



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

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

Mr. Jim Pierce
Oil and Gas Properties
200 West 1st Street, Suite 859
Roswell, New Mexico 88201

Re: South Redlake Grayburg Waterflood Project

To Whom It May Concern:

This is to clarify and confirm the situation with the above referenced waterflood project. The Oil Conservation Division has record of mechanical integrity testing being performed on the subject injection wells in April, 1998 however, we have no record of when injection operations may have actually ceased. No injection volumes have been reported for over 3 years.

Division Rule 705.C states:

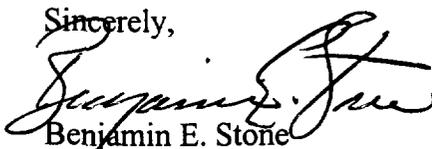
"Whenever there is a continuous six-month period of non-injection into any injection project, storage project, salt water disposal well, or special purpose injection well, such project or well shall be considered abandoned, and the authority for injection shall automatically terminate ipso facto."

Currently, the Division has no automatic provision for notifying oil and gas operators in the state that their project has in fact lost authority to inject because of a six-month period of non-injection. Rather, at this time we rely on our district office field personnel to identify these situations and communicate to the operator the impending situation. Generally, if the operator intends to maintain the waterflood project and continue injection operations, district personnel will instruct them to write a letter to the Division office (Santa Fe), requesting that injection authority be re-instated. Most often, we will oblige the request (based on technical merit) finding it preferable to letting a well or wells become "orphans".

In this particular case, we were informed by the applicant, McQuadrangle, L.C., at the time of application to re-instate (dated August 17, 1999) that the project had been shut-in "for quite some time", pending litigation. Pursuant to the above captioned rule, the OCD considered injection authority to be terminated at the time.

Subsequently, after administrative review of this application, WFX-542 and authority to inject was re-instated and the approval signed on November 3, 1999.

Sincerely,



Benjamin E. Stone
Petroleum Engineering Specialist

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