

AGAVE ENERGY COMPANY

105 South Fourth Street

Artesia, New Mexico 88210

(505) 748-4555

Fax (505) 748-4275

December 4, 2003

Jim Amos
Bureau of Land Management
Carlsbad Field Office
620 East Greene Street
Carlsbad, NM 88221-1778

Subject: Method of Measurement Approval Request

Cuadrito AZO #1

API # 3001532172

NM94830

NW ¼, NW ¼ Sec. 31-T20S-R23E

Certified Mail 7002 2030 0001 8261 8705

Jim,

Agave Energy Company is currently gathering the natural gas from Yates Petroleum Corporation's Cuadrito AZO #1 well. This well had an initial delivery date of 4/26/2002 and was able to overcome our pipeline pressure of 500# until the latter part of 2002 at which time a reciprocating compressor was installed. This compressor was abandoned in April 2003 and replaced with a screw compressor to further reduce the wellhead pressure. We are currently pulling the wellhead pressure down to ½ to 3 psig. This screw compressor discharges into a reciprocating compressor that compresses an additional 1.8 mmcf from another area at 30 psig discharging at 350 psig.

The ultra low pressure on the Cuadrito AZO #1 and the up and down times of the 2 compressors make it extremely difficult, if not impossible, to measure this gas accurately. We are calculating the volumes using the subtraction method and are requesting approval to continue this "Alternate Method" on this one well. Please note that all the wells with the exception of the Cuadrito AZO are actual wellhead measurement and are double checked for accuracy at a Check meter, as will be explained below.

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BUREAU OF LAND MGMT.
CARLSBAD FIELD OFFICE

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OCD-ARTESIA

There are nine wells that are measured at the wellhead (Label #1). From there, the gas flows through the pipe down to a check meter #37515 (Label #2) and is checked for balance. The gas then flows through a reciprocating compressor (Label #3) along with the discharged gas from the screw compressor (Label #5). Finally, it flows into the main lateral and another check meter (Label #4). The Cuadrito AZO #1 gas is compressed from the wellhead at ½ to 3 psig and discharged into the reciprocating compressor (#3). Below is an example of how the Cuadrito volume is calculated.

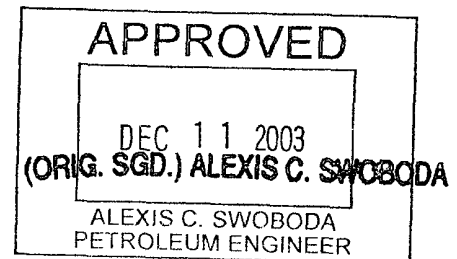
| | |
|-------------------------------------------------------|---------------|
| Atoka Check volume meter #37516 (Label #4) | 2619 |
| Plus the fuel for the Recip. #85099 @ (Label #3) | 104 |
| <u>Minus Sum of the Measured Well head (Label #1)</u> | <u>- 1923</u> |
| Cuadrito Wellhead volume less lease fuel | 800 |

Custody transfer from Yates Petroleum (operator) to Agave (transporter) is on each well. Agave furnishes Yates with a gas transporter statement reflecting the sales volume for each of these wells, which is reported by Yates.

Jim, if you have any questions please call me, Ed Perry, @ 505-748-4521 to discuss or set up a meeting. If acceptable please sign and return to me at:

Agave Energy Co.
Attn: Ed Perry, Operations Manager
105 South 4th Street
Artesia, NM. 88210

_____ Agreed to and Approved



Respectfully,

A handwritten signature in black ink, appearing to read "Ed Perry".

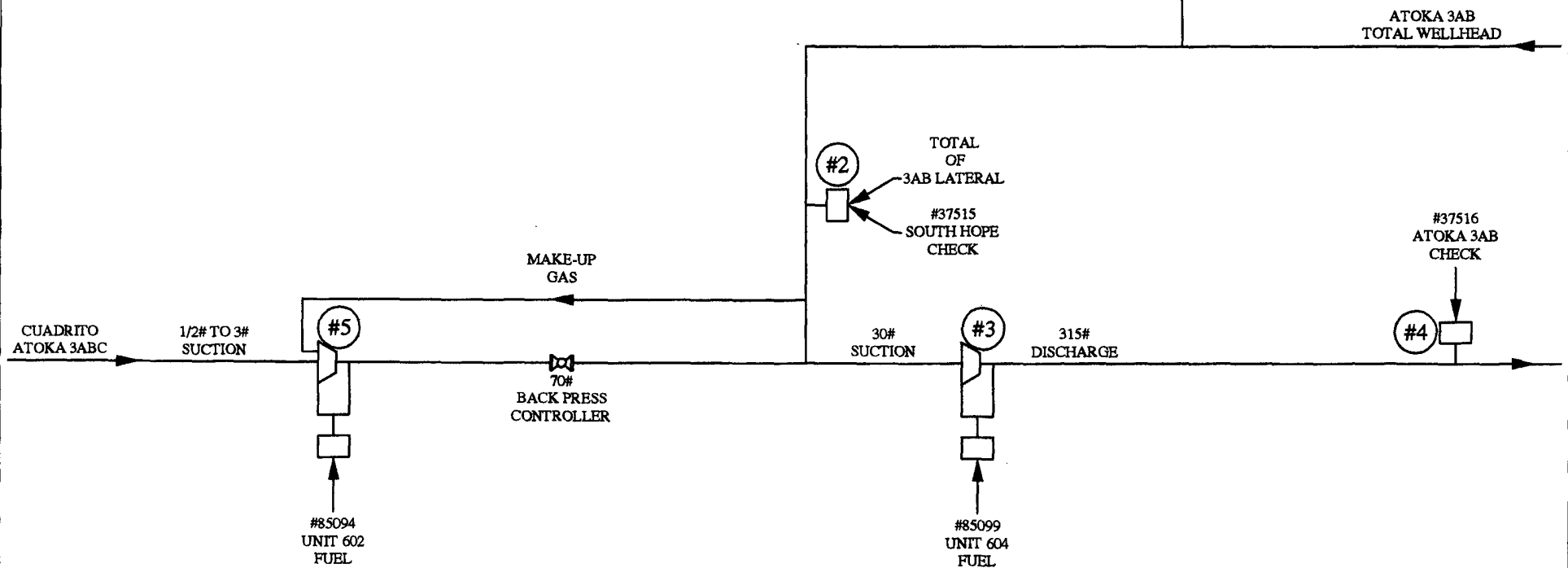
Ed Perry

Operations Manager

Attachment: Sketch depicting system.

CC: Michelle Taylor, Yates Petroleum Corporation
Cuadrito AZO #1 Measurement file

| | | | |
|-------|----------------------------------|-----------------------------|-----------|
| 12812 | Little Box Canyon AOX Federal #2 | Yates Petroleum Corporation | Atoka 3AB |
| 12816 | Little Box Canyon AOX Federal #1 | Yates Petroleum Corporation | Atoka 3AB |
| 12817 | Box Canyon 34 BAB Fed #1 | Yates Petroleum Corporation | Atoka 3AB |
| 12818 | Deer Canyon Fed #1 | Yates Petroleum Corporation | Atoka 3AB |
| 12819 | Little Box Canyon Unit #1 | Nadel and Gussman Permian | Atoka 3AB |
| 12821 | Nadel & Gussman Little Box Can | Nadel and Gussman Permian | Atoka 3AB |
| 12822 | Mescal SE Fed #1 | Yates Petroleum Corporation | Atoka 3AB |
| 12823 | Box Canyon 34 BAB Federal #2 | Yates Petroleum Corporation | Atoka 3AB |
| 12824 | Whitetail ATW Fed #1 | Yates Petroleum Corporation | Atoka 3AB |



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|---------------|-------------------|---------------------------------|-----|
| DATE: | CHK: | CUADRITO MEASUREMENT | REV |
| APPROVED: | | | |
| DRAFTING: TWH | | | |
| SIZE: | | | |
| SCALE: N/A | PRINTED: 10/06/03 | SHEET 1 OF 1 | |