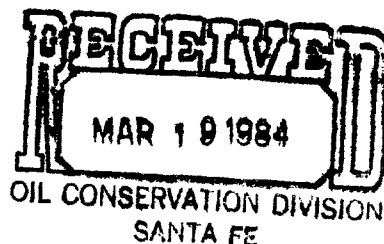




**Southland Royalty Company**

March 14, 1984

Joe D. Ramey  
New Mexico Dept. of Energy &  
Minerals, Oil and Gas Division  
P.O. Box 2088  
Santa Fe, New Mexico 87501



Re: SRC Johnson #1

*Case 8169*

Southland Royalty Co. hereby requests administrative approval of down-hole commingling of the Ojito Gallup/Dakota with the Blanco Mesaverde in the subject well, which is located in the NE/SE of section 7, T25N, R3W, Rio Arriba County, New Mexico.

The SRC - Johnson #1 was completed in 1980 and first delivered in 1982. The two zones were produced for the second half of 1982, but the Dakota did not produce in 1983. A plunger lift was installed, but would not operate successfully because of excessive oil production. Installation of a pumping unit will be required to produce the Gallup/Dakota, but the 5½" casing will not allow installation of two strings large enough to pump the Gallup/Dakota and to produce the Mesaverde separately. Approval to commingle the Mesaverde with the Gallup/Dakota will allow production of an estimated 15,000 BO and 54,000 MCFG, which cannot be recovered with current production equipment that will fit in the 5½" casing.

The gases and fluids from each zone are compatible. The oil is light, high API gravity (Mesaverde=48.1, Gallup/Dakota=56.6 degrees API). The attached gas analyses (Exhibit Nos. 2 and 3) show the Mesaverde to have a BTU content of 1240 and specific gravity of .714 with the Gallup/Dakota specific gravity of .715 and BTU content of 1239. Water analyses were not taken because of the negligible water production.

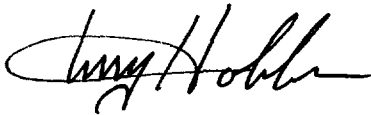
A proposed allocation formula is shown in Exhibit No. 4. Additional supporting data (production decline curves and production histories) is also attached.

The BHP's for each zone are shown in Exhibit No. 5 and indicate the lower pressured Mesaverde to be 90 percent of the Gallup/Dakota. Therefore, there should be no crossflow between the zones.

Southland Royalty Company's land department has verified that all ownership and royalty interests are equal in the Gallup/Dakota and Mesaverde intervals.

The NMOCC at Aztec, BLM and offset operators are being notified by certified copy of this letter and operators are hereby requested to forward a signed waiver to Santa Fe.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Terry Hobbs". The signature is fluid and cursive, with a large loop at the end.

C. Terry Hobbs  
Petroleum Engineer

Enclosures

cc: NMOCC  
BLM  
Offset Operators