

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766

ADMINISTRATION
Phone (505) 827-5700
Fax (505) 827-5853

GENERAL COUNSEL
Phone (505) 827-5713
Fax (505) 827-4262

PUBLIC AFFAIRS
Phone (505) 827-5765
Fax (505) 827-5766

COMMERCIAL RESOURCES
Phone (505) 827-5724
Fax (505) 827-6157

MINERAL RESOURCES
Phone (505) 827-5744
Fax (505) 827-4739

ROYALTY MANAGEMENT
Phone (505) 827-5772
Fax (505) 827-4739

SURFACE RESOURCES
Phone (505) 827-5793
Fax (505) 827-5711

**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

May 3, 2000

New Mexico Energy, Minerals, and Natural Resources Department
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Attn: Michael Stogner

Re: Proposed Communitization Agreement
Southeast Maljamar Unit (SEMU) Well No. 135
1330' FSL & 1980' FEL, Section 25, Township 20 South, Range 37 East
Lea County, New Mexico

Dear Mr. Stogner:

I have reviewed Conoco's proposal to communitize two separate 20 acre tracts consisting of the S2NWSE (Federal ownership) and the N2SWSE (State ownership), for the above mentioned well in said Section, Township, and Range. This proposed 40 acre (total) spacing unit, though standard for the Hardy Tubb-Drinkard, North pool, is highly irregular, creates administrative problems, and is difficult under the ONGARD system to maintain.

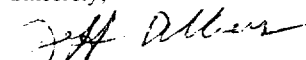
It appears that the 10' set-back minimum on 160 acre spaced wells is becoming cumbersome when alternative zones with 40 acre proration units become the pool of completion. Perhaps this is a good time to consider the re-establishment of 330' set-back minimums on 160 acre and 320 acre spaced wells to eliminate this situation in the future.

The New Mexico State Land Office will this one time accept this proposal for communitizing the SEMU No. 135. This may be the only alternative to assure that State Lands receive their proportionate share of revenue from this highly unorthodox situation. Otherwise, and in the future, we will urge the Oil Conservation Division (OCD) to impose a reduction in the assigned allowable for the well proportionate to its non-standard location, as opposed to implementing irregular communitization.

Therefore, please be informed that I will recommend to the Commissioner that he not approve any future requests for communitizing acreage that are inconsistent with standard U.S.G.S. survey guidelines. Spacing units consisting of less than two 40 acre tracts where at least one of the tracts is owned by the beneficiaries of the State of New Mexico, and spacing units that are not contiguous and symmetrical in their orientation, will not be recommended for Communitization Agreement approval by the Commissioner of Public Lands.

If you have any questions or care to discuss this further, please feel free to contact me.

Sincerely,



Jeff Albers, Petroleum Engineer
Oil, Gas & Minerals Division
(505) 827-5759
JA/ja