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RECEIVED  
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OIL CON. DIV.  
DIST. 3

Mr. Frank Chavez, Supervisor  
Oil Conservation Division  
1000 Rio Brazos Road  
Aztec, New Mexico 87410

Dear Mr. Chavez:

Enclosed are three signed originals of form 103 which I think sets out what we talked about on the phone the other day concerning well No. 20, section 20, T16N, R6W.

You asked me if the casing was set up high enough to cover the shallow water zone. I told you I did not think so. You then advised me to put a cement plug inside the casing across the upper water sand. After this conversation I re-read Mark Weidler's report on the well and found that casing was cemented up to 323 feet from the top. This covers the water sand. I am enclosing a copy of Weidler's report. On page 7, he reported that he hit water in the Lower Hosta sand at 460 feet. On page 2 Weidler picked the bottom of the Lower Hosta at 640 feet. On page 1 he reported that he cemented the casing 850 feet above the casing shoe at 1173 feet. This would put the top of the cement at 323 feet and this is (450-323) 127 feet above the top of the Lower Hosta. For this reason I have not included in the plans for plugging the well, set out on the enclosed form 103, a cement plug across the Lower Hosta and inside the casing as we discussed. If you still want the plug inside the casing, please let me know and I will make this change on form 103.

I am on a tentative deal with W R Oil Company whereby this company, after it gets the right to inject steam in the Santa Fe Pacific lease area, if it does, it will test the No. 20 well using steam injection. For doing this test I will give W R an option to purchase all of my acreage of 1326 acres. If the test is not successful, it will plug the well. If it is successful the well will be put on production. I talked to Gary Dittmar of W R yesterday and he is hiring a lawyer to file the application-to-steam papers as soon as possible.

If my deal with W R falls through I will plug the well so that I can hold on to my acreage. Logs and core analyses of wells in the area indicate that there are about 6 million barrels oil in place

under my acreage. If only one-half of this could be produced, my 70% interest would amount to 2 million barrels oil. On the basis of the wells that have been drilled on the Santa Fe Pacific lease, I can hold my acreage without additional drilling until the year 2002. Surely the price of oil will go up before then making it feasible to develop the acreage and produce the oil through steam injection. (Maybe I won't see this happen but my kids will).

I recently received a letter from Ron Fox of Enhanced Energy Systems pointing out his belief that steam will get the oil out at Miguel Creek. I am enclosing a copy of this letter.

Very truly yours,

*Lloyd Davidson*  
Lloyd Davidson