

September 30, 1987

RECEIVED

OCT 05 '87

OCT 05  
1987

Energy and Minerals Department  
Oil Conservation Division  
P. O. Box 2088  
State Land Office Building  
Santa Fe, New Mexico 87501

Attention: Mr. David Catanach

Re: Nichols #1  
Section 21-T22S-R27E  
Eddy County, New Mexico

Dear Mr. Catanach:

Graham Royalty, Ltd. has recently purchased referenced well from FPCO Oil and Gas Co. (formerly Petro-Lewis Corporation). The Morrow formation is flowing up the tubing, and the Strawn formation is flowing up the tubing-casing annulus. Tubing pressure has declined to the point where gas volumes have drastically decreased resulting in the need for compression. The Strawn formation has not produced for several months due to the line pressure.

Graham is in the process of setting an AJAX DPC 81 compressor which is capable of 1.4 MMCFD with a 300# suction pressure and a 650# discharge pressure. We feel that the Strawn formation will be able to contribute a minimum amount of gas ( $\pm 100$  MCFD) at the 300# suction pressure. Therefore, we propose co-mingling the Strawn and the Morrow formations on the surface. Periodic well tests will be used to allocate monthly production to the two formations.

Please advise if you require any further notification prior to proceeding with the necessary surface plumbing. Also, if you have any questions, please contact me at 303-628-2507.

Sincerely,

GRAHAM RESOURCES, INC.

*Terry S. Holzwarth*

Terry S. Holzwarth  
Petroleum Engineer

TSH/tdh

cc: Mr. Les Clements  
P. O. Drawer DD  
Artesia, New Mexico 88210