

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
ARTESIA DISTRICT OFFICE

GARY E. JOHNSON
GOVERNOR

JENNIFER SALISBURY
CABINET SECRETARY

9-9-97

Mc Kay Oil Corporation
P.O.Box 2014
Roswell, NM. 88201

Re; Properly Abandoned Wells.

Dear Mr. Mc Kay;

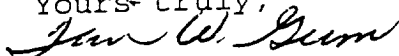
For your convenience I have enclosed a copy of Ray Smith's letter dated September 11, 1996 with a list of wells that have no reported production as far back as 1993. To date there has been no response from you in regard to that letter.

Upon checking your production there may be a well or two that could be taken from this list, while we need to add your Desert Rose # 1 to the list.

Also, this office has ask for and not received subsequent reports of work done on your Corntrust # 1 and # 2 wells, as well as the Macho State # 2.

I am asking you to provide the above forms which are necessary to keep our files current and to provide a plan to bring your nonproducing wells into compliance with rule 201. Failure to respond to this request by October 15, 1997 will result in us asking our legal department to schedule a hearing in Santa Fe so you may appear and show cause why these wells should not be plugged.

Yours truly,


Tim Gum

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September 11, 1996

McKay Oil Co.
P.O. Box 2014
Roswell NM 88201

Re: Properly Abandoned Wells

The state of New Mexico is in the process at this time of reviewing leases and determining the number of abandoned wells.

Rule 201 A. states the operator of any well drilled for oil, gas, or injection, for seismic, core or other exploration, or for a service well, whether cased or uncased, shall be responsible for the plugging thereof.

Rule 201 B. states a well shall be either properly plugged and abandoned or temporarily abandoned in accordance with these rules within 90 days after (1) a 60 day period following suspension of drilling. (2) a determination that the well is no longer usable for beneficial purposes. (3) a period of one year in which a well has been continuously inactive.

House Bill 65 has been passed by the legislature and provides some tax incentives for wells put back in production. However, if there are no plans to put wells back in service then they need to be either plugged or properly abandoned.

After reviewing production records of McKay Oil Co. it is noted there are several wells that have no reported production from one to three years or longer.

Continued