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March 22, 1996

Bureau of Land Management
P.O. Box 1778
Carlsbad, NM 88220

Attn: Mr. Gene Hunt

RE: Pickett Draw Federal Wells No. 2 & 3
NMNM-15303, Sec. 10, T25S, R29E,
Eddy Co., NM

Dear Gene:

In reference to your telephone call on March 8, 1996 concerning your inspection of the Pickett Draw Federal lease, after talking with the our field personnel I would submit the following for your consideration.

As we discussed, the Pickett Draw wells No. 2 & 3 make enough casinghead gas to power themselves as well as a very small amount of gas which is being used off lease. The gas in question which is being used off lease is used to run the Ajax 7-1/2 x 10 engine which pumps the produced water from the Pickett Draw wells down the Corral Draw No. 2 SWD located in Sec. 22-T25S-R29E (approved under NMOCD permit No. SWD-452). The Pickett Draw No. 2 makes 60 bbls. of water per day while the No. 3 makes 22 bbls. of water. The water is piped from the wells to a 300 bbl. fiberglass storage tank located at the Corral Draw No. 2 SWD. The only we can feasibly produce the Pickett Draw wells is to dispose of the produced water into our own disposal well saving us the trucking cost; otherwise, we would have to plug the wells. (This is the only reason we put in the Corral Draw SWD.) I have confirmed with our field personnel the hours we run the Ajax to pump the water down the SWD and (as I promised I have enclosed some lease use gas value determination charts used by the office of the Comptroller of Public Accounts in Texas by their audit division in determining lease use) I submit the following amount of gas as being used off lease:

$$\frac{36 \text{ HP} \times 12 \text{ cu ft per HP hr} \times 80 \text{ hrs per month}}{1000} = 35 \text{ MCF per month}$$

The Ajax is run every third day of the month and runs no longer than six to eight hours each time. Using the attached chart on page 95 and estimating our maximum usage as eighty hours per month, I feel like 35 MCF per month is our off lease usage of casinghead gas from the Pickett Draw. Due to the nominal volume we are speaking of, I know this would not be feasible to try to sell. Our only other option would be to vent the gas and I feel this would