



PETROLEUM, L. L. C.

MAR 23 1998

WESTERN ENERGY

March 23, 1998

TO: Working Interest Owners

RE: Install compression for gas cycling
Dero Fed Com #2
Winchester Morrow Field
Eddy County, New Mexico

Enclosed for your approval is an Authority for Expenditure ("AFE") in the amount of \$ 20,000 to install compression for gas cycling on the subject well. The subject well has recently been producing approximately 30 MCFGPD. The well had a 48 hour shut in bottom hole pressure of 1278 psi, indicating substantial remaining reserves. This AFE will install a compressor to cycle gas down the casing-tubing annulus, which will lift additional fluids and reduce the producing bottom hole pressure.

Cost of this project is \$20,000. Based on the attached economics, this project will pay out in approximately 1.6 months, while recovering an additional 1.34 BCF. If there are any additional questions, please call.

Sincerely,

Joe N. Clement
Area Engineer

Enclosure

415 W. Wall, Ste 835
Office: (915) 684-4293

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 11985 Exhibit No. 27
Submitted By:
OXY USA, Inc.
Hearing Date: July 9, 1998

Midland, TX 79701
Fax (915) 684-0829

Dero Fed Com #2
Unit N, Sec. 35-T19S-R28E
Eddy County, New Mexico

Recommended procedure to gas lift the subject well.

- 1) RU hot oiler. Test casing to 500#. If casing tests, continue with procedure.
- 2) RU slick line truck w/ lubricator. RIH w/ blanking plug, set in Otis Perma Latch pkr @ 10950' (still attempting to determine profile and size of profile nipple). RIH, perforate tubing above on-off tool w/ 4 js. RU swab, swab casing down as far as possible.
- 3) RU slick line truck w/ full lubricator. RIH, pull blanking plug. RD slick line.
- 4) RU compressor. Swab well if necessary to kick well off.
- 5) Put well on line.

Saga Petroleum LLC

415 W. Wall, Suite 835

Midland TX 79701

915-684-4293 Fax 915-684-0829

INVOICE

INVOICE NO: OXY-032398

DATE: March 23, 1998

To: OXY USA

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
	AFE #9832832 Dero Federal Com #2 Install Compressor for Gas Cycling		\$1250.00
SUBTOTAL			\$1250.00
TOTAL DUE			\$1250.00

Make all checks payable to: Saga Petroleum LLC

If you have any questions concerning this invoice, call: Bonnie Caldwell, (915) 684-4293

T0: CHUCK FARMER
FROM : ROBERT SETZLER
DATE: MARCH 26, 1998
SUBJECT: DERO FEDERAL COM NO. 1-A (35N-19S-28E)
PROPOSED GAS CYCLING SYSTEM

Attached is an AFE in the amount of \$20,000 to install gas cycling equipment on the subject well. A detailed review of the well has shown that this well is completed in both the Upper and Lower Morrow formations. This review has shown the following:

<u>ZONE</u>	<u>CUM PROD</u>		<u>REM PROD</u>		<u>EUR PROD</u>	
	<u>BCF</u>	<u>MBO</u>	<u>BCF</u>	<u>MBO</u>	<u>BCF</u>	<u>MBO</u>
UPPER MORROW	1.280	4.733	1.340	4.000	2.620	8.733
LOWER MORROW	<u>0.546</u>	<u>1.952</u>	<u>0.000</u>	<u>0.000</u>	<u>0.546</u>	<u>1.952</u>
TOTAL	1.826	1.950	1.340	4.000	3.166	10.685

Currently the Lower Morrow zone is located below a bridge plug with the Upper Morrow being the only producing zone. Decline curve analysis indicates that the lower Morrow zone has been depleted. The Upper Morrow zone which is currently producing 100 MCFD and 1 BCPD is currently loading with liquid which is restricting its ability to produce. Calculations indicate to keep this well flowing through 2 3/8" production tubing an ascending gas flow rate of 250-300 MCFD is required to mist the liquid and remove it from the well bore. This can be accomplished by installing a closed gas cycling system. This system will continuously cycle gas down the casing and back up through the tubing. All excess gas will be sold. It is anticipated that after the well cleans up a producing rate of 350-400 MCFD of gas will be realized which will recover the remaining reserves of 1.340 BCF in the next seventeen years. This project as shown on the attached economics should payout in 1.6 months and realize a rate of return of 100% and generate a present worth net profit when discounted at 10% of \$645,482. A performance curve (Exhibit No.1) has been prepared for this well which shows past and anticipated future performance.

The Lower Morrow was initially completed in 1979. This zone was perforated with 2JSPF from 11,167' - 11,179' in selected intervals. This well was completed flowing natural 4624 MCFD of gas and 49.68 BCPD with a flowing tubing pressure of 3186# on a 16/64" choke. This zone produced a total of 546 MMCF of gas and 1,952 BC when the Lower Morrow ceased to produce in July 1982. This well was plugged back from the Lower Morrow using a cast iron bridge plug set at 11,145' capped with 35' of cement. Records indicate that the only BHP taken on the lower zone was obtained when it was potentialized. A review of the production records suggests that the Lower zone started loading with fluid in May 1981. From that time on the wells productivity steadily declined. Sufficient pressure data was not available to calculate OGIP for the Lower Morrow. Decline curve analysis using both straight line decline and exponential decline methods indicate that all economically recoverable reserves had been produced from the Lower Morrow when it was abandoned.

The Upper Morrow was perforated from 11,024'-11,087' in selected intervals as shown on the attached well bore diagram (Exhibit No. 2). The Upper Morrow was treated with 5000 gallons of 7½% acid followed by a gel water frac consisting of 15,000 gallons of gelled water carrying 22,500# sand and 23.5 tons of CO₂. This zone was potentialed on August 5, 1982 flowing 548 MCFD, 5 BCPD and 3 BWPD. The Upper Morrow is currently producing 100 MCFD of gas per day and 1 BCPD. To date this zone has produced a total of 1.280 BCF of gas and 4733 BC. Since being plugged back to the Upper Morrow a number shut in well head pressures have been taken. On November 17, 1997 the bottom hole pressure of the Upper Morrow was measured with a BHP bomb and was found to be 1278# after a 72 hour shut in period. Bottom hole pressures were calculated for all the measured SIWHP. Two P/Z plots or curves were prepared. One curve used all of the pressure points while the other curve only used the actual BHP taken November 17, 1997 along with two other points which appeared not to have any fluid in the tubing or the casing when the surface pressures were taken. These P/Z curves are shown in Exhibit No.3. The curve using the three pressure points is considered to be the more correct and shows that there are significant additional reserves to be recovered which can be accomplished through gas cycling.

Normally as most depletion gas wells are produced and their bottom hole pressure drops fluid consisting of either oil or water will start collecting in and around the well bore. The amount of fluid which collects is the function of the ascending velocity of the gas to mist this fluid and carry it out of the well bore. The attached table (Exhibit No. 4) shows the volume of gas required to accomplish this for varying surface pressures and tubing sizes. As the produced gas volume continues to drop more fluid will collect until the well ceases to produce at all. Following this, the well is normally shut in to allow pressure to build or it is swabbed or soap sticks are used to remove the liquid from the well bore. This is only a short term solution to the problem. This results in many wells being plugged which still have significant reserves to be recovered. The recommended closed gas cycling system will prevent fluid from collecting in and around the well bore and will allow the recovery of all gas reserves without any cessation of production. This system will keep the Upper Morrow zone producing at an efficient rate. In this application down hole gas lift valves will not have to be installed. It will only be necessary to install a gas compressor and to make piping modifications at the surface. Down hole it will be necessary to release the packer and lower it 140' to place the bottom of the tubing below the perforations which will keep all the fluid swept out of the well bore. This type of system is designed to provide sufficient make up gas to be combined with the produced gas to achieve the lift velocities required to mist the liquids in the tubing. As previously discussed high pressure gas will be injected down the casing annulus and returned to the surface through the tubing along with the produced fluids. The liquids will be separated at the surface, the required gas lift gas will be continuously cycled down the casing annulus and the excess gas will be sold.

It is recommended that bids were solicited from several vendors for the leasing of a gas compressor to be used for this well. This bid should request that the compressor be supplied with full maintenance and a guaranteed run time of 97% to 98%. All major components and labor will be supplied

by the vendor and will be included in the lease cost. The unit will be checked by the vendor on a regular basis. Saga would only have to provide such items as oil and antifreeze and would be responsible for providing personnel such as the pumper to operate the unit. After reviewing the bids it is recommended that a compressor be chosen and installed as soon as possible. Gas lift Sales and Service Inc. will supply surface control valves and personnel to help direct the surface installation and start up of the equipment.

DERO FEDERAL, 2
EDDY, NEW MEXICO
WINCHESTER, MORROW (PENN)
SAGA PETROLEUM LLC OF CO

RESERVES AND ECONOMICS

DATE: 03/17/98
TIME: 10:59:36
FILE: JOE
GSTM: 17

AS OF JANUARY 1, 1998

[illegible]

OGRE(R) V1.40 BTAX
FILE NAME: JOE (17)
CASE NAME: DERG FEDERAL
CWD NAME: STDA59321 300)

2 Y 600
DATA REPORT
MORROW (PENN)

EDD30152097387
DATE: 03/17/98
TIME: 10:59:36

101 DERG FEDERAL 2
102 EDDY, NEW MEXICO
103 WICHESTER, MORROW (PENN)
104 SAGA PETROLEUM LLC OF CO

117 CASE \$COM
120 1 98 12 1 1 98 10 2
121 12 0
161 SET RETURN = 1

W.L. FRACTION	OP. COST (\$/W/MO)	OP. COST (\$/MO.)	ADV. TAX (PCT)	MAJOR PH. NAME	PROD DATE (MO/DY/YR)	RATIO TO MAJOR PH	(M OR Y)	CALC VALUE
210 1.00000000	.00	2000.00	1.500	GAS	1 / 1/98			
PHASE NAME	CUM PROD (UNITS)	REV. INT FRACTION	PRICE (\$/UNIT)	SEV. TAX (PCT)	NO. OF WELLS			
222 GAS	1777.390	.8190000	1.410	7.085	1.0			
PH. NAME	CURVE TP	DECLINE%	Q1 RATE	Q1 RATE	CUM. LIMIT			
405 GAS	EXP	X	500.000	EL.	1.340	IBCF		
CALC GAS	EXP	END= 11.228	500.000	62.759	17.425	YRS	D	3117.390
INV NAME	INV. POINT	(G OR N)	TANG-M\$	INTANG-M\$	LSEHLD-M\$	RISK FRAC	OVHD FLAG	
801 INVEST	.000	YRS	G	7.700	12.300	.000		

FOOTNOTES:
901 PRODUCTION DATES: 10/1994-08/1995
902 PERFS: 10087-10114
904 LOCATION: 35-19S-28E-N

EXHIBITS
DERO FEDERAL COM NO.2

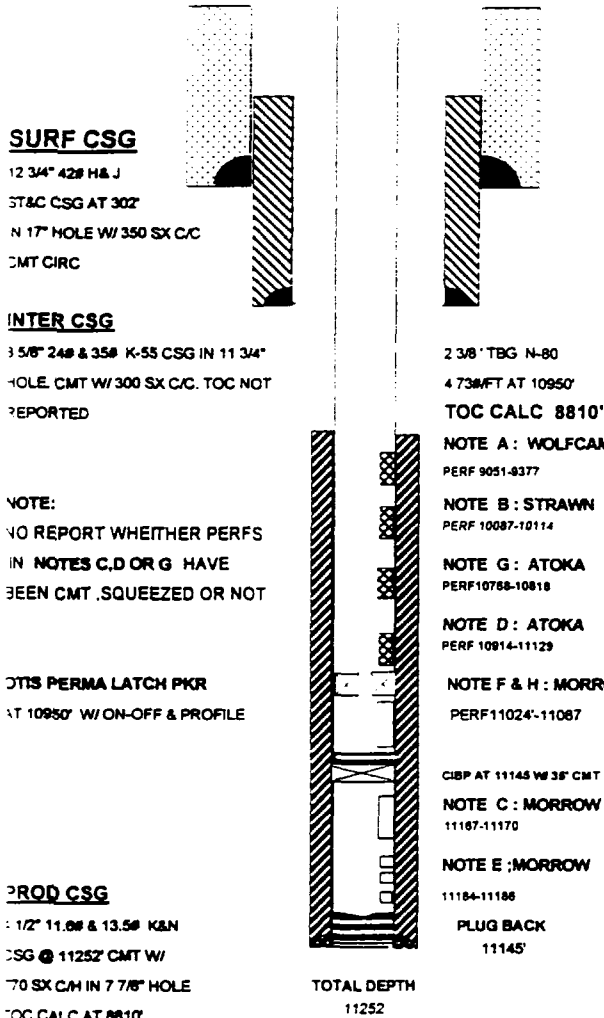
UPPER AND LOWER MORROW PERFORMANCE CURVE	1
WELL BORE SCHEMATIC	2
P/Z VRS CUMULATIVE PRODUCTION CURVES	3
MINIMUM GAS FLOW RATE CHART	4

SAGA PETROLEUM

WELL BORE DATA SHEET

LEASE: DERO FEDERAL COM WELL NO: 1-A FIELD: WINCHESTER (MORROW)
 LOCATION: 660' FROM SOUTH LINE & 1980' FROM WEST LINE . UNIT LETTER N
 SECTION: 35 TOWNSHIP: 19S RANGE: 28E COUNTY: EDDY STATE: NEW MEXICO

API NO. 30-015-20973



ELEVATION
 DF 3310'
 KB 3311'

DATE 11/17/73 INITIAL COMPLETION DATA:
 RAN : GR/COMP ACOUSTIC , GUARD , FRACTURE FINDER
 4 1/2" CSG CMT W/ 770 SX C/H TOC NOT REPORTED.
 CALC TOC AT 8830' USING 20% HOLE
 WASH OUT

NOTE A (WOLFCAMP)

11/10/74 WELL PERF 9051'-57', 68-73', 9112'-16', 24'-38', 66'-70',
 9325', 30', 34', 44'-66', 67'-71', 74'-77'; 1JSPF
 A/2M GAL MCA 15% FOLLOWED W/ A/1.5M GAL
 MCA 15%

11/16/74 FLOW 1,890,000 CFGPD +672 BC ON 16/64" CHK, 1895#
 FTP, GOR 2813

10/8/79 CMT SQ Wc PERF 9051'-9377' W/50 SX C/H MAX
 PRESS 2300# DRILL OUT & TEST TO 1500# OK

NOTE B (STRAWN)

11/27/73 PERF 10087'-11114'. A-4000 GAL 15% W/ N2. Frac W/ 12600
 GAL GEL WTR & 17000# 20/40 SMD AIR 10 BPM, ISIP 3000#
11/29/73 FLOW 1648-1462 MMCFD ON 20/64" CHK, FP NOT REPORTED
11/11/74 FLOW 1,070,000 CFGPD+ 288 BC ON 16/64" CHK 1485# FTP, .
 GOR 3715

10/12/79 CMT SQ STR PERF 10087'-11114' W/535 SX C/H MAX
 PRESS 3250# DRILL OUT & TEST TO 1500# OK.

NOTE C (MORROW)

10/14/79 PERF MORROW; 11167'-11179' 2JSPF
 WELL COMPLETED NATURAL
10/17/79 F-24 HR 4624 MCFD 49.68 BC 0 BW 16/64" CHK FTP
 3186# . SIBHP 4232# BHP BOMB AT 11173'

NOTE D (ATOKA)

10/22/79 PERF 10914'-918', 10964'-74', 11085'-94' &
 11125'-29'; RESULTS N/A

NOTE E (MORROW)

7/6/82 PERF L. MORROW 11184, 185', 186'
 A3M GAL 71/2 % REC SL AMT OF GAS

NOTE F (U-MORFROW) 7/11/82 SET CIBP AT 11145' DUMP 35' CMT ON TOP. PERF U. MORROW SMD 11024'-033', 11041', 11060'-
 070', & 11087'. A-5M GAL 71/2% . WELL FLOW 246 MCFD. FRAC W/ 15M GAL GEL WTR & 22.5M# SMD & 23.5 TONS CO2
 CO2. WELL FLOW 350 MCFD

NOTE G (ATOKA) 7/19/1982 PERF ATOKA 10768'-775', 10779', 10780', 10798'-805, & 10810'-818' COMP. RESULTS N/A

NOTE H (U-MOR ROW) 8/5/82 F-548MCFD 5BC 3BW FROM UPPER MORROW PERF 11024'-087'

DST #1 9060-9204 IF 15 min, GTS in 5 min flowing 1.5 MMCF, ISI 90 min, open tool at end of 60 min flow @ rate of 4.5 MMCFPD
 w/ small amt of distillate . Flow a total of 120 min. Max flow rate 6.2 MMCFD on 1/2"chk. Fsi 180 min. IF 422#-699#, ISI 592#-651#,
 FFP 1860#- 1886#, Tool failed. Did not get FSIP.

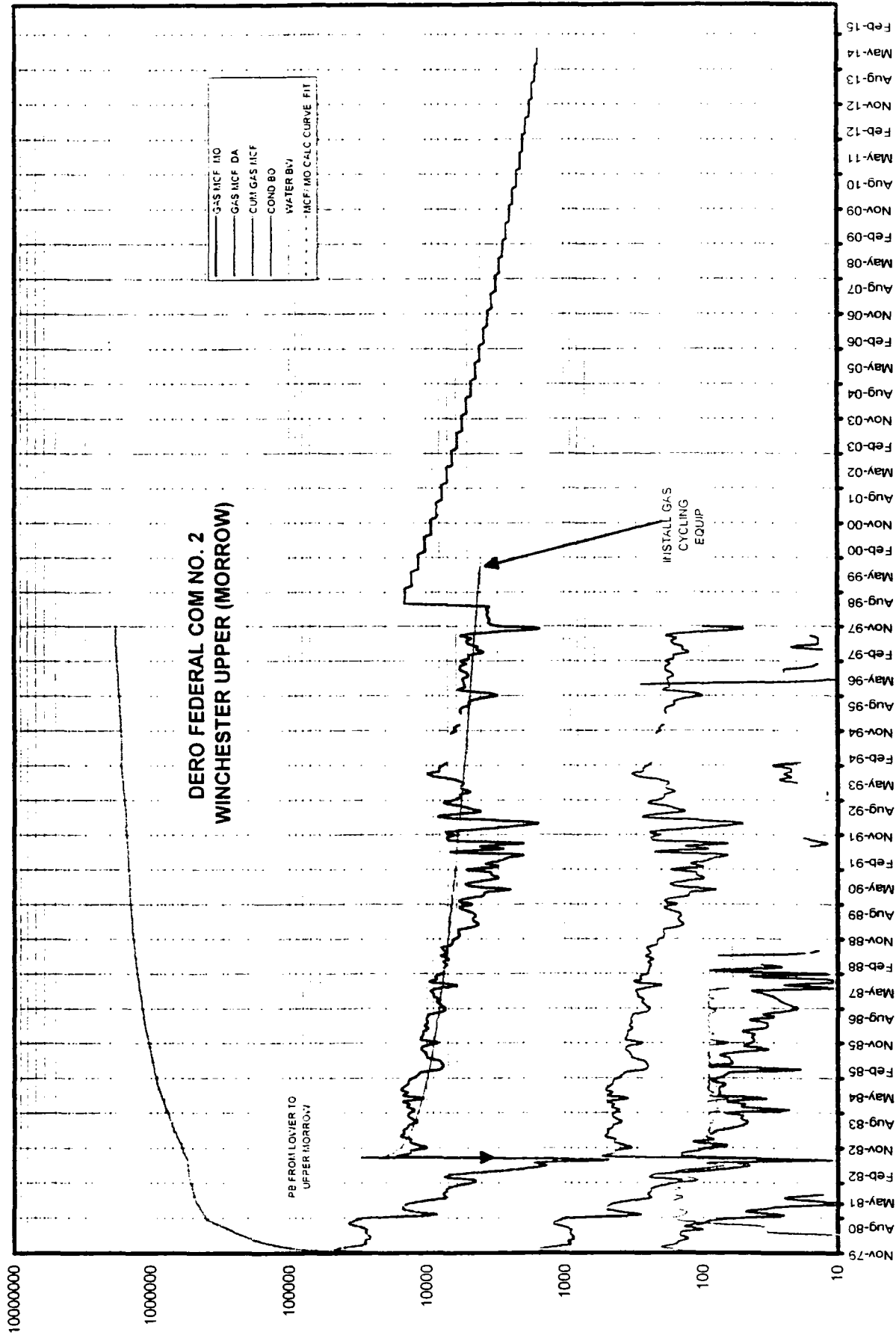
**DST #2 10,910-11,085, REC 685' GCDF, IF 92#-159# 30min, ISIP 1537# -1439# 60 MIN, FFP 321# -- 331# 180 MIN, FSIP 3755# - .
 3760# 240 min.**

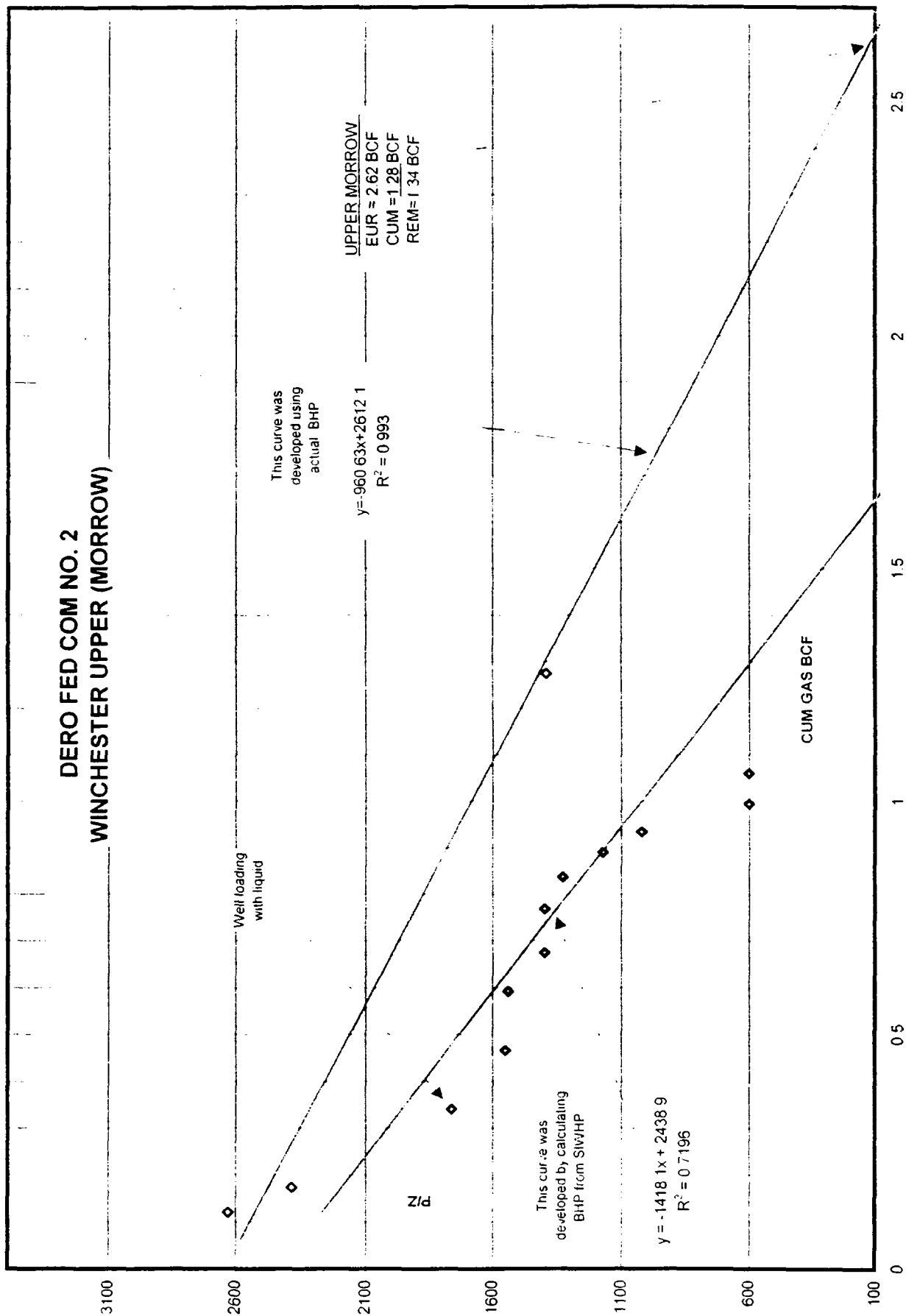
DST #3 11081-181 Open tool w/ strong blow, GTS in 7 min, IFP 750#-1551# 30 min, ISIP 4429#-4448# 90 MIN, reopen tool flow
 on 1/4"chk 3.697 MMCFD, FFP 883#-901# 150 MIN, FSIP 4429#-4468# 300 min. POH Rec 440' GCM, 10' Distillate & 30' filtrate wtr

3/27/88

MINIMUM FLOW RATE IN MCF/D TO CONTAIN 3 REMOVED FLUIDS FROM A WELLBORE
WITH NOMINAL TUBING AS FLOW CORRECTION AT 60°F (5.0°F) AND 2 ± 0.9

SURFACE TUBING PRESSURE, PSIG	WATER										CONDENSATE									
	1-1/4"	1-1/2"	2-1/16"	2-3/8"	2-7/8"	3 1/2"	4 1/2"	1-1/4"	1-1/2"	2-1/16"	2-3/8"	2-7/8"	3 1/2"	4 1/2"	1-1/4"	1-1/2"	2-1/16"	2-3/8"	2-7/8"	3 1/2"
0																				
25	123.	102.	121.	157.	235.	353.	617.	49.	66.	70.	107.	152.	220.	400.						
50	158.	140.	199.	258.	306.	500.	1015.	101.	109.	129.	167.	250.	375.	657.						
75	186.	214.	254.	329.	493.	741.	1396.	102.	139.	164.	213.	319.	479.	819.						
100	210.	285.	299.	388.	580.	872.	1536.	120.	163.	193.	251.	376.	564.	900.						
125	231.	315.	373.	484.	724.	1080.	1903.	136.	185.	218.	284.	435.	630.	1116.						
150	251.	342.	404.	525.	785.	1181.	2068.	150.	204.	241.	311.	468.	704.	1312.						
175	269.	367.	434.	563.	843.	1267.	2317.	162.	221.	267.	340.	500.	743.	1337.						
200	287.	390.	461.	599.	897.	1347.	2358.	174.	237.	291.	364.	545.	819.	1414.						
225	303.	412.	487.	633.	947.	1433.	2491.	185.	252.	298.	387.	580.	871.	1525.						
250	310.	433.	512.	665.	995.	1495.	2616.	196.	266.	315.	409.	613.	920.	1611.						
275	333.	453.	536.	695.	1041.	1564.	2736.	205.	280.	331.	430.	643.	927.	1692.						
300	347.	472.	558.	724.	1084.	1629.	2851.	215.	293.	346.	449.	673.	1011.	1789.						
325	360.	490.	580.	752.	1126.	1692.	2962.	224.	305.	361.	468.	701.	1053.	1843.						
350	373.	508.	600.	779.	1167.	1753.	3068.	233.	317.	375.	484.	720.	1094.	1914.						
375	385.	525.	620.	805.	1206.	1812.	3170.	241.	328.	388.	504.	754.	1133.	1982.						
400	397.	541.	640.	831.	1243.	1868.	3269.	249.	339.	401.	520.	779.	1170.	2040.						
425	409.	557.	659.	855.	1280.	1923.	3365.	257.	349.	413.	537.	803.	1207.	2113.						
450	420.	572.	677.	879.	1316.	1977.	3459.	264.	360.	425.	552.	827.	1242.	2174.						
475	432.	587.	695.	902.	1350.	2028.	3550.	272.	370.	437.	568.	850.	1276.	2234.						
500	442.	602.	712.	924.	1384.	2078.	3638.	279.	379.	449.	582.	872.	1310.	2292.						
525	453.	616.	729.	946.	1416.	2128.	3724.	286.	389.	460.	597.	893.	1343.	2349.						
550	463.	630.	745.	968.	1448.	2176.	3800.	292.	398.	470.	611.	914.	1374.	2404.						
575	473.	644.	761.	988.	1480.	2223.	3891.	299.	407.	481.	624.	935.	1405.	2450.						
600	483.	657.	777.	1009.	1510.	2269.	3971.	305.	415.	491.	638.	955.	1435.	2511.						
625	492.	670.	793.	1029.	1540.	2314.	4050.	311.	424.	501.	651.	975.	1464.	2562.						
650	502.	683.	808.	1049.	1570.	2358.	4127.	318.	432.	511.	664.	994.	1493.	2613.						
675	511.	695.	822.	1068.	1598.	2402.	4203.	324.	440.	521.	676.	1012.	1521.	2662.						
700	520.	708.	837.	1087.	1627.	2444.	4277.	329.	448.	530.	689.	1031.	1549.	2710.						
725	529.	720.	851.	1105.	1654.	2486.	4350.	335.	456.	540.	701.	1049.	1573.	2750.						
750	537.	732.	865.	1123.	1682.	2526.	4421.	341.	464.	549.	712.	1067.	1603.	2804.						
775	546.	743.	879.	1141.	1700.	2567.	4492.	346.	472.	558.	724.	1084.	1629.	2850.						
800	554.	755.	893.	1159.	1735.	2606.	4561.	352.	479.	567.	735.	1101.	1654.	2905.						
825	563.	766.	906.	1176.	1761.	2645.	4629.	357.	486.	575.	747.	1110.	1680.	2949.						
850	571.	777.	919.	1193.	1786.	2683.	4696.	363.	493.	584.	758.	1134.	1704.	2993.						
875	579.	788.	932.	1210.	1811.	2721.	4763.	368.	501.	592.	769.	1151.	1729.	3035.						
900	587.	799.	945.	1226.	1836.	2758.	4827.	373.	508.	600.	779.	1167.	1753.	3087.						
925	595.	809.	957.	1243.	1860.	2795.	4891.	378.	514.	608.	790.	1182.	1776.	3149.						
950	602.	820.	970.	1259.	1884.	2831.	4954.	383.	520.	616.	800.	1190.	1800.	3199.						
1000	617.	840.	982.	1274.	1900.	2866.	5016.	388.	528.	624.	810.	1213.	1823.	3199.						
1025	625.	850.	1004.	1305.	1954.	2936.	5138.	393.	534.	632.	820.	1238.	1845.	3239.						
1050	632.	860.	1017.	1321.	1977.	2970.	5198.	397.	541.	640.	830.	1243.	1867.	3280.						
1075	639.	870.	1029.	1336.	2000.	3004.	5257.	402.	547.	647.	840.	1258.	1889.	3308.						
1100	646.	880.	1040.	1350.	2022.	3037.	5315.	407.	553.	655.	850.	1272.	1911.	3344.						
1125	653.	889.	1052.	1365.	2044.	3072.	5373.	411.	560.	662.	859.	1286.	1933.	3382.						
1150	660.	898.	1063.	1380.	2065.	3103.	5430.	416.	566.	669.	869.	1300.	1954.	3419.						
1175	667.	908.	1074.	1394.	2087.	3135.	5486.	420.	572.	676.	878.	1314.	1975.	3455.						
1200	674.	917.	1085.	1408.	2108.	3167.	5542.	424.	578.	683.	887.	1328.	1995.	3491.						
1225	680.	926.	1095.	1422.	2129.	3198.	5597.	429.	584.	690.	896.	1342.	2016.	3527.						
1250	687.	935.	1106.	1436.	2150.	3229.	5651.	437.	595.	697.	905.	1355.	2036.	3563.						
1275	694.	944.	1117.	1450.	2170.	3260.	5705.	441.	601.	711.	923.	1368.	2056.	3597.						
1300	700.	953.	1127.	1463.	2190.	3291.	5759.	446.	607.	717.	931.	1381.	2075.	3631.						
1325	706.	962.	1137.	1476.	2210.	3321.	5811.	450.	612.	724.	940.	1394.	2095.	3665.						
1350	713.	970.	1148.	1490.	2230.	3351.	5863.	454.	618.	730.	948.	1407.	2114.	3699.						
1375	719.	979.	1158.	1503.	2250.	3380.	5915.	458.	623.	737.	957.	1420.	2133.	3732.						
1400	725.	987.	1160.	1514.	2269.	3409.	5966.	462.	628.	743.	965.	1432.	2152.	3765.						
								466.	634.	750.	973.	1444.	2170.	3798.						
												1457.	2189.	3830.						





SAGA PETROLEUM				FIELD:	LEASE:	WELL:
N FOR EXPENDITURE				Winchester Morrow	Dero Fed Com	
SUB	5010					
ACCT	INTANGIBLES			DRILLING	COMPLETION	TOTAL
36	Location: Survey, Plats, Damages, ROW, Permits					\$ -
36	Dirtwork: Road, Location, Pits					\$ -
1	Contract Drilling - Footage	ft @	ft	\$ -		\$ -
3	Contract Drilling - Daywork	dy @	/dy	\$ -		\$ -
12	Fuel and Power					\$ -
14	Water				\$ 500.00	\$ 500.00
30	Mud and Chemicals					\$ -
29	Bits, Reamer & Stabilizers					\$ -
5	Cementing Services					\$ -
26	Drill Stem Tests, Coring & Analysis					\$ -
2	Geological Services/Mudlogging					\$ -
37	Rental Equipment (Drig)	dy @	/dy	\$ -		\$ -
37	Rental Equipment (Compl)	0 dy @	0 /dy		\$ -	\$ -
16	Completion Unit	3 dy @	1200 /dy		\$ 3,600.00	\$ 3,600.00
51	Logging & Perforating				\$ 3,000.00	\$ 3,000.00
15	Non-Controllable Materials					\$ -
35	Waste Disposal & Restoration				\$ -	\$ -
27	Hauling & Transportation				\$ 500.00	\$ 500.00
23	Supervision (Drilling)	dy @	/dy	\$ -		\$ -
23	Supervision (Completion)	3 dy @	\$ 450 /dy		\$ 1,350.00	\$ 1,350.00
8	Overhead (Drilling)	dy @	/dy	\$ -		\$ -
8	Overhead (Completion)	3 dy @	\$ 100 /dy		\$ 300.00	\$ 300.00
17	Well Stimulation				\$ -	\$ -
43/24	Contract / Company Labor				\$ 2,000.00	\$ 2,000.00
6	Insurance					\$ -
21	Miscellaneous				\$ 550.00	\$ 550.00
	Contingencies	10%		\$ -	\$ 500.00	\$ 500.00
TOTAL INTANGIBLE COST				\$ -	\$ 12,300.00	\$ 12,300.00
SUB	1320/1321					
ACCT	TANGIBLES			DRILLING	COMPLETION	TOTAL
1 /	Surface Casing	ft @	/ft	\$ -		\$ -
2 /	Intermediate Casing	ft @	/ft	\$ -		\$ -
/ 1	Production Casing	ft @	/ft		\$ -	\$ -
/ 13	Liner	ft @	/ft		\$ -	\$ -
/ 3	Tubing	ft @	/ft		\$ -	\$ -
3 / 12	Float Equipment, Shoes, Centralizers					\$ -
4 / 8	Wellhead Equipment				\$ 500.00	\$ 500.00
/ 7	Artificial Lift & Accessory Equipment					\$ -
/ 4	Rods	ft @	/ft		\$ -	\$ -
/ 2	Engine/Motor & Accessories					\$ -
/ 6	Bottom Hole Pump					\$ -
/ 9	Tank Battery/Installation					\$ -
/ 9	Heater Treater/Separators					\$ -
/ 17	Electrical System					\$ -
/ 15	Packers & Anchors					\$ -
/ 10	Other Surface Equipment				\$ 2,000.00	\$ 2,000.00
/ 19	Other Subsurface Equipment					\$ -
/ 11	Line Pipe, Valves & Fittings	ft @	/ft		\$ 4,000.00	\$ 4,000.00
/ 23	Hauling/Transportation					\$ -
/ 18	Non-Controllable Materials					\$ -
/ 18	Miscellaneous				\$ 500.00	\$ 500.00
	Contingencies	5%		\$ -	\$ 700.00	\$ 700.00
TOTAL TANGIBLE COST				\$ -	\$ 7,700.00	\$ 7,700.00
TOTAL WELL COST				\$ -	\$ 20,000.00	\$ 20,000.00

#983285

County, State: Eddy County, New Mexico

The subject well has recently been producing approximately 30 MCFGPD. The well had a 48 hour shut in bottom hole pressure of 1278 psi, indicating substantial reserves remaining. This AFE will install a compressor to cycle gas down the casing-tubing annulus, which will lift additional fluids and reduce the producing bottom hole pressure. Cost of this project is \$20,000. Based on the attached economics, this project will pay out in approximately 1.6 months, while recovering an additional 1.34 BCF.

Description of Expenditures	Original	Revision
Drilling Intangibles	\$ -	
Drilling Tangibles	\$ -	
Completion Intangibles	\$ 12,300.00	
Completion Tangibles	\$ 7,700.00	
Other Capital Expenditure		
Sub-Total	\$ 20,000.00	\$ -
Administrative Overhead		
Gross Estimated Costs (8/8ths)	\$ 20,000.00	
Less Costs to Others		
Less Non-Refundable Contribution		
Less Trade In		
Less Salvage		
Less Other		
Net Est. Cash Outlay	\$ 20,000.00	
Division of Working Interest	%	Cost
Oxy USA	0.06250000	\$ 1,250.00
Total	0.06250000	\$ 1,250.00

Prepared by: Joe N. Clement - Area Engineer

Operator Approvals:

Title: ~~Manager, Saqa Petroleum LLC~~

Date: March 23, 1998

REMARKS:

NON-OPERATOR APPROVAL:

Company:

~~Approved By:~~

Title:

Date:

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.