

July 18, 2000

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Mr. Michael Stogner
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Re: Case 12440 - Application of Shahara Oil LLC
(re Grayburg-Jackson Premier Sand Unit, Eddy County)

Dear Mr. Stogner:

Supplementing Shahara Oil's case presented under Docket No. 18-00 on June 29, enclosed are two copies of the Division's Form C-108. One copy of that form has been mailed to the Division's office in Artesia.

Copies have also been mailed to the BLM in Roswell, the grazing permittee, and the off-set operators as listed on Exhibit "E."

You made inquiry as to the compatibility of the Unit's produced water which will be re-injected, to the additional make-up water for the project. That comparison is Exhibit "F" to the enclosure.

You also made inquiry as to the comparison of royalty and overriding royalties under the W/2 NE/4 Sec. 28 (which is adjacent to the Unit) and the Unit. The basic royalty is federal - hence common under both tracts. Ownership of the overriding royalty interest is the same, but the percentages thereof are somewhat different. Primarily, Floyd Ferguson and JLW Management Company, two of the overriding royalty interest owners own greater percentages under the E/2 NE/4 Sec. 28 (within the Unit) versus their interest in the adjoining W/2 NE/4 (outside the Unit). As mentioned at the hearing, the working interest in the W/2 NE/4 (.8680 NRI) is owned by the same parties who own the working interest in the Unit (.8450 NRI).

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PAUL A. COOTER, Of Counsel

July 18, 2000


Page 2

Should additional information be desired for your review, please be assured that either Mr. Hughes in Carlsbad or the writer will promptly furnish the same to you on receipt of your advice.

Appreciating your courtesy to us, I am

Very truly yours,

EASTHAM JOHNSON MONNHEIMER & JONTZ, P.C.

A handwritten signature in black ink, appearing to read "Paul A. Cooter", is written over a horizontal line.

By _____
Paul A. Cooter

PAC\smb
enclosure