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PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

May 3, 2005

Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

Attention: Mr. W. Thomas Kellahin

Re: Preliminary Approval
Proposed North Custer Mountain Federal State Unit
Lea County, New Mexico

Dear Mr. Kellahin:

This office has received the unexecuted copy of the unit agreement, which you have submitted for the proposed North Custer Mountain Federal State Unit area, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.

RECEIVED

MAY 5 - 2005

OIL CONSERVATION
DIVISION

-State Land Office Beneficiaries -

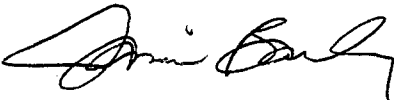
Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Salina Lands • Water Reservoirs • Western New Mexico University

3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Designation from the Bureau of Land Management.
5. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division and the Bureau of Land Management.
6. Please submit two copies of the Unit Agreement.
7. A copy of the Unit Operating Agreement (if applicable).
8. Copies of all the well records for the initial unit well.
9. The filing fee for a unit agreement is thirty dollars for every section or partial section thereof. Please submit a \$150 filing fee.
10. Since our records reflect a previous North Custer Mountain Unit, please change the name of this unit. The name Custer Mountain North Unit would be acceptable.
11. On Exhibit B, please list the Federal tract first then list the State tracts in chronological order.
12. Your letter of April 29, 2005 states that Tract No. 9 is Federal. Please be advised that Tract No. 9, B0-1040-1, E/2SE/4 of Section 16, Township 23 South, Range 35 East, is State Trust Land.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 
JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

PL/JB/pm

cc: OCD-Santa Fe, Attention: Mr. Roy Johnson
Bureau of Land Management, Attn: Mr. Armando Lopez