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

November 6, 2001

Kellahin and Kellahin
Attorneys at Law
117 North Guadalupe
Santa Fe, New Mexico 87504

Attn: W. Thomas Kellahin

Re: Non-Standard Location Proposal
Cameron 31 Federal Well No. 2
2449' FNL & 408' FEL
Unit H, Section 31, Township 20 South, Range 25 East
Eddy County, New Mexico

Case 12777

Dear Mr. Kellahin:

We are in receipt of your letter, and accompanying data, quantifying your client's proposal for the above mentioned non-standard location.

We are aware of the cumulative Morrow production to date from the Fasken Oil and Ranch, Ltd. operated wells in the west half of Section 32, Township 20 South, Range 25 East. However, we are also aware of the production to date from Section 31.

You referenced the fact that approximately 3.6 bcf have currently been produced from the Morrow formation in Section 32. Therefore, we concur that the west half Section 32 has been adequately developed and protected with respect to the Morrow formation. However, you did not reference the fact that approximately 4.4 bcf have been produced to date from the Morrow formation by the Cameron 31 Federal Com Well No. 1, in the southeast quarter of Section 31, at a standard location.

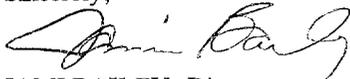
Our interpretation of the structure data you submitted agrees with your client's regarding the spot location for this proposed well. We also believe the Morrow is discontinuous, and therefore the possibility of obtaining commercial Morrow reserves from this proposed well does exist. The possibility of commercial reserves being present that have not been drained by any offsetting well also exists.

Regardless, our initial objection to this proposal was based on factors other than a non-standard Morrow well. Our concern is based on the fact that re-completion of this proposed Morrow well to an alternative non-standard zone, such as Indian Basin Strawn, would be logical in the future. We believe the continuous nature of the Strawn is grounds for concern regarding a future correlative rights issue. Therefore, our objection to this proposed Morrow well in the northeast quarter of Section 31 is not the primary concern in this objection filed on behalf of the Commissioner of Public Lands.

In order to expedite your client's application for the proposal as mentioned, we will recommend to the Commissioner of Public Lands that he waive objection to this proposed non-standard Morrow well. However, please be informed that this waiver of objection is specific to the proposed non-standard location for the subject well and specifically for the Morrow formation in the Cemetary Morrow Gas pool. A recommendation for a waiver of objection will not be made for alternative zone(s), regarding the use of this specific wellbore, where they are determined to be non-standard by NMOCD pool rules and regulations, and that are believed to pose a correlative rights issue.

If you care to discuss this further, please contact Jeff Albers at (505) 827-5759.

Sincerely,



JAMI BAILEY, Director
Oil, Gas & Minerals Division
(505) 827-5744

JB/ja

Xc: New Mexico Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87504
Attn: Mr. Michael Stogner ✓