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DFB--31--88

February 11, 1988

State Land Office
P. O. Box 1148
Santa Fe, New Mexico 87504

ATTN: Floyd Prando

RE: Off-Lease Measurement

Dear Mr. Prando:

This letter describes the situation with off-lease measurement at the Sandlewood "AEW" State #1 as we discussed over the telephone on February 10, 1988. You recall your office verbally approved temporary off-lease measurement at the subject well with the understanding that Yates plans to install a meter house on-lease later this Spring when the nearby Cactus Flower State Unit #1 is connected to the pipeline.

The Sandlewood "AEW" State #1 is located in the SW/4 of Section 31-8S-27E (Lease LG 4916) in Chaves County, New Mexico. The well was completed on November 23, 1987, from the Pennsylvanian through perforations at 6247-6270. Attachment 1 shows how the well is now connected to the Transwestern pipeline. Transwestern set a new meter house at the Fred Pool Byron State #1 in the SE/4 of Section 1-9S-26E and Yates constructed about 4600 feet of flowline to carry the gas southwest from the Sandlewood "AEW" #1 to the Transwestern meter. Yates obtained all necessary rights-of-way for the flowline. Transwestern will measure dry gas delivered to its meter house. Any condensate from the Sandlewood well will be separated on-lease and sold on-lease by Yates. Off-lease measurement by Transwestern is necessary because Transwestern will not bring its pipeline and meter house onto State lease LG 4916. That's the simple economic fact. The connection as shown in Attachment 1 is operational and Yates will commence selling gas via this connection on February 11 or 12, 1988.

Attachment 2 shows the proposed connection for the Cactus Flower State Unit #1 located in the SW/4 of Section 19-8S-27E. I must emphasize that rights-of-way for this connection (including a railroad crossing) have not yet been obtained. The Yates plan is to install a meter house at both the Sandlewood "AEW" State #1 and the Cactus Flower State Unit #1. Gas from the Cactus Flower will flow through a proposed Yates gathering line to a point near the Sandlewood "AEW" State #1. The proposed gathering line will connect to the downstream side of the Sandlewood meter so that metered gas from both wells will then flow through the existing line to the Transwestern pipeline and meter at a location near the Fred Pool Byron State #1. When these meters and this flowline are installed, Yates will be measuring gas from each well on-lease. Yates now operates nine similar systems, called "central delivery points", in Chaves County. Many of them have been in operation since 1983.

Floyd Prando
February 11, 1988

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I hope this letter helps you understand the present situation at the Sandlewood "AEW" State #1 plus the Yates plans for the immediate future. I thank you for helping Yates produce gas from the Sandlewood well and ask that you consider approving future requests for off-lease measurement. The concept has been used successfully on a wide scale in Chaves County for Federal and private minerals during the past four or five years.

Thank you for helping me with the current problem at the subject well. Yates will contact your office concerning any future off-lease measurement of State minerals long before any construction begins.

Sincerely,

A handwritten signature in cursive script that reads "Dave Boneau".

DAVID F. BONEAU
Engineering Manager

DFB/cvg

xc: Mike Slater