



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

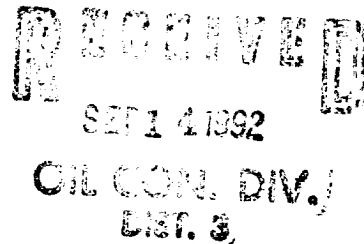


POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ADMINISTRATIVE ORDER DHC-854

Southland Royalty Company
P.O. Box 4289
Farmington, New Mexico 87499-4289

Attention: Thomas B. Nusz



*Cain No. 8
Unit H, Section 15, Township 28 North, Range 10 West, NMPM,
San Juan County, New Mexico.
Aztec - Pictured Cliffs and Basin - Fruitland Coal Gas Pools*

Dear Mr. Nusz:

Reference is made to your recent application for an exception to Rule 303-A of the Division Rules and Regulations to permit the subject well to commingle production from both pools in the wellbore.

It appearing that the subject well qualifies for approval for such exception pursuant to the provisions of Rule 303-C, and that reservoir damage or waste will not result from such downhole commingling, and correlative rights will not be violated thereby, you are hereby authorized to commingle the production as described above and any Division Order which authorized the dual completion and required separation of the two zones is hereby placed in abeyance.

In accordance with the provisions of Rule 303-C-4., total commingled oil production from the subject well shall not exceed 20 barrels per day, and total water production shall not exceed 40 barrels per day. The maximum amount of gas which may be produced daily from the well shall be determined by Division Rules and Regulations or by the gas allowable for each respective prorated pool as printed in the Division's San Juan Basin Gas Proration Schedule.

Assignment of allowable to the well and allocation of production from the well shall be on the following basis:

Monthly gas production from the Aztec - Pictured Cliffs Gas Pool shall be calculated utilizing the following formula:

$$Q_2 = Q_1 (1 - De)^{Yr} \text{ MCFD}$$

Where De = Effective Decline in %/yr. (Derived from production plot)
 Q_2 = Rate two (at some future date) MCFD
 Q_1 = Rate one (current rate) MCFD
 Yr = Years into the future from current date

Any gas production above what is calculated by the aforementioned formula shall be attributed to the Basin-Fruitland Coal Gas Pool.

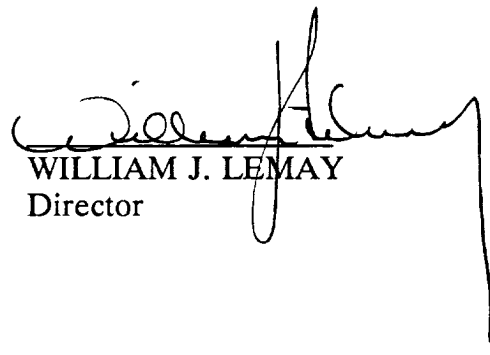
Any condensate production shall be allocated entirely to the Aztec - Pictured Cliffs Gas Pool.

An annual report shall be submitted by the operator to both the Santa Fe and Aztec offices of the Division showing the complete allocation computations for each month.

Pursuant to Rule 303-C-5, the commingling authority granted by the order may be rescinded by the Division Director if, in his opinion, conservation is not being best served by such commingling.

Approved at Santa Fe, New Mexico on this 3rd day of September, 1992.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

xc: OCD - Aztec ✓
 U.S. BLM - Farmington