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WALKER OIL AND GAS CORPORATION
POST OFFICE BOX A
ROSWELL, NEW MEXICO 88202

OIL CON. DIV. ITEM #1
DIST. 2

October 17, 1995

Re: Off Lease Storage and Commingling
Linda San Andres
Chaves County, New Mexico

Gentlemen:

Walker Oil and Gas Corporation respectfully requests your approval for off lease storage and commingling of the following wells:

WELLS PROPOSED FOR COMMINGLING AND OFF LEASE STORAGE:

Cooper #1 and #2
Section 29, T.6S, R.26E
Chaves County, New Mexico

Free lease

England Federal #1 and #2
Section 30, T.6S, R.26E
Chaves County, New Mexico

LC - 068177

Elliott Federal #2
Section 29, T.6S, R.26E
Chaves County, New Mexico

LC - 068177

WELLS PROPOSED FOR COMMINGLING:

Tamrack OF #1 and #2
Section 32, T.6S, R.26E
Chaves County, New Mexico

*State lease
LG - 3591*

All wells are producing from the Linda San Andres field at approximately the same depth.

Walker Oil and Gas holds Federal Plugging Bond #B05229, dated April 28, 1995.

Because of the lagging crude oil market and the never ending increase in operating costs (water hauling, disposal costs electricity, pumpers, administrative overhead, etc.), it is imperative that such marginal wells as these be given every opportunity to extend their longevity through lowering costs of production.

APPROVED PETER W. CHESTER OCT 20 1995 BUREAU OF LAND MANAGEMENT ROSWELL RESOURCE AREA

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ITEM #1

Walker Oil and Gas Corporation has recently entered into a contractual agreement with Yates Petroleum for the use of their SWD well, the HJ Federal #1, located in Section 31, T.6S, R.26E.

There are two ways of approaching the problem of bringing produced water to this SWD. One way is by laying flow line from each individual battery to the SWD. This will require dropping three electrical lines, tying in three electrical panels, setting three electrically driven water pumps, possibly securing some Rights-of-Way, and laying approximately one mile of poly pipe line. As you can imagine, this approach will be extremely costly. The second approach will be to have a single flow line connecting the Cooper, England Federal and Elliott Federal wells with the Tamrack tank battery. This battery is in sound condition and has a flow line connected to the SWD. With a small amount of work, the Tamrack water tanks, water pump, and electrical connections can be brought up to par.

I am sure everyone involved in these wells is aware of the sporadic production history over the past years. One of the main reasons for this is the high cost of water disposal. We believe the second approach of having a commingled off-lease storage battery is the only sound approach.

Walker Oil and Gas proposes doing a 90 day test on every well in this battery. A 24 hour test collecting all fluids will be performed followed by a shake out of the produced fluids. This will give us a percentage sample of oil to water. The percentage of oil will be used to calculate total percentage of that well at the off lease storage battery. The same will be performed on the disposal water. Along with this and our past experience in the production of some of these wells will produce accurate information for calculating disbursement of interest.

Walker Oil and Gas believes that these wells do have some more oil to give up but it is an absolute **MUST** that production costs go down or many wells in the near future will become uneconomical to produce. This is a decision that only the royalty and overriding interest owners can make.

Enclosed you will find two (2) copies of this letter. Please sign both copies, retain one (1) copy for your files and return one (1) copy to me by September 11, 1995. If we do not hear from you by that date, we will assume that you have no objections to our proposal and will request approval from the New Mexico Oil Conservation Division for the proposed commingling and off lease storage.

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Signature

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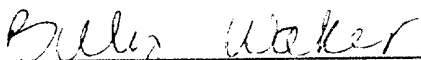
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ITEM #1

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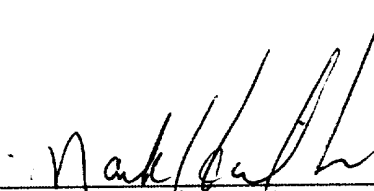
SIGNATURE PAGE OF PARTICIPATING OPERATORS

WALKER OIL AND GAS CORPORATION



Billy Walker, President

PUEBLO PETROLEUM INC.



Mark Hamilton, President

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ITEM #2 & #3

Please refer to Exhibit "A" (page #11) for the map showing the lease numbers and locations of all leases and wells that will contribute production to the proposed project. All lease numbers and producing zones or pools are clearly illustrated or detailed. There are no additional wells proposed to be added. Also, please refer to Exhibit "A" (page #11) which identifies and places all pipelines and central delivery points.

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ESTIMATED MONTHLY PRODUCTION

<u>WELL</u>	<u>PRODUCT TYPE</u>	<u>GRAVITY</u>	<u>PRODUCTION</u>
Cooper #1	Oil	29.0	150
Cooper #2	Oil	29.0	0
England Federal #1	Oil	28.5	0
England Federal #2	Oil	28.5	55
Elliott Federal #2	Oil	28.6	30
Tamrack QF #1	Oil	27.7	85
Tamrack QF #2	Oil	27.7	20

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Please refer to the enclosed letter which details the proposed method of measuring and allocating production for each lease involved.

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ITEM #6

This project is oil-related only. There is no gas produced from the contributing wells, therefore, there will be no allocation based on MMBTU basis. Please refer to the enclosed letter on allocation of oil production.

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ITEM #7

Please see the enclosed letter for the economic justification of the proposed project.

8.1.1.1 ED

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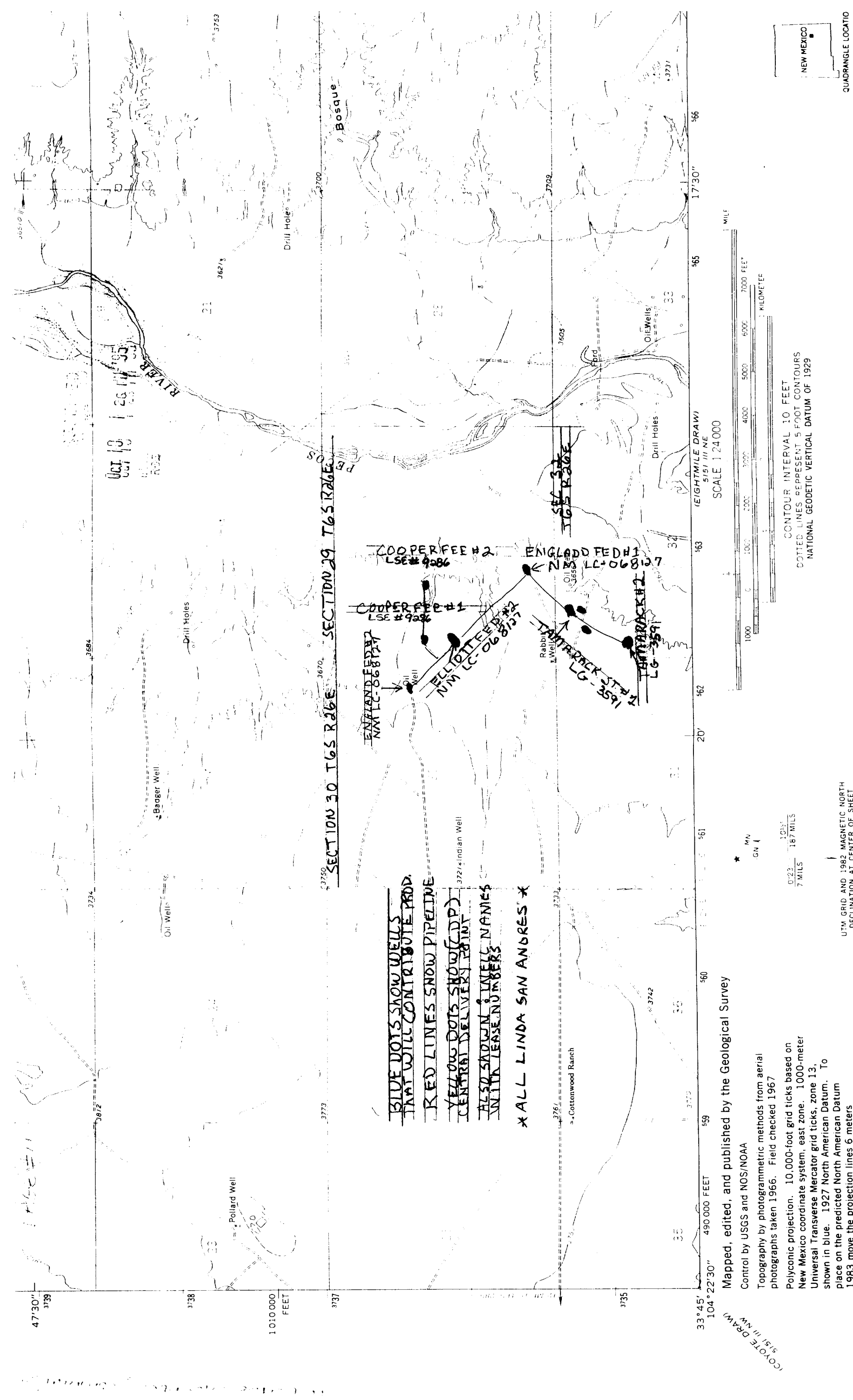
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TOTAL ROYALTY RATE FOR EACH LEASE

<u>LEASE</u>	<u>ROYALTY RATE</u>
Cooper #1, #2	.15625000
Tamrack QF State #1, #2	.12500000
Elliott Federal #2	.02100000
England Federal #1, #2	.12500000



THIS MAP COMPLIES WITH NATIONAL MAP ACCURACY STANDARDS
FOR SALE BY U. S. GEOLOGICAL SURVEY, DENVER, COLORADO 80225, OR RESTON, VIRGINIA 22092
A FOLDER DESCRIBING TOPOGRAPHIC MAPS AND SYMBOLS IS AVAILABLE ON REQUEST

Revisions shown in purple and woodland compiled from aerial photographs taken 1979 and other sources. This information not field checked. Map edited 1991.