



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

April 20, 2006

Lance Oil & Gas Company, Inc.
P.O. Box 70
Kirtland, New Mexico 87417

Attention: Mr. Thomas M. Erwin, P.E.

Re: Application for Injection Pressure Increase
Salty Dog Well No. 6
API No. 30-045-32943
Section 19, T-29 North, R-13 West, NMPM
San Juan County, New Mexico

Dear Mr. Erwin:

I have received and reviewed your request dated March 31, 2006 to increase the surface injection pressure on the Salty Dog Well No. 6 from the currently-authorized pressure of 1356 psi, to 3,000 psi. This request is based upon a step rate test conducted on the well on February 27, 2006. After reviewing the test data, and having had some experience with similar type Entrada disposal wells in the San Juan Basin, I suspected that the well may have fractured early in the test. At our request, the data was sent to EPA in Dallas, where the results of the test were again analyzed. On Wednesday, April 19, 2006, Mr. Will Jones and I had a conference call with EPA. EPA performed a rather extensive falloff test in which they concluded that the well did in fact fracture early on in the test.

Based upon the step rate test and the analysis done by EPA we have concluded that the fracture pressure of the Entrada formation in the Salty Dog Well No. 6 is considerably below the requested 3,000 psi. Therefore, your request to increase the surface injection pressure to 3,000 psi is hereby denied.

The maximum surface injection pressure for the Salty Dog Well No. 6 shall remain at 1,356 psi until such time as additional testing and/or additional data is presented to the Division to justify an increase.

Request for Increase in Injection Pressure
Lance Oil & Gas Company, Inc.
Salty Dog Well No. 6
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Sincerely,

A handwritten signature in black ink, appearing to read "David Catanach", with a long horizontal flourish extending to the right.

David Catanach
Engineer

Xc: OCD-Aztec
File-SWD-974