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JASON KELLAHIN (RETIRED 1991)

January 11, 1995

Mr. David R. Catanach
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

HAND-DELIVERED

Re: *NMOCD Case 11148*
Application of Meridian Oil Inc.
for downhole commingling for the
Zachry Well No. 3, N-12-28N-10W
San Juan County, New Mexico

Dear Mr. Catanach:

On behalf of Meridian Oil Inc, I presented the referenced case to you on your December 1, 1994 docket. Because there was no objection, the case was taken under advisement and you granted my request to submit the hearing exhibits, without witnesses.

Thereafter, on December 20, 1994, you advised me that Meridian's exhibit showed a plat on which the W/2 of irregular Section 12 contained a 134.46 acre Pictured Cliffs spacing unit, while the NMOCD records (Aztec and Santa Fe) show that in 1955 the Division approved an NSPU for Pictured Cliffs production contained 202.82 acres.

This letter will confirm that 202.82 acres is the correct dedication. Accordingly, please find enclosed a corrected plat which we request be substituted in the record. Meridian regrets the error.

In addition, Mr. Leonard Biemer, a petroleum engineer with Meridian, has prepared and I have enclosed his summary describing that the 369,089 MCF remaining PC reserves cannot be economically recovered by dual completion.

Please call me if you need anything further in this matter.

Very truly yours,



W. Thomas Kellahin

cc: Meridian Oil Inc.
Attn: Dean Price

MERIDIAN OIL

To: Tom Kellahin

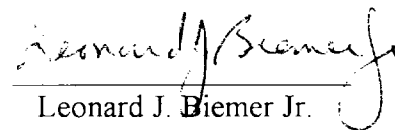
January 4, 1995

From: Leonard J. Biemer Jr.

Re: NMOCD Case #11148
Zachry #1
SE/SW Section 12, T-28-N, R-10-W
San Juan County, New Mexico

The Zachry #1 has an estimated remaining reserves of 369,089 Mcf in the Pictured Cliffs formation. The Pictured Cliffs reserves can not be economically recovered with a dual completion because of the additional cost associated with this type of completion. The following are a few of the additional costs; 1) a second string of tubing, 2) a packer, 3) a dual wellhead, 4) an additional separator, 5) an additional meter run, 6) additional pipeline, 7) labor to install the field facilities and 8) rig time to do the work. By Meridian incurring these additional costs to dual complete the well, the Zachry #1 will drop out as an economically viable project.

If you have any questions, please call me at 505-326-9703. Thank You.


Leonard J. Biemer Jr.

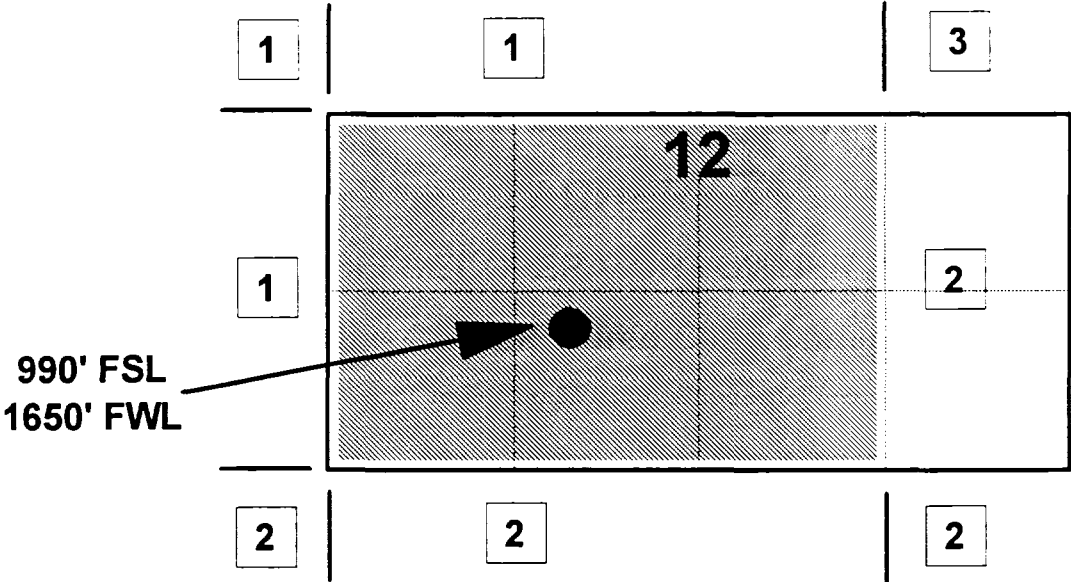
MERIDIAN OIL INC

ZACHERY #1

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal / Pictured Cliffs Commingle Well

Township 28 North, Range 10 West



1) Meridian Oil Inc

2) Southland Royalty Company

3) Conoco, Inc. 10 Desta Drive, Suite 100W, Midland, TX 79705-4500