

BK PETROLEUM, INC.
P.O. BOX 826 • FARMINGTON, N.M. 87499
3005 NORTHRIDGE, SUITE D
PHONE (505) 326-3139

AM	2
ADMIN.	PAG. VOX.
MAY AFF	RANGE
P & SC	TEST SITE
SP AGT	HZ. MAT
BRANCH LG. RR	
BRANCH MINERALS	3
ALL SUPV	ALL EMPL.
FILES	

September 4, 1990

Mr. Ron Fellows
United States Department of Interior
Bureau of Land Management
Farmington Resource Area
1235 La Plata Highway
Farmington, New Mexico 87401

RECEIVED
SEP 14 1990
OIL CON. DIV
DIST. 3

Re: Federal Lease SF-081100-A
Ram Well No. 1
NE/4 Section 8, T26N, R12W
San Juan County, New Mexico

Dear Mr. Fellows:

Per today's conversation with your Mr. John Keller, BK Petroleum, Inc. is in receipt of your letter P 565 392 711 dated July 26, 1990 giving us a 60 day notice of termination of the subject lease unless it can be established that the Ram Well No. 1 is capable of production in paying quantities.

The Ram No. 1 was originally completed by Bedford, Inc. in January 1976 and produced gas until 1986 at which time pipeline curtailments resulted in reduced well takes. EPNG's refusal to take gas has effectively shut the well down since February 1989. During August 1, 1989, Bedford, Inc. transferred the operatorship of this well over to a sister company, BK Petroleum, Inc. which is the present operator of this lease.

The Ram No. 1 is capable of producing gas in paying quantities. BK Petroleum, Inc. can sell gas from this well on the spot gas market but our EPNG purchase contract on this well stipulates 75% takes at the existing NGPA Section 108 price. The economics of producing this well's remaining gas reserves are more attractive at the current \$5/mcf NGPA Section 108 price than the current \$1.43 spot market price less transportation charges. We have not sold gas on the spot market from this well because this would require a release of EPNG from their take or pay obligation per the attached release document. It should be noted that the Federal Government would receive a significantly higher royalty rate at the NGPA price than spot market price.

We are presently in the process of making a take or pay claim with EPNG on this well and other wells operated by BK Petroleum, Inc. The BLM request for 60 day termination of

FOR Ken Townsend

Nmccp

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our lease along with a simultaneous request from EPNG for removal of our metering facility puts BK Petroleum, Inc. as a small independent oil and gas producer at a distinct disadvantage.

The BLM 60 day termination of lease request is further complicated by the fact that the EPNG Chaco Plant low pressure gas collection system into which the Ram No. 1 is connected has been shut in for compressor repairs since July 30, 1990. EPNG is projecting that the system will be back on line September 10, 1990.

BK Petroleum, Inc.'s predicament, therefore, is two fold. First, sales of gas on the spot market require abrogation of our EPNG contract and will forfeit our settlement of take or pay claims. These claims will enhance the well's remaining reserves value. Secondly, we cannot show sales into the pipeline to satisfy our BLM obligation until EPNG finishes repairs to their compressor station.

Also, the Ram No. 1 may have to be acidized after being shut in since 1986. We anticipate that it will produce about 300 mcf per month in its present condition and 500 mcf per month after wellbore cleanout. Operating costs are negligible and therefore we consider this well to be commercial to operate.

Please give consideration to extending your 60 day termination of lease deadline as necessary to allow the EPNG gas collection system to be returned on line and to give us adequate time to acidize the well if necessary and to coordinate with the BLM to witness a short duration Ram No. 1 gas sales test through the EPNG meter to verify gas production. Please call me at 326-1211 or Mildred Kuchera at 326-3139 with any questions regarding this request.

Very truly yours,



Larry A. Bedford

LAB:zb

Enclosure