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March 7 , 2000

**HAND DELIVERED**

Michael E. Stogner  
Hearing Examiner  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
2040 South Pacheco  
Santa Fe, New Mexico 87505

***Re: Case 12331: Application of Falcon Creek Resources, Inc. for Statutory  
Unitization, Lea County, New Mexico.***

***Case 12332: Application of Falcon Creek Resources, Inc. for Approval of a  
Waterflood Project for its West Teas (Yates-Seven Rivers) Unit Area and  
Qualification of Project for the Recovered Oil Tax Rate pursuant tot he Enhanced  
Oil Recovery Act, Lea County, New Mexico.***

Dear Mr. Stogner:

As you will recall, at the February 17, 2000 Examiner Hearing on the above-referenced applications, you had certain questions concerning the potential impact of the proposed waterflood project on water in the Capitan Reef. Falcon Creek hopes the following information will be helpful to you in evaluating these applications and their potential impact on the Capitan Reef:

- A. As described in Falcon Creek's application, only the Yates sands are proposed for waterflood. The underlying Seven Rivers carbonate interval has a substantial natural water drive and injection into that interval would be counterproductive to oil recovery. The Seven Rivers is positioned between the Yates and the Capitan Reef.

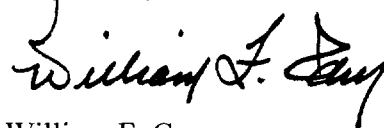
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- B. The Seven Rivers formation has a substantial remaining reserves and current withdrawals from that horizon total about 2,700 BOPD total liquid (66 BOPD, 2,632 BWPD).
- C. Proposed Stage 1 injection into all of the Yates sand zones is 3,600 to 4,500 BWPD (evenly divided among the three Yates intervals this would be 1,200 to 1,500 BWPD per zone).
- D. The efficient sweeping of secondary oil in the Yates sands will require injection to be confined to the sand intervals. Completion records do not indicate "fracing out of zone" to have been a completion problem in the field.
- E. Falcon Creek intends to monitor injection with the assistance of injection profile logging where needed.
- F. The three wells currently producing with the Yates 3 sand zone open do not indicate an unusually high water / oil ratio or an unusually low salinity, either of which might be an indicator of communication with the underlying Seven Rivers interval.

Failure to contain the injection water to the Yates formation will be detrimental to Falcon Creek's efforts to implement an effective waterflood in this unit. Accordingly, Falcon Creek will do everything it can to assure that injected water stays in the injection interval. To date there has been no evidence of any problem with fracture treatments breaking our of zone. Furthermore, since the February 17, 2000 examiner hearing, Falcon Creek has again checked with the state engineers office and has confirmed that there is no fresh water source to protect in the Capitan Reef within many miles of the West Teas-Yates-Seven Rivers Pool.

I hope this information is helpful to you. If you need additional data from Falcon Creek to assist you in your consideration of this application, please advise.

Very truly yours,



William F. Carr  
Attorney for Falcon Creek  
Resources, Inc.

WFC/md

cc: Lynn Becker  
Joe Cox  
Falcon Creek Resources