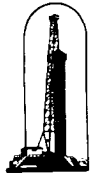


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SANTA FE
EXPLORATION COMPANY

O. C. D.
ARTESIA, OFFICE

(505) 623-2733
P. O. Box 1136
ROS WELL, NEW MEXICO 88202

October 13, 1988

Mr. Mike Williams, District Supervisor
Oil Conservation Division
Drawer DD
Artesia, New Mexico 88210

Re: Holmstrom Federal #1 Well
Section 9, T14S, R29E
1980' FSL & 1980' FEL
Chaves County, New Mexico

Dear Mr. Williams:

In your absence I have visited with Mr. William LeMay in Santa Fe in regard to the above captioned well and Santa Fe Exploration Company's request for a testing allowable which is attached.

The devonian pay section, which we are in, is highly fractured and we believe that the packer shoe either failed when we ran cement on our production string of casing, or the fractures extended above the packer shoe and allowed the cement to circumvent the shoe. Upon drilling out the shoe with a reverse unit, we discovered our producing zone was filled with cement, and drilling ahead to total depth we drilled another foot or so into the dolomite. We believe the problem on this well is that we have effectively cemented off our pay zone and we are producing through vertical fractures from the bottom of the hole rather than from horizontally in the dolomite that is the reservoir. Numerous tests have been conducted and a variety of scenarios are being considered in an effort to resolve this problem.

Should you need further explanation or discussion regarding our continued efforts to complete this well in the best way, please let me know.

Sincerely,

SANTA FE EXPLORATION COMPANY


William A. McAlpine, Jr.

WAM/lrs

cc: Mr. William J. LeMay, Director
Oil Conservation Division
310 Old Santa Fe Trail, Room 206
Santa Fe, New Mexico 87503