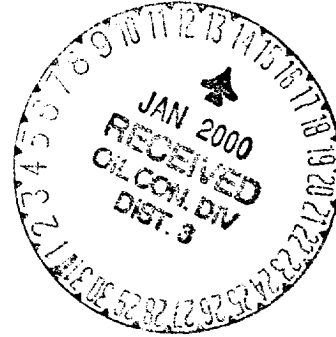




**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

January 5, 2000



Mallon Oil Company
P.O. Box 2797
Durango, Colorado 81302

Attention: Mr. Terry G. Lindeman
Operations Superintendent

Re: Jicarilla 457-3 Well No. 3
Unit L, Section 1, T-30 North, R-3 West,
Rio Arriba County, New Mexico

Dear Mr. Lindemen:

The Oil Conservation Division has been made aware that Mallon Oil Company (Mallon) conducted an injectivity test by injecting into the Ojo Alamo formation within the Jicarilla 457-3 Well No. 3 within the last 60 days. It is our understanding that Mallon sought and received approval from EPA Region VI to conduct this injectivity test. Please be advised that the OCD asserts certain jurisdiction over injection operations on Indian Lands. Although Mallon did file an application with the OCD to conduct this test, no authority was granted, either verbal or written, by OCD. We consider this to be a serious violation of OCD rules.

The OCD has also been made aware that Mallon has filed a formal application with EPA Region VI to permit the Jicarilla 457-3 Well No. 3 as a disposal well in the Ojo Alamo formation. Please be further advised that Mallon will be required to obtain a permit from OCD to convert and utilize the subject well as a disposal well. Form C-108 (Application to Inject) shall be filed with the OCD and a permit granted prior to Mallon conducting further injection operations into this well.

In addition to the data required on Form C-108, Mallon shall include in its application to OCD all test data obtained while conducting the injectivity test on the Jicarilla 457-3 Well No. 3.

If you should have any questions, please contact Mr. David Catanach at (505) 827-8184.

Sincerely,

Lori Wrotenberg
Division Director

Xc: OCD-Aztec ✓
EPA Region VI
Attention: Mr. Bill Hurlbutt