



State of New Mexico
Commissioner of Public Lands

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

RAY POWELL, M.S., D.V.M.
COMMISSIONER

Office of the General Counsel
(505) 827-5713
Fax: (505) 827-4262

December 11, 2001

William F. Carr, Esq.
Holland & Hart LLP
Campbell & Carr, Attorneys at Law
110 North Guadalupe
Santa Fe, New Mexico 87504-2208

RECEIVED

DEC 12 2001

HOLLAND & HART LLP

Re: Grama Ridge East 34 State Well No. 1
Unit H, Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

Dear Mr. Carr:

This is to advise you that the New Mexico State Land Office ("NMSLO") continues to support the efforts of Nearburg Exploration Company, L.L.C. ("Nearburg") to persuade the Oil Conservation Division ("OCD") to rescind its July 26th shut-in order regarding the well referenced above, as provided in my letter of November 16, 2001.

However, please be advised that if OCD agrees to rescind the shut-in order before it resolves the spacing unit issue, Nearburg should pay State royalties on 1/6th of the total production, as provided in State Lease VO-5683 covering the N/2 of Section 34. Because a different State lease covers the S/2 of Section 34, and it provides for only a 1/8th royalty, NMSLO will hold in suspense 1/48th of Nearburg's royalty (the difference between 1/6th and 1/2(1/6 + 1/8)). NMSLO will refund the 1/48th to Nearburg in the event OCD ultimately decides that the appropriate spacing unit should be the entire E/2 of Section 34 (rather than dividing the E/2 into two 160-acre units).

Notwithstanding anything in this or any prior letter to the contrary, NMSLO takes no position on what the appropriate spacing unit should be or on whether any working interest proceeds should be escrowed pending OCD's resolution of the matter. Please disregard the suggestion in my November 16th letter that 50% of the proceeds should be escrowed. NMSLO believes that all issues (i.e., the size of the spacing unit, whether to rescind the shut-in order, and whether to require the escrow of working interest funds) are properly resolved by OCD, and NMSLO will support any decision of OCD that is based on substantial evidence presented to OCD at hearing.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "BF Frederick". The signature is stylized with large, bold letters and a long, sweeping underline.

Bruce Frederick
Associate Counsel

pc: Larry Kehoe
Jeff Albers
Kurt McFall