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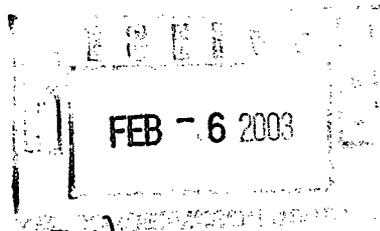
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WVJ

February 5, 2003

Will Jones
New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505



Re: Salty Dog #3R Step Rate Test (30-045-31274)

Dear Mr. Jones,

Please find the attached data and analysis of the step rate test performed on the Salty Dog #3R on February 3, 2003. I have included all raw data, as well as the analysis performed by American Energy Services. Please note that the well configuration will not be changed for injection.

The file named "Richardson Step-Rate Test Salty Dog #3R" contains data and analysis from Cobra Slickline and American Energy Services that have been combined into an Excel chart. Based on this chart, I have determined the downhole formation parting pressure to be 4,590 psi. The fracture apparently occurred in the 9.25 BPM stage. The average surface pressure measured during this step was 2,328 psi. The average pressures measured in the prior steps were 2,263 psi and 2,217 psi. It seems reasonable to me that an allowable injection pressure between these points would provide adequate assurance that the injected water will stay in the Entrada Formation.

Please review this analysis and increase the allowable injection pressure to the appropriate value.

Thank you for your time and consideration.

Regards,

Drew Carnes
Operations Manager
505-564-3100
505-215-3926 (Cell)