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February 10, 1997

Via FaxWilliam J. LeMay
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505Re: InterCoast/Yates, Cases 11666 & 11677 (*de novo*)

Dear Mr. LeMay:

This letter serves as the response of KCS Medallion Resources, Inc. (formerly InterCoast Oil and Gas Company) in opposition to Yates' renewed motion for a stay.

Medallion has moved a rig onto location, and commenced the well. Medallion's primary argument in its original Response in opposition to the stay motion was that rig availability is tight, and it had to contract for a rig as soon as possible. Once a rig is under contract, the operator must commence the well or pay standby charges. Because standby charges are \$5000/day for the rig, Medallion objects to the entry of an order halting drilling.¹ If a stay is entered, Yates should be liable for all standby charges.

Regarding the running of the election period under the pooling order, Yates received its election notice on January 27th. Thus, contrary to its assertion in its motion, Yates' election period will not expire until long after the hearing this Thursday. Also, since Yates wants to drill and operate the well, it would seem that a decision to join in the well will not be difficult.

The well was not commenced to deny Yates' right to a *de novo* hearing, but only to preserve Medallion's farmout. Again, Medallion requests that the drilling of the well not be stayed.

¹This is an 11250 foot test, and the well will only be several hundred feet deep by the day of hearing. If the decision of the Commission is to award Yates the right to operate the well, the drilling contract can be assigned to Yates.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in black ink and is positioned above the printed name.

James Bruce

cc: W. Thomas Kellahin (via fax)
Marilyn S. Hebert (via fax)