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

January 10, 2001

Holland and Hart LLP
Campbell and Carr, Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Attn: Michael H. Feldewert

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

Dear Mr. Feldewert:

We received your January 8, 2001 letter requesting approval from the Commissioner of Public Lands for two separate proration units for the NE4 and SE4 of said Section 34 for the Grama Ridge Morrow, East Gas pool. We are familiar with the distinction of this pool from that of the Grama Ridge Morrow Gas pool underlying the W2 of said Section 34. However, we would like to clarify a couple of points that were misstated in your letter.

Great Western Drilling Company is the lessee of record for the N2 of Section 34, not Nearburg Producing Company as you stated. However, we do concur that Nearburg Producing Company has obtained operating rights for the Morrow in this lease. In addition, we do not recognize EOG Resources as the operator of record for the Llano 34 State Com Well No. 1. Pecos River Operating, Inc. is the operator of record for this well. The Llano 34 State Com Well No. 1 has an E2 dedication in said Section 34 to the Grama Ridge Morrow, East Gas pool. We understand the error regarding a N2 dedication to the Nearburg well that was drilled in the NE4 of Section 34, and concur that an E2 dedication was necessary due to the differing Morrow Gas pools segregated by the North to South trending fault through the middle of Section 34.

Our concern has been and remains, that an E2 dedicated Grama Ridge Morrow, East Gas well already exists in Section 34, although inactive. Upon the presence of the Nearburg well in the NE4 of Section 34, and with an E2 dedication, we assumed that they would obtain operating rights to the Llano 34 State Com Well No. 1 and possibly produce both wells within the E2. Or, that Pecos River Operating, Inc. would be required to plug the Llano 34 State Com Well No.1. Regardless, two separate operators within the same pool and proration unit can not be allowed.

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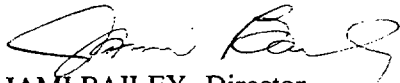
CAMPBELL, CARR, et. al.

We understand the desire of your client to operate and produce separately within Section 34, thus the necessity of the quarter section proration units. However, we concur with the current rules, regulations, and spacing requirements affecting the Grama Ridge Morrow, East Gas pool established by the New Mexico Oil Conservation Division. We believe that 320 acre spacing is correct and justified for this pool.

Therefore, please be informed that a recommendation for a waiver of objection from the Commissioner of Public Lands will not be made.

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
2040 South Pacheco
Santa Fe, New Mexico 87505
Attn: Mr. Michael Stogner

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