

GP II ENERGY, INC.

Oil & Gas Exploration & Production

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March 23, 1999

Mr. David Catanach
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: **Case No. 12112:** Application of GP II Energy, Inc. for approval of a waterflood project, Eddy County, New Mexico.

Case No. 12113: Application of GP II Energy, Inc. for statutory unitization, Eddy County, New Mexico.

Dear Mr. Catanach:

I am writing you concerning the status of the efforts to implement our proposed Square Lake Unit Waterflood Project which is the subject of the above referenced Oil Conservation Division cases. As we explained at the Examiner Hearing, we believe that this project can result in the recovery of 11 million barrels of oil over the next 18-20 years that will not otherwise be recovered.

Our proposed project is offset to the south by a waterflood project in the Grayburg and San Andres formations operated by Devon Energy Corporation. We are proposing to conduct similar operations to those of Devon but on a larger scale. Shahara Oil, L.L.C. also proposes to initiate a similar waterflood project in Sections 29 and 31 of Township 17 South, Range 30 West. At our request, Bill Carr attended the March 18, 1999, hearing on Shahara's application to amend the order which approved their project to address how certain problem wells should be handled. Mr. Carr advised us that this hearing followed a meeting with the Division's personnel at which the specific details of the required remedial work was discussed.

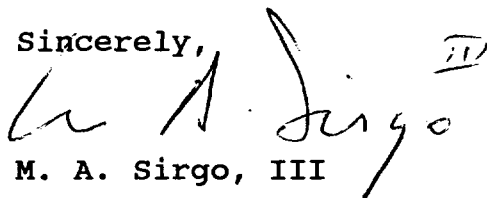
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Our proposed unit and waterflood project are located in an old area and we recognize that substantial remedial work on the existing wells in the area will be required to assure that our waterflood operations do not put fresh water at risk. We understand that a well specific plan for these wells will have to be developed and that this effort will take some time. Since we intend to implement this project in phases, it may be desirable to initially focus our efforts-both in terms of remedial work and the drilling of additional wells-on particular areas within the Square Lake Unit.

GP II Energy, Inc. is prepared to immediately start drilling additional producing wells in the Square Lake Unit Area. Our funding for these wells has been approved and we hope to commence drilling within the next six weeks. We therefore, request the opportunity to meet with you and any other Division personnel you desire at the earliest possible time to further discuss our plans. We believe that this discussion should address the possibility of dividing the project area into specific phases and initially limiting remedial work on specific wells to our phase one area. We also will request that we be permitted to proceed with the drilling of new producing wells in this project area. This, of course, would be conditioned on the understanding that there will be no change in the current injection of water in the unit area until we have complied with all Division requirements to assure that fresh water in the area is protected.

Your attention to this request is appreciated.

Sincerely,

A handwritten signature in cursive script, reading "M. A. Sirgo, III". The signature is written in dark ink and is positioned above the typed name.

M. A. Sirgo, III

MAS/pr

cc: Lori Wrotenbery
Bill Carr