELD RULES
IN McDOWELL, MINGO AND WYOMING COUNTIES,
WEST VIRGINIA

DOCKET NO. 181

CAUSE NO. 166

NOTICE OF PREHEARING CONFERENCE

Please be advised that Chesapeake Appalachia, L.L.C. ("Chesapeake") has made application to the Oil and Gas Conservation Commission ("Commission") for the establishment of Special Field Rules covering lands located in McDowell, Mingo and Wyoming Counties, West Virginia. The affected lands are shown on the attached map.

Chesapeake's request for Special Field Rules relates to oil and gas wells drilled to the Marcellus Shale formation which penetrate into the Onondaga Group. The Marcellus Shale sits directly above the Onondaga Group. In West Virginia, pursuant to West Virginia Code §22C-9-2(12), a deep well is defined as any well, other than a shallow well, drilled and completed in a formation at or below the top of the uppermost member of the Onondaga Group. The definition of a shallow well pursuant to West Virginia Code §22C-9-2(11) is any well drilled and completed in a formation above the top of the uppermost member of the "Onondaga Group": Provided, that in drilling a shallow well the operator may penetrate into the "Onondaga Group" to a reasonable depth, not to exceed twenty (20) feet, in order to allow for logging and completion operations, but in no event may the "Onondaga Group" formation be otherwise produced, perforated or stimulated in any manner.

By virtue of the twenty (20) foot drilling limitation in the Onondaga Group, Chesapeake is not able to completely evaluate, treat and stimulate the entire section of the Marcellus Shale. Accordingly, in the area shown on the attached map, Chesapeake wishes to drill wells to a total depth not to exceed seventy-five (75) feet into the Onondaga Group. Chesapeake has no intention to produce, perforate or stimulate the Onondaga Group in any manner. The purpose for drilling seventy-five (75) feet into the Onondaga Group is to allow sufficient rat-hole for logging and completion of the Marcellus Shale. Although the Marcellus is a shallow formation, Chesapeake is required to apply for a deep well permit by virtue of the above definitions. In order to avoid leaving natural gas reserves in place, it is not prudent to develop the Marcellus Shale fields utilizing the required deep well spacing of 3000 feet between wells and 400 feet from the lease line or unit boundary. Therefore, Chesapeake is requesting Special Field Rules establishing 1000 foot spacing between wells, and providing that each well be located not less than fifty (50) feet from the lease line or unit boundary. The Special Field Rules would apply to

those wells drilled by Chesapeake to a total depth not to exceed seventy-five (75) feet into the Onondaga Group. Chesapeake would agree not to produce, perforate, frac, or otherwise stimulate the Onondaga Group, unless and until it obtained a further Order from the Commission. In addition, with regard to deep well permits for Marcellus Shale formation wells in the affected area, Chesapeake requests that these Special Field Rules provide that Chesapeake would not have to conduct a pre-spud meeting prior to commencing drilling operations or prepare and submit a well safety plan for each such deep well.

A pre-hearing conference relating to Chesapeake's request for Special Field Rules has been scheduled for the following date and time:

Date: June 7, 2007

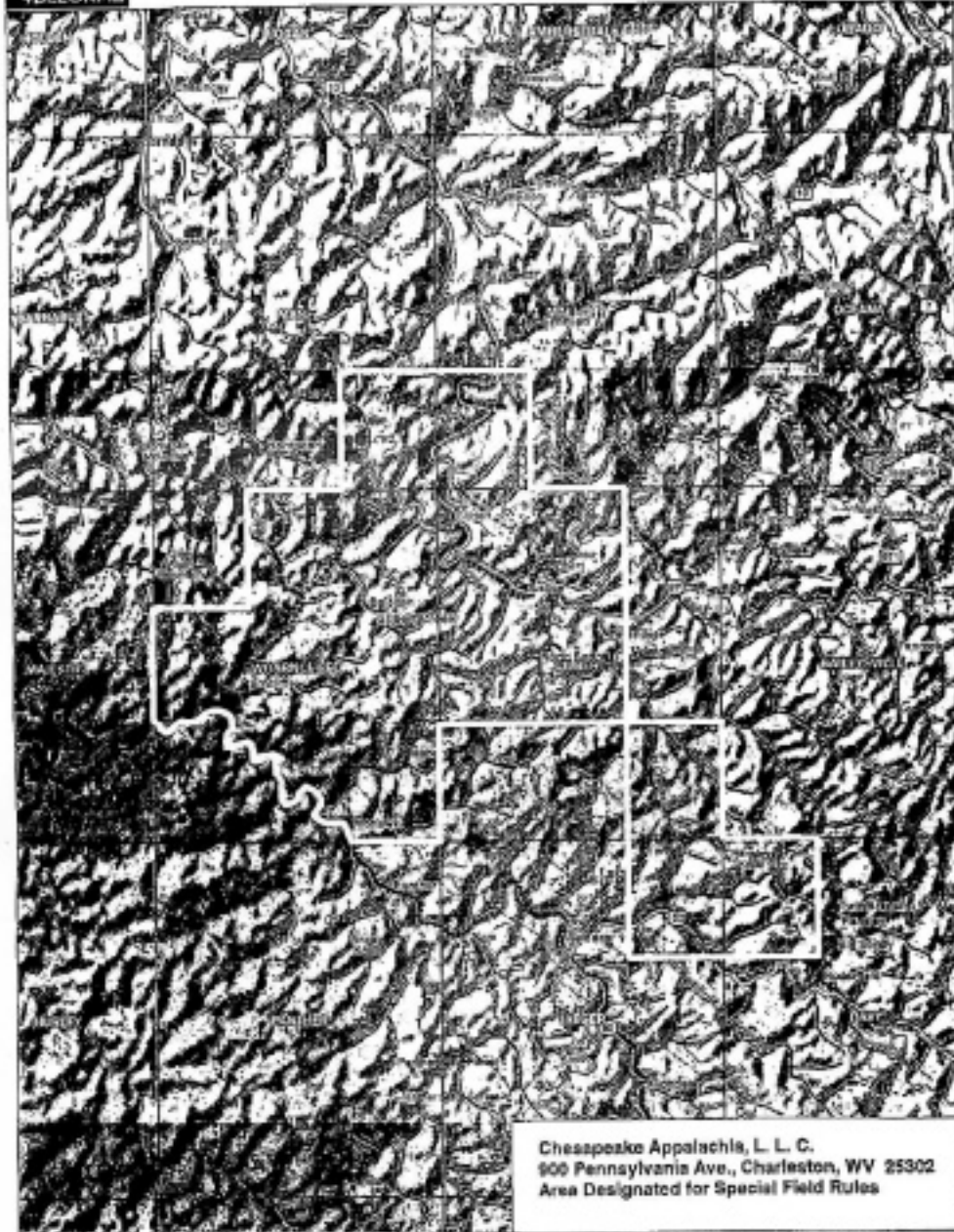
Time: 10:00 a.m.

Where: West Virginia Oil and Gas Conservation Commission
601 57th Street SE
Charleston, WV 25304

Chesapeake has made a diligent effort to determine the operators of any lands that may be directly or immediately affected by this proposal. Any opponent to the application for Special Field Rules must file written notice to the Commission within ten (10) days of the date of this pre-hearing notice or the pre-hearing conference will not be held. This pre-hearing notice is hereby made and dated this 14th day of May, 2007.

DELORME

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Allen & Jessie Gas Wells Inc.
Attention: Lewis D. Jessie, Sr.
Box 1437
Williamson, WV 25661

Alliance Resources Inc.
Attention: Jack Whiteman
P.O. Box 670249
Dallas, TX 75367-0247

Appalachian Energy, Inc.
Attention: Frank Hende
P.O. Box 2406
230 Charwood Drive
Abingdon, VA 24212

I. David Bartram
P.O. Box 306
Milton, WV 25541

Base Petroleum, Inc.
Attention: John Wilcox
Route 7, Box 407 1/2
South Charleston, WV 25309

Bill & Jessie Inc.
P.O. Box 8213
Huntington, WV 25705

Brewer Natural Gas, LLC
Attention: W. E. Brewer, Jr.
825C Merrimon Ave., #315
Asheville, NC 28804-2404

Cabot Oil & Gas Corporation
Attention: Tom Liberatore
900 Lee Street, E., Suite 500
Charleston, WV 25301-4308

CDX Gas, LLC
803 Quarrier Street, Suite 400
Charleston, WV 25301

Christ Cathedral
HCR 68, Box 96
laeger, WV 24844

Classic Oil & Gas Resources Inc.
Attention: Robert Inghram
P.O. Box 31
Pinch, WV 25156

Classic Oil & Gas Resources Inc.
100 W. Brannon Road
Nicholasville, KY 40356

Loren Cline
HC 72, Box 181
Gilbert, WV 25621

Patricia H. Cody
3021 Fulton Street
Berkeley, CA 94705

D & R Energy
Attention: Richard Moore
P.O. Box 252
Spencer, WV 25276

Deep Ford Gas Company
P.O. Box 169
Charleston, WV 25321-0169

Dominion Exploration & Production Inc.
Attention: Rodney J. Biggs
P.O. Box 1248
One Dominion Drive
Jane Lew, WV 25378

Dominion Transmission, Inc.
Attention: James D. Blasingame
445 W. Main Street
Clarksburg, WV 26301

Equitable Production Company
Attention: Felix C. Sciallo
1710 Pennsylvania Avenue
Charleston, WV 25302

J. W. Kinzer
Attention: Timothy S. McNamee
16 W 5th Avenue
Williamson, WV 25661

Quality Natural Gas, LLC
Attention: James Hill
HC 71 Route 4, Box 87-A
Whanncliffe, WV 25651

Seneca-Upshur Petroleum
Attention: David Dean
P.O. Box 2048
Buckhannon, WV 26201

WELCH NEWS
P.O. Box 569
Welch, WV 24801

INDEPENDENT HERALD
P.O. Box 100
Pineville, WV 24874

WILLIAMSON DAILY NEWS
P.O. Box 1680
100 Block East 3rd Avenue
Williamson, WV 25661

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

IN THE MATTER OF THE REQUEST BY
CHESAPEAKE APPALACHIA, L.L.C., FOR AN
ORDER FROM THE COMMISSION ESTABLISHING
SPECIAL FIELD RULES IN MCDOWELL, MINGO
AND WYOMING COUNTIES, WEST VIRGINIA,
COVERING MAN, MALLORY, WHARNCLIFFE,
GILBERT, IAEGER AND DAVY QUADRANGLES.

DOCKET NO. 181

CAUSE NO. 166

ORDER NO. 1

REPORT OF THE COMMISSION

Chesapeake Appalachia, L.L.C. ("Chesapeake") requested a hearing before the Commission for the establishment of special field rules covering all acreage it now owns or controls or may acquire in the future within the area shown on the map attached hereto as Exhibit "A" and incorporated herein by reference, which designated area is located in Mingo, McDowell and Wyoming Counties, West Virginia. Chesapeake wishes to drill wells in the special field rule area in order to produce from the Marcellus Shale formation and other shallower formations. Although the Marcellus Shale is a "shallow" formation, Chesapeake proposes to drill up to 75 feet into the Onondaga Group to enable the logging and completion of the entire Marcellus Shale section. Chesapeake will not perforate or complete any formation below the base of the Marcellus Shale formation; however, by definition, since the proposed wells will be drilled in excess of twenty feet into the Onondaga Group, they will be considered deep wells. Therefore, Chesapeake requested that the Commission set spacing for any proposed wells drilled by Chesapeake under these special field rules to conform to the following: 1,000' between wells and 50' from a lease line or unit boundary.

FINDINGS OF FACT

1. Applicant, Chesapeake, is an operator within the meaning of paragraph (4) subsection (a) of West Virginia Code §22C-9-2.
2. Chesapeake currently owns or controls approximately 15,000 acres of leasehold interests in the area for which special field rules have been requested as shown on Exhibit "A", which area is located in Mingo, McDowell and Wyoming Counties of West Virginia. Chesapeake may acquire additional acreage within this area in the future. One of the target formations in this area is the Marcellus Shale, which lies directly above the Onondaga Group. Chesapeake wishes to drill wells in the special field rule area utilizing up to 75 feet of rat hole in the Onondaga Group. Chesapeake's witnesses testified that 75 feet of rat hole is necessary to effectively log, complete, and produce the wells in the Marcellus formation. The 75 feet of rat hole will allow Chesapeake to get cementing tools, logging tools, casing and tubing,

and perforating tools to a sufficient depth below the Marcellus formation to effectively develop the natural gas reserves from the Marcellus formation in a safe and efficient manner. Without the additional rat hole, the Marcellus Shale cannot be completed through its entire interval and reserves of natural gas may not be produced.

3. Chesapeake's witnesses stated that the Onondaga Group would not be produced or completed in any wells without additional approval from the Commission.
4. It would not be prudent to develop the Marcellus Shale reserves under the spacing requirements imposed on deep wells because recoverable reserves would be left in place. ~~In order to avoid leaving recoverable reserves in place and to provide flexibility in spotting well locations, exceptions to Operational Rule §39-1-4.2 or the establishment of special field rules is necessary.~~ Chesapeake's witness testified that Chesapeake has approximately 57 future locations in the special field rule area. Chesapeake is requesting special field rules from the Commission as it is the most cost effective and administratively efficient manner in which to address the issues faced in drilling, logging, completing and producing Marcellus Shale wells, rather than requesting spacing exceptions on case-by-case or a well-by-well basis.
5. Chesapeake asked the Commission to set spacing for wells drilled under the special field rules at a minimum distance of 1,000' between wells and 50' from a lease line or unit boundary. The Commission, however, believed it was more appropriate to space these wells at a minimum distance of 1,000' between wells and 100' from a lease or unit boundary in order to maintain uniformity with existing special field rules obtained by Eastern American Energy Corporation covering Marcellus Shale wells, subject to paragraph 6 below.
6. Pocahontas Land Corporation by letter dated May 29, 2007, filed a written objection to Chesapeake's request for special field rules. Pocahontas, through counsel, withdrew its objection but only insofar as it related to this particular hearing based upon agreement with Chesapeake that in the event a coal seam owner or operator objected to the proposed drilling or deepening of a well to the Marcellus Shale, then the terms and provisions of West Virginia Code §22C-8-8 would apply.
7. Chesapeake's witness testified that the Onondaga Group is between 130 feet and 180 feet thick in the area subject to the request for special field rules.
8. Chesapeake has complied with the requirements of the statute and Operational Rule §39-1-6.

CONCLUSIONS OF LAW

1. That due notice of the time, place and purpose of the hearing has been given in all respects as required by law.
2. Definitions found in §22C-9-2(11-12) state that shallow well means any well drilled and completed in a formation above the top of the uppermost member of the "Onondaga Group": provided, that in drilling a shallow well the operator may penetrate into the "Onondaga Group" to a reasonable depth, not in excess of twenty feet, in order to allow for logging and completion operations, but in no event may the "Onondaga Group" formation be otherwise produced, perforated or stimulated in any manner, and deep well means any well, other than a shallow well, drilled and completed in a formation at or below the top of the uppermost member of the "Onondaga Group".
3. That Marcellus Shale wells drilled more than twenty feet into the Onondaga Group are deep wells.
4. That Operational Rule §39-1-4.2 requires that all deep wells drilled shall be not less than 3,000 feet from a permitted deep well location or from a deep well drilling to or capable of producing hydrocarbons from the objective pool of the deep well and no deep well shall be less than 400 feet from a lease or unit boundary. Operational Rule §39-1-4.3 allows for an exception to Operational Rule §39-1-4.2 or for the establishment of special field rules.
5. That pursuant to Chapter §22C, Article 9, Code of West Virginia of 1931, as amended, the Commission has jurisdiction over the subject matter embraced in said notice, and the persons interested therein, and jurisdiction to promulgate the hereinafter prescribed Order.

ORDER

Now, therefore, based on the Findings of Fact and Conclusions of Law, the request by Chesapeake for the establishment of special field rules is granted upon the following grounds:

1. The designated area covered by these special field rules is shown on the map attached hereto as Exhibit "A" and incorporated herein by reference, containing approximately 66,000 acres.
2. The special field rules apply only to leases or property owned or controlled, now or hereinafter, by Chesapeake.
3. The special field rules shall allow Chesapeake to drill wells in the designated area to a depth not to exceed 75 feet into the Onondaga Group or to the base of the Onondaga Group, whichever is shallower. Each well drilled under the special field

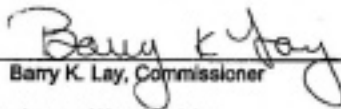
rules shall be located a minimum distance of 1,000 feet from each well covered by this Order and 100 feet from a lease line or unit boundary.

4. In the event that a coal seam owner or operator objects to the drilling or deepening of a well to the Marcellus Shale under these special field rules, then the terms and provisions of West Virginia Code §22C-8-8 will apply.
5. For each well covered by these special field rules, Chesapeake shall submit a deep well permit application. Upon completion of any well drilled under these special field rules, Chesapeake shall submit a copy of the open hole log, perforating log and an affidavit signed by a principal of the company stating that no formation below the top of the Onondaga Group has been perforated or produced in any manner. Thereafter, Chesapeake shall not, perforate, frac or otherwise stimulate the Onondaga Group, unless it subsequently files for, and receives a permit to rework, deepen or complete the Onondaga Group.
6. The Commission waives the requirement that Chesapeake must submit a site safety plan and hold a pre-spud meeting for the drilling of wells covered by this Order. However, Chesapeake is required to maintain H₂S monitoring equipment on site for use, if needed.

IN THE NAME OF THE STATE OF WEST VIRGINIA:

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

By:


Barry K. Lay, Commissioner

Dated this 10th day of July, 2007, at Charleston, West Virginia.