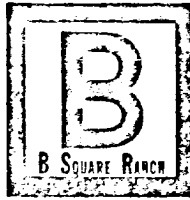


EXPERIMENTAL FARM



AGRICULTURAL RESEARCH

TOM BOLACK, OWNER

RT. 3 SOUTH BOX 47
FARMINGTON, NEW MEXICO
April 27, 1983

RECEIVED

APR 29 1983

OIL CON. DIV.
DIST. 3

well file

U.S. Bureau of Land Management
Minerals Management Service
Attn. Mr. John Keller
P.O. Box 600
Farmington, N.M. 87401

Re: Federal Oil & Gas Lease No. SF-080594
Bolack Minerals Co. #320 Canyon Largo
Unit Well, NW/4NW/4 SE-T24N-R6W,
Rio Arriba County, New Mexico

Dear Sir:

The above-cited Gallup oil well was stimulated with a 178,000 gal. 70% nitrogen foam and 161,000 lb. sand fracturing treatment on March 2, tubing was run on March 4 and the well was flowed to the reserve pit to aid the return and clean-up of frac water, nitrogen and sand. By March 8 a sufficient amount of oil was being returned with the frac fluid to dictate that the well be shut in for construction of separator and tank battery facilities for conservation purposes. At that time it was estimated that approximately a third of the frac fluids had been returned and additional clean-up would be required for the well to reach its full productive capacity. On March 10 a request was made of the New Mexico Oil Conservation Division for a testing allowable. On March 15 the well was opened again to the newly installed production facilities for continuing clean-up. The well was still making a considerable quantity of frac water and sometime during the night of the 16th it died from fluid overload. The well was shut in at noon on the 17th for pressure build-up.

From that date until April 14, some 28 days later, bad weather and attendant bad road conditions prevented anyone from getting to the well-site. On April 14, with the use of a helicopter, the well was re-opened for continuing clean-up. It evidenced a retarded clean-up as indicated by the pressures and volumes produced. It had been intended that an accurate test of the well's productive capacity would be

obtained and reported only after a reasonable period of clean-up had occurred, however the long period of time in which the well could not be reached and its apparent decreased capability after it had been gotten to resulted in the decision to report the first 24 hrs. production obtained on March 15 for purposes of a timely report to both the NMOCD and the Minerals Management Service. This was done on April 4 in the form of a completed C-104 form to the state and a Well Completion Report to the Minerals Management Service. A Sundry Notice was also submitted to MMS at that time notifying them of first production. At that time the well had produced only 36 bbls. of oil in a total time period of approximately 1½ days.

On April 28 the undersigned received notification that Bolack Minerals was being fined \$250 for failure to report that the well was placed on production within 5 days of that time. It is suggested that, in view of the circumstances related above and that a minimal amount of production was obtained, even while attempting to follow good production and conservation practices, such a penalty is unwarranted. With this letter Bolack Minerals Co. requests that this decision be reviewed and the fine rescinded before it takes effect.

Since April 14, the well has been allowed to flow back oil, gas and frac water and has done so in sporadic amounts during limited time periods before it loads up with fluids and logs off. The shut-in pressures of casing and tubing have never exceeded 600 psi, thus never approaching the 850 psi reported soon after the frac job. This despite the installation of a time cycle controller on April 11 and after several different timing cycles were attempted. Reported gas volumes having varied appreciably during the limited flow periods, ranging from the initial 125 MCFPD reported to as low as 20 MCFPD. In the most recent flow periods the frac water had diminished considerably and it was determined that after the April 25 shut-in of the well, it would be officially gaged for purposes of determining a gas-oil ratio, in accordance with state requirements. This test, conducted by Joe Elledge of Elledge Oil & Gas Property Management, indicated average volumes on a daily basis to be 16 BPD of oil and 89 MCFPD of gas, for a GOR of 5563. Utilizing the state's limitation of 30 MCFPD gas venting while testing, the well's oil allowable would be restricted to 5.3 BOPD.

When the well was originally scheduled for drilling it was believed that any gas obtained was contracted already to El Paso Natural Gas Co. for sale, since they were purchasing both the Pictured Cliffs and Dakota gas being produced from the same lease from wells in the same quarter-quarter section.

It was subsequently learned that the gas was contracted on a formational rather than a lease basis and, further, that El Paso's current policy was not to contract any additional gas purchases anywhere in the San Juan Basin at the current time. Conversations with El Paso's personnel in the GAS Purchase Contract Department has elicited comment that this ban is probably of a temporary nature, particularly with respect to this particular well, and negotiations are still being currently continued with El Paso. Special consideration also is being given to a new state law recently promulgated in reference to requirements that pipelines must tie on oil wells in which casinghead gas must be produced in order to maintain oil production. In addition Bolack Minerals has pursued a possible tie with Northwest Pipeline Corporation's nearby gas gathering system when Northwest indicated a willingness to purchase the well's gas, however the pressures of the Northwest system would require compression to enter the system and it was determined to be uneconomical on the basis of present information and conditions.

It is Bolack Minerals intent to continue to diligently pursue an economical tie for the casinghead gas that can be produced from the #320 Canyon Largo Unit well and it is expected that such a tie can be affected within less than one year. Bolack Minerals hereby requests that it be allowed to vent such gas as is necessary, within the limits provided by the state of New Mexico regulations (30MCFPD) in order to produce the oil of which the well is capable of producing. Sufficient production data is presently unavailable to determine the economic justifications necessary to market the gas, but the limited data available suggests that the economic value of the oil to be produced far outweighs the value of the gas that might be vented to obtain that oil. Bolack Minerals will continue however to diligently pursue the marketing of the gas from the well and believes that it can be accomplished in a relatively short time.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Wm R. Speer". The signature is fluid and cursive, with the first name "Wm" and last name "Speer" clearly distinguishable.

William R. Speer, Agent for
BOLACK MINERALS CO.

cc.: F. Chavez, N.M.O.C.D. ✓
T. Bolack
R. Tully