

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5833

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

Phone (505) 827-1245

Fax (505) 827-5766



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

COMMERCIAL RESOURCES

Phone (505) 827-5724

Fax (505) 827-6157

MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

June 18, 2001

Beach Exploration, Inc.  
800 N. Marienfeld, Suite 200  
Midland, Texas 79701-3382

Attention: Mr. Robert N. Hinson

Re: Proposed West High Lonesome Penrose Sand Unit  
Eddy County, New Mexico

OIL CONSERVATION DIVISION

CASE NUMBER \_\_\_\_\_

Beach EXHIBIT 7

Dear Mr. Hinson:

This office has reviewed the unexecuted copy of unit agreement, which you have submitted for the proposed West High Lonesome Penrose Sand Unit, Eddy County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands and has this date granted you preliminary approval as to form and content.

According to your application, it is our understanding that the fresh water makeup required would be used primarily in the first four years of the waterflood development, when the reservoir is undergoing the critical phase of repressurization. Our preliminary approval is given with the condition that no more than 2.4 million barrels of fresh water makeup be used in the waterflood and is subject to a stipulation to be made a part of our final approval requiring that the Operator shall, within four years following the effective date of the West High Lonesome Penrose Sand Unit, submit for the Commissioner's review the fresh water requirements for this unit. A review of the unit's fresh water requirement will continue to be submitted for the Commissioner's review every three years thereafter.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division and approval by the Bureau of Land Management. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division and the Bureau of Land Management.
4. A copy of the Unit Operating Agreement.
5. A copy of your Initial Plan of Operation.

Beach Exploration, Inc.  
June 18, 2001  
Page 2

6. A re-designation of well names and numbers.
7. The filing fee for a unit agreement is \$30.00 dollars for every section of partial section thereof. Please submit a \$120 filing fee.
8. Please type in a date on page 9, Effective Date and Term in the second paragraph.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744

RP/JB/pm

pc: Reader File  
OCD-Attention: Roy Johnson  
BLM-Roswell, Attention Mr. Armando Lopez