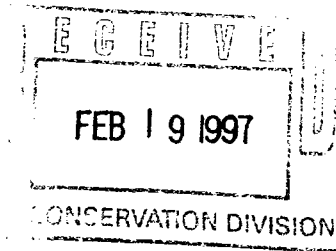


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February 18, 1997

Mr. William J. LeMay  
New Mexico Oil Conservation Commission  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Ms. Jami Bailey  
Commissioner of Public Lands  
State Land Office Building  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

Mr. William W. Weiss  
Petroleum Recovery Research Center  
Kelly Building  
New Mexico Institute of Mining  
& Technology  
Socorro, New Mexico 87801

Re: Case Nos. 11,666 and 11677 (*de novo*)

Dear Commissioners:

Unfortunately, I find I must respond to two of the three "issues" set forth at page 2 of the draft order submitted by Yates. The first issue, requesting that competing applications be granted to the operator who owns the largest interest "at the time the application is filed" is obviously suggested to give "the Yates group" a leg up on its opponents. That requirement has never been Commission policy, and is contradicted by Order No R-10520, cited by Yates (page 6, ¶5(ii) of its proposed order).

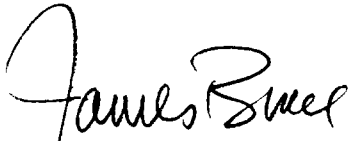
The third issue states that InterCoast (now Medallion) filed its first pooling application as a negotiating strategy, and created "an environment of hostility." There is absolutely no evidence in the record supporting that statement. The only relevant testimony, by Mr. Quinn, was that InterCoast had a short term farmout, necessitating quick action to drill a well. Moreover, the application complained of by Yates was dismissed.

"Issues" one and three are new since last Thursday, and thus they

were not addressed in InterCoast's proposed order.

Finally, the matter of the stay (pages 4-5 of Yates' proposed order) was addressed at the hearing: Everyone wants the well drilled at the same location, and thus no one is harmed by the commencement of the well. Even Yates' witnesses did not testify that it was harmed by the spudding of the well.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in dark ink and is positioned above the printed name.

James Bruce

Attorney KCS Medallion  
Resources, Inc.

cc: Rock A. Quinn  
W. Thomas Kellahin