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OIL CONSERVATION DIV.

July 9, 2001

Hand Delivered

Lori Wrotenbery
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Cases 12684 and 12685 (Beach Exploration, Inc./Statutory
Unitization and Waterflood)

Dear Ms. Wrotenbery:

This letter is in response to the letter submitted to you on July 5, 2001 by Mr. Bill Taylor, requesting a continuance. Beach Exploration, Inc. opposes a continuance of this matter, for the following reasons:

Mr. Taylor requests a continuance because, he claims, certain documents were not provided to him. However:

- a. A detailed AFE was provided to Mr. Taylor on March 25, 2001. See the letter from Beach Exploration, Inc. to Bill Taylor, dated July 6, 2001, attached as Exhibit A;
- b. The Unit Agreement and Unit Operating Agreement were provided to him on the same date (March 25th). Additional copies were not provided with the unitization application in order to reduce paperwork. The notice letter mailed to the interest owners states that if they desire another copy, to call applicant. See the notice letter attached as Exhibit B.
- c. Mr. Taylor is not an operator of an offset well completed in or penetrating the injection zone, so Beach Exploration, Inc. was not required to mail him a Form C-108. However, one has now been provided to Mr. Taylor.

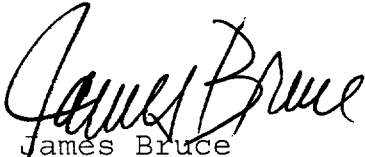
The only change in the documents previously provided to Mr. Taylor was due to a typographical error in the Unit Operating Agreement.

That mistake has now been rectified.

If Mr. Taylor had made these requests when he spoke to my client in late June, this would be unnecessary.

Beach Exploration, Inc. requests that this matter not be continued. Because of travel arrangements and hotel reservations, **I ask for a response from the Division today.** Thank you.

Very truly yours,

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

James Bruce

Attorney for Beach Exploration, Inc.



July 6, 2001

Bill G. Taylor
1106 N Country Club Circle
Carlsbad, NM 88220-4613

VIA OVERNIGHT MAIL

Re: West High Lonesome Waterflood Unit
Eddy County, New Mexico

Dear Mr. Taylor:

In reference to your letter dated July 5, 2001 directed to the New Mexico Oil Conservation Division, Beach Exploration would like to respond as follows:

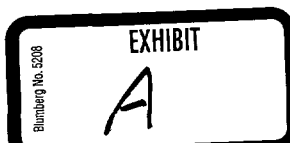
During my two telephone conversations with you on June 27th and June 29th, you indicated that the purchase offer agreed to by 78% of the working interest owners in the M & W Federal well was unacceptable to you and your son. I expressed my regret, but informed you that we could not pay you more money than the other working interest owners just to avoid your threat to protest our unit proposal at the OCD hearing we had scheduled for July 12, 2001.

During these same telephone conversations, our engineer (Jack Rose) also had a lengthy discussion with you in hopes of resolving any questions you might have. I answered all questions that you directed to me and informed you that I would remain available to answer any additional questions that you might have. You did not request any of the information mentioned in your letter and indicated that you would see us at the July 12, 2001 hearing in Santa Fe.

Although we wish that you had submitted any questions or information requests prior to one week before our proposed hearing, we would like to provide you with information that you feel you have not received and set the record straight on other matters presented in your letter.

You have received all of the same documentation sent to *all* working interest owners in our proposed unit, including working interest owners who are the original participants in wells drilled and operated by Beach. The .007290011 unit working interest that is owned collectively by you and your son represents the only working interest in the proposed unit that has indicated that we have not supplied adequate information to evaluate participation in the unit.

A detailed AFE was forwarded to all working interest owners (copy enclosed) at the same time (March 25, 2001) that we forwarded copies of the Unit Agreement and the Unit Operating Agreement for your examination. The AFE showed a total of \$865,000.00 for the initial unit installation. The \$929,000.00 facilities cost, shown on our Application for Approval of Waterflood, includes an additional \$64,000.00 for the conversation of 5 additional wells to injectors during Phase II of the waterflood. The estimated total project cost of approximately \$6,400,000.00 includes:



\$768,000.00	Ad valorem tax
\$4,560,000.00	Direct operating expenses
\$1,078,000.00	Equity investment (AFE + Phase II + lease acquisition)

Said expenses would be incurred during the 11.5 year life of the waterflood project. Mr. Rose was available to discuss these numbers with you at any time after your receipt of the above mentioned Application.

Expenditures were not broken out solely for the M & W Federal well since all costs are based on unit expenditures shared proportionately by all working interest owners. To prepare a cost analysis for the purpose of evaluating possible participation, working interest owners were provided with all of the necessary information. Your unit working interest shown on Exhibit "D" to the Unit Operating Agreement is your proportionate share of the expenses shown on the Application for Approval of Waterflood.

Exhibit "B" to the Application for Approval of Waterflood (Form C-108) was not mailed to all working interest owners but was provided upon request to any interested party. Since you did not previously request a copy, we are at this time providing you with the same by overnight mail.

The Application for Statutory Unitization that you received from Beach did not contain Exhibit "B" (Unit Agreement) since you had previously been mailed an identical copy of both the Unit Agreement and Unit Operating Agreement. Our letter dated June 20, 2001 did however ask working interest owners who needed another copy of said Agreements to contact Beach. I never verbally informed you that there was a "major" difference in the Operating Agreement sent previously and the one attached to the Application submitted to the OCD. The Operating Agreements are identical. During the course of our discussion, I mentioned to you that the 500% non-consent penalty shown on our Unit Operating Agreement was inadvertently left in from a previous form and that we would be governed by whatever non-consent is approved by the OCD.

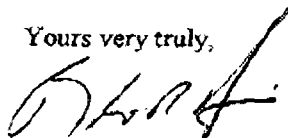
Please review the information enclosed herewith (form C-108 is the only information not previously submitted) and the information you received previously and I think that you will find that there are no missing exhibits, cost information (COPAS provides well operating overhead) or any other data necessary to properly evaluate your possible participation in our unit.

We believe that any delay in our proposed hearing will be detrimental to the best interest of the many working interest owners who have already ratified our Unit Agreements and will increase the cost to participants at this late date to cover cancellation of hotel rooms, travel expenses and scheduling problems for a different hearing date.

Please re-evaluate your request to the OCD to postpone our scheduled hearing and let us proceed in a timely manner.

Thank you for your consideration.

Yours very truly,



Robert N. Hinson

RNH/jl
Enclosure

June __, 2001

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

To: Working Interest Owners in West High Lonesome Unit

Ladies and Gentlemen:

Enclosed are copies of an application for statutory unitization and an application for a waterflood project, filed with the New Mexico Oil Conservation Division by Beach Exploration, Inc., regarding the proposed West High Lonesome Unit Area covering parts of Sections 17, 18, 19, and 20, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico. This matter will be heard at 8:15 a.m. on Thursday, July 12, 2001 at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. As an interest owner in the unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

We have previously provided you with copies of the unit agreement and unit operating agreement. However, if you need another copy of either document, please call.

If you ratify the unit before the hearing, your name will be dismissed from the case.

Very truly yours,

