WALSH ENGINEERING & PRODUCTION CORP.
Petroleum Engineering Consulting
Lease Management
Contract Pumping
3001 Northridge Drive
P.O. Drawer 419
Farmington, New Mexico 87401
(505) 327-4892

November 19, 1986

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OIL CON. DIV.
DIST. 3

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BUREAU OF LAND MANAGEMENT
FARMINGTON RESOURCE AREA

Mr. Ronald Fellows
Area Manager
Bureau of Land Management
Caller Service 4104
Farmington, New Mexico 87499

REF: Lobo Production
Magnum No. 1
1750'FSL, 800'FEL,
Section 28-T24N-R7W
Rio Arriba County, New Mexico
Lease No: NM-33001

Dear Mr. Fellows:

This is a request on behalf of the above-referred-to Operator for approval to vent casinghead gas from the above-referred-to well.

Attached you will find the information prepared to make an economic cost analysis of constructing a gas gathering line to gather the casing-head gas. The analysis indicates that the cost to lay a gathering system cannot be justified by estimated gas sales.

The well is located approximately 2800 feet from a gas gathering system, El Paso Natural Gas Company. It is approximately 3 miles to gathering system operated by the Gas Company of New Mexico. Also El Paso Natural Gas Company will not enter into a gas purchase contract.

It is requested that approval to vent the gas be set forth.

Thank you for your consideration in this matter.

Very truly yours,

Ewell N. Walsh, P.E.
President

APPROVED
NOV 20 1986
AREA MANAGER
FARMINGTON RESOURCE AREA

ENW:rr

Enclosures

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CASINGHEAD GAS GATHERING LINE

CONDITIONS FOR EVALUATION - GAS

Working Interest	100.00000%
Revenue Interest to Working Interest	77.50%
Gas Production Vented, as per Oil Production Decline	GOR-3750 cu.ft/bbl.
Initial Vented Gas Value, per MCF, Estimated (1)	$1.72
Production Taxes, New Mexico, Gas Value	8.0%
Ad Valorem Taxes, New Mexico, Gas Value	0.3%
Operating Costs, Gas Line (2)	$1000.00
Estimated Gas Line Construction Costs	$17,050.00

(1) Gas Sale value remain constant throughout life of well.

(2) Escalated, per month, at 6.0% per year. (Including fuel and operating cost, for compressor and rental of compressor)

CONDITIONS FOR EVALUATION - OIL

Working Interest	100.00000%
Revenue Interest to Working Interest	77.50%
Initial Oil Production, Per month	220 bbls.
Decline in Oil Production, Per Year	(3)
Initial Oil Sale Value, per bbl. August 1985 (1)	$12.25
Production Taxes, New Mexico, Oil Value	8.0%
Ad Valorem Taxes, New Mexico, Gas Value	0.3%
Operating Costs, per month (2)	$600.00
Drilling Costs to Recover	$225,000

(1) Oil Sale value remain constant throughout life of well. Sale value after deduction for transportation costs.

(2) Escalated, per month, at 6.0% per year.

(3) 18 months - 20%, next 36 months - 15%, next 24 months - 10%, thereafter - 5%.

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CASINGHEAD GAS GATHERING LINE
ESTIMATED COST

ITEM	ESTIMATED COSTS TANGIBLE	INTANGIBLE
2-3/8", O.D. Line Pipe - 2800'	$1,800	
Ditch, wrap, lay & cover line - 2800'		$4,500
Metering Equipment	3,500	
Tie-In, Miscellaneous Roustabout - 3 days		3,000
Miscellaneous fittings	2,000	
SUBTOTAL	$7,300	$7,500
Contengency - 15%	1,100	1,150
TOTAL	$8,400	$8,650

Total Tangible and Intangible - $17,050

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FARMINGTON RESOURCE AREA

SUMMARY

1. Combined Oil & Gas Operating Expenses vs. Net Oil Income

   A. For year 1987

Total Operating Expenses, Gas & Oil	-	\$22,089 (Exhibit "A")
Net Oil Income	-	12,519 (Exhibit "B")

   $\frac{\$12,519}{\$22,089} =$ 0.5667 x 12 months = \$6.80 per month or 7 months

2. Reserves Produced and Sold with Gas Conservation.

   A. Oil - 1987 (7 months) Exhibit "A"

   1987 (7 months) - 1,341 bbls.

   B. Gas - 1987 (7 months) Exhibit "A"

   1987 (7 months) - 5,028 MCF

3. Reserves Produced and Sold with Gas Conservation.

   A. Oil - 1987 through 1991 (Exhibit "B")

   Total 7,946 Barrels

4. Loss of B.T.U. Equivalent.

   A. Oil - Lost Due to Early Abandonment

Produced & Sold Oil Without Gas Conservation	- 7,946 bbls.
Produced & Sold Oil With Gas Conservation	- 1,341 bbls.
Total	6,605 bbls

   Oil Lost

   6,605 bbls. x 42 gal/bbl x 6.769 lb/gal x 19,500 BTU/lb
   = 3,662 x 10^9 BTU.

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B. Gas - If Vented.

Vented - 16,563 MCF

16,563 MCF x 1,300,000 BTU/MCF = 2,153 x 10^9 BTU.

C. BTU Lost Comparison

Oil - 3,662 x 10^9 (Lost due to early abandonment)
Gas - 2,153 x 10^9 (Lost due to venting)

5. Pay Out of Construction of Gas Line Costs

A. Gas Sales

Income from gas sales will not pay off costs within 6 months. (Exhibit "C")

B. Oil Sales Plus Gas Sales

1987 Net Income discounted 10.0% from total oil and gas sales will not pay off costs within 6 months. $11,039 x 0.9913 = $10,943 (Exhibit "A").