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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Betty Rivera
Cabinet Secretary

Lori Wrotenberg
Director
Oil Conservation Division

May 15, 2002

CERTIFIED MAIL
RETURN RECEIPT NO. 7001-1940-0004-7923-4153

Mr. Randy Kinnibrugh
OK Hot Oil Services, Inc.
P.O. Box 146
Loco Hills, New Mexico, 88255

RE: \$29,000 Letter of Credit for Commercial Surface Waste Management Facility
Location: Sec. 14, T. 17 S., R. 28 E., NMPM, Eddy County, New Mexico
Principal: OK Hot Oil Service, Inc.
Financial Institution: The First National Bank
Letter of Credit No. 506311-70

Dear Mr. Kinnibrugh:

The New Mexico Oil Conservation Division hereby approves the above-referenced Commercial Surface Waste Management Facility Letter of Credit.

If you have any questions please contact Martyne Kieling at (505) 476-3488.

Sincerely,

David K. Brooks
Assistant General Counsel

DKB:mjk

Enclosure: Copy of Irrevocable Letter of Credit (No. 506311-70)

xc with attachment:

Hobbs OCD Office
Michael Hendricks, First National Bank, 303 W. Main, Artesia, NM 88210

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division

Irrevocable Letter of Credit For Waste Management Facilities
(File with Oil Conservation Division, 2040 South Pacheco Street, Santa Fe, New Mexico 87505)

LETTER OF CREDIT NO. 506311-70

The First National Bank [Name of Issuing Bank] (Issuing Bank), a corporation organized and existing under the laws of the State of New Mexico, and authorized to do business in the State of New Mexico with a duly appointed resident agent in the State of New Mexico, hereby establishes this Irrevocable Letter of Credit for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (the "Division") pursuant to Section 70-2-12 NMSA 1978, as amended for an aggregate amount not to exceed \$Twenty nine thousand (\$29,000.00) [closure cost estimate] in United States dollars ("Face Amount") effective immediately. This Letter of Credit is established for O K Hot Oil Service, Inc. (an individual, partnership, or a corporation organized in the State of New Mexico, with its principal office in the City of Loco Hills, State of New Mexico, and authorized to do business in the State of New Mexico), as PRINCIPAL.

The conditions of this obligation are such that:

1. The Principal has or may enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil and/or other oil field related waste in Section 14, Township 17, Range 28E, NMPM, Eddy County, New Mexico (the Facility).

2. This Letter of Credit is irrevocable for a term of not less than five (5) years and is conditioned upon substantial compliance by the Principal with all applicable statutes of the State of New Mexico and all rules and orders of the Oil Conservation Commission and Division, and upon clean-up of the facility site by the Principal to the standards set by the Division.

3. This Letter of Credit will expire on (a) 4-18-2007 [not less than five (5) years from the effective date of the Letter of Credit] or (b) the date upon which sufficient documents are executed by the Division to release the principal from further liability for closure of the Facility with notice to the Issuing Bank by the Division accompanied by the original Letter of Credit with directions for cancellation. This Letter of Credit shall be forfeited and collected by the State of New Mexico if not replaced by other suitable financial assurance or Letter if Credit at least 90 days before the expiration date.

4. This Letter of Credit will remain effective until the (a) expiration date or (b) the operator (principal) replaces this Letter of Credit with another acceptable form of financial assurance or (c) the Division releases the Letter of Credit pursuant to Paragraph 3 above, whichever is earlier.

5. Funds under this Letter of Credit are available against the Division's sight draft, in the form of Exhibit A, specifying Letter of Credit No. 506311-70 delivered to the office of the Issuing Bank at 303 W. Main, Artesia, NM 88210 [address]. At the Division's sole election, the Division may present sight drafts for less than the Face Amount of this Letter of Credit so long as the aggregate amount of all sight drafts does not exceed the Face Amount. Each draft must be accompanied by a certificate in the form of Exhibit B, purportedly signed by a duly authorized representative of the Division.

6. If the Issuing Bank receives the Division's sight draft(s) and certificate(s) as provided in Paragraph 5. above on or before the expiration or termination of this Letter of Credit, the Issuing Bank will pay such amount as the Division may specify, up to an aggregate amount not to exceed the Face Amount of this Letter of Credit available to the Division, no later than the close of business, Santa Fe time, on the second business day following the Issuing Bank's receipt of the sight draft and certificate and in such a manner as the Division may specify.

7. The Issuing Bank will give prompt notice to the Principal and to the Division Director of any notice received or action filed alleging the insolvency or bankruptcy of the Issuing Bank, or alleging any violations of regulatory requirements which are reasonably likely to result in suspension or revocation of the Issuing Bank's charter or license to do business.

8. This Letter of Credit will be governed by the laws of the State of New Mexico and shall be subject to the Uniform Customs and Practice for Documentary Credit, 1983 revision, International Chamber of Commerce Publication No. 500, as the same may be amended and in effect from time to time ("UCP").

9. All communications regarding this Letter of Credit will be addressed to the Issuing Bank at 303 W. Main, Artesia, NM 88210 [address], referencing Letter of Credit No. 506311-70.

Very truly yours,

The First National Bank
Surety

By: The First National Bank
(Name typed or printed) Michael Hendricks,
Michael A. Hendricks
(Authorized Signature)
Title: Vice President

STATE OF NEW MEXICO)
)SS.
COUNTY OF Eddy

On this 25th day of April, 2000, before me personally appeared Mike Hendricks and Vice President, to me known to be the person (persons) described in and who executed the foregoing instrument and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

My commission expires: 10/24/04
Date

[Signature]
Notary Public

APPROVED BY:
NEW MEXICO OIL CONSERVATION DIVISION

By: David K. Brooks
Assistant General Counsel
Date: 5/13/02

EXHIBIT A - SIGHT DRAFT

to

Letter of Credit No. _____

Date

City, County

Letter of Credit No.

PAY TO THE ORDER OF: _____ New Mexico Oil Conservation Division _____

(\$ _____) _____ DOLLARS

TO: (Name of Bank or Surety)
and
(Address)

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

By: _____
Authorized Signature

Date: _____

EXHIBIT B

to

Letter of Credit No. _____

I, _____ a duly authorized representative of the New Mexico Oil Conservation Division, hereby certify that: (1) the drawing in the amount of (\$ _____) _____ Dollars, by sight draft accompanying this certificate, under Letter of Credit No. _____ dated _____ issued by you is permitted under the provisions of the Letter of Credit, (2) the Letter of Credit has neither expired nor terminated pursuant to its terms, (3) the amount of the sight draft, together with any amounts previously drawn under the Letter of Credit, does not exceed the Face Amount of the Letter of Credit, and (4) the New Mexico Oil Conservation Division has ordered the forfeiture of the Letter of Credit. Proceeds of this drawing will be utilized in full to pay expenses relating to the closure liability for the facility described in Paragraph 1 of the Letter of Credit.

New Mexico Oil Conservation Division

By: _____
Authorized Signature

Date _____