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January 30, 2004

VIA FACSIMILE
505-627-0207

Mr. Armando A. Lopez
Bureau of Land Management
Roswell District Office
2900 West Second Street
Roswell, New Mexico 88501

RE: NMOCD Case 1321
Application of Nadel and Gussman Permian, L.L.C.
for compulsory pooling,
E/2 of Section 31, T22S, R28E, Eddy County, New Mexico
Hannibal Fed. Well No. 1 (Unit J)

Dear Mr. Lopez:

On behalf of OXY WTP Limited Partnership ("OXY"), I am informing you that the referenced ~~on~~ pending hearing on the February 5, 2004 by the New Mexico Oil Conservation Division ("OCD") involves an attempt by Nadel and Gussman is orient a 320 acre gas spacing unit such that the federal oil and gas lease held by OXY in the E/2 of Section 31, T22S, R28E, Eddy County, NM will consist of multiple leases and will require communitization.

As you know, in accordance with 43 CFR 3105.2-3, state pooling orders are not valid in this type of situation without obtaining the BLM concurrence that a spacing unit based upon communitization of multiple leases is necessary and that a single federal well cannot be developed in conformity with established well spacing patterns.

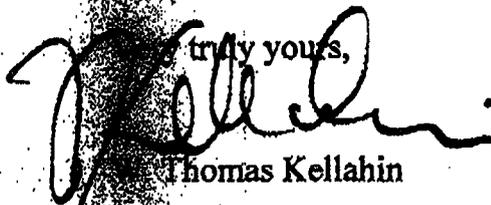
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I will be seeking a continuance of the referenced case until OXY, as the federal lessee, can evaluate Nadel and Gussman's data and submit its recommendation to the Board concerning this matter.

In additional, I am requesting that you advise Mr. Michael E. Stogner, Chief Hearing Examiner for the Division of the need to continue this case.

Truly yours,



Thomas Kellahin

Cfx: Michael E. Stogner
Chief Hearing Examiner for the Division
OXY USA WTP
Attn: Bob Dwyer



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019

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IN REPLY REFER TO:
3160 (3105.2-2)

Kellahin and Kellahin
Attention W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504

OIL CONSERVATION
DIVISION
FEB 2 2004

Re: NMOCD Case 13212
Application of Nadel and Gussman Permian, L.L.C.
for Compulsory Pooling, Sec 31, T22S, R28E
Eddy County, New Mexico

Dear Mr. Kellahin

By letter dated January 30, 2004, you requested our interpretation of Federal Regulation 43 CFR 3105.2-2 as it pertains to the pending NMOCD Case 12222 before Examiner Mr. Michael E. Stogner of the New Mexico Oil Conservation Division.

Federal Regulation 43 CFR 3105.2-3 concerning communitizations or drilling agreements states the following:

3105.2-2 Purpose

When a lease or a portion thereof **cannot** be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

As stated in the regulation the objective of communitization is to provide for the development of separate tracts which cannot be independently developed or operated in conformity with well spacing patterns established in the area. As a general guideline communitization will not be authorized when a single Federal lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West spacing) pattern established by State order.

In certain instances the Bureau of Land Management will approve a communitization even though the lease can be independently developed in conforms with state established spacing if adequate engineering and /or geological data is presented to indicate that communitizing two or more leases or unleased Federal acreage will result in more efficient drainage of an area.

If you have any questions concerning this matter please call Armando A. Lopez (505) 627-0248.

Sincerely Yours,
/S/LARRY D. BRAY

Larry D. Bray
Acting Assistant Field Manager,
Lands and Minerals Division

cc:
New Mexico Oil Conservation Division
Attn: Mr Michael E. Stogner
1220 South St. Francis Drive
Santa Fe, New Mexico 87505