

June 22, 1987

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

RE: Surface Commingle Application
Southern California Federal No. 1 and No. 4
Federal Lease No. LC 063586

Gentlemen,

In accordance with the State of New Mexico Energy and Minerals Department Oil Conservation Division Statewide Rule Number 303 concerning segregation of production from pools, Damson Oil Corporation hereby requests an exception to Statewide Rule No. 303-A and administrative approval to surface commingle production from the Lusk (Delaware) and Lusk (Strawn) pools underlying Section 29, T19S, R32E, Lea County, New Mexico.

Damson Oil Corporation currently operates the Southern California Federal #1 and #4 wells located in Section 29, T19S, R32E as shown on the attached land map. Prior to January 24, 1987, both wells were producing from the Lusk (Strawn) pool. A casing leak occurred in the Southern California Federal #1 wellbore and it has since been recompleted and placed in the Lusk (Delaware) pool. The attached schematic diagram shows the Southern California Federal lease battery as it currently exits.

Southern California Federal #1 produces into the heater treater and the Southern California Federal #4 produces into a two-phase separator. One barrel dump meters measure and record oil production through each vessel before it is moved to the stock tanks. Commingling does not occur until both tanks are equalized before oil is sold through a LACT unit. A water meter is installed on the water dump of the heater treater to measure produced water volume from the Southern California Federal #1. No equipment for water measurement is installed in the Southern California Federal #4 production stream because it does not produce any water. No additional well test equipment is needed since both leases are one-well leases.

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Oil produced from the Lusk (Strawn) pool has a gravity of 43.6 deg. API at 60 deg. Farenheit while oil produced from the Lusk (Delaware) pool has a gravity of 41.9 deg. API at 60 deg. Farenheit. Expected production from the Lusk (Delaware) pool is 80 barrels of oil per day and from the Lusk (Strawn) pool is 35 barrels of oil per day. The expected API gravity of the commingled oil is 42.4 deg. API at 60 deg. Farenheit. Permian Corporation currently purchases oil produced on the lease. No gravity correction to the posted oil price is made if the gravities are between 40 deg. API and 45 deg. API. Accordingly, Lusk (Strawn) and Lusk (Delaware) production on Damson's lease have identical values. In addition, no decrease in value will occur by surface commingling production as described.

The Southern California Federal lease is a Federal lease. An application to surface commingle Lusk (Strawn) and Lusk (Delaware) production was sent concurrently with this application. As soon as written approval is received from the Bureau of Land Management, a copy will be forwarded to the Santa Fe office of the New Mexico Oil Conservation Division to fulfill all requirements of Statewide Rule No. 303-B. If you have any questions or need additional information, please contact Damson Oil Corporation's Midland office at the letterhead address. Your assistance in this matter is appreciated.

Yours truly,

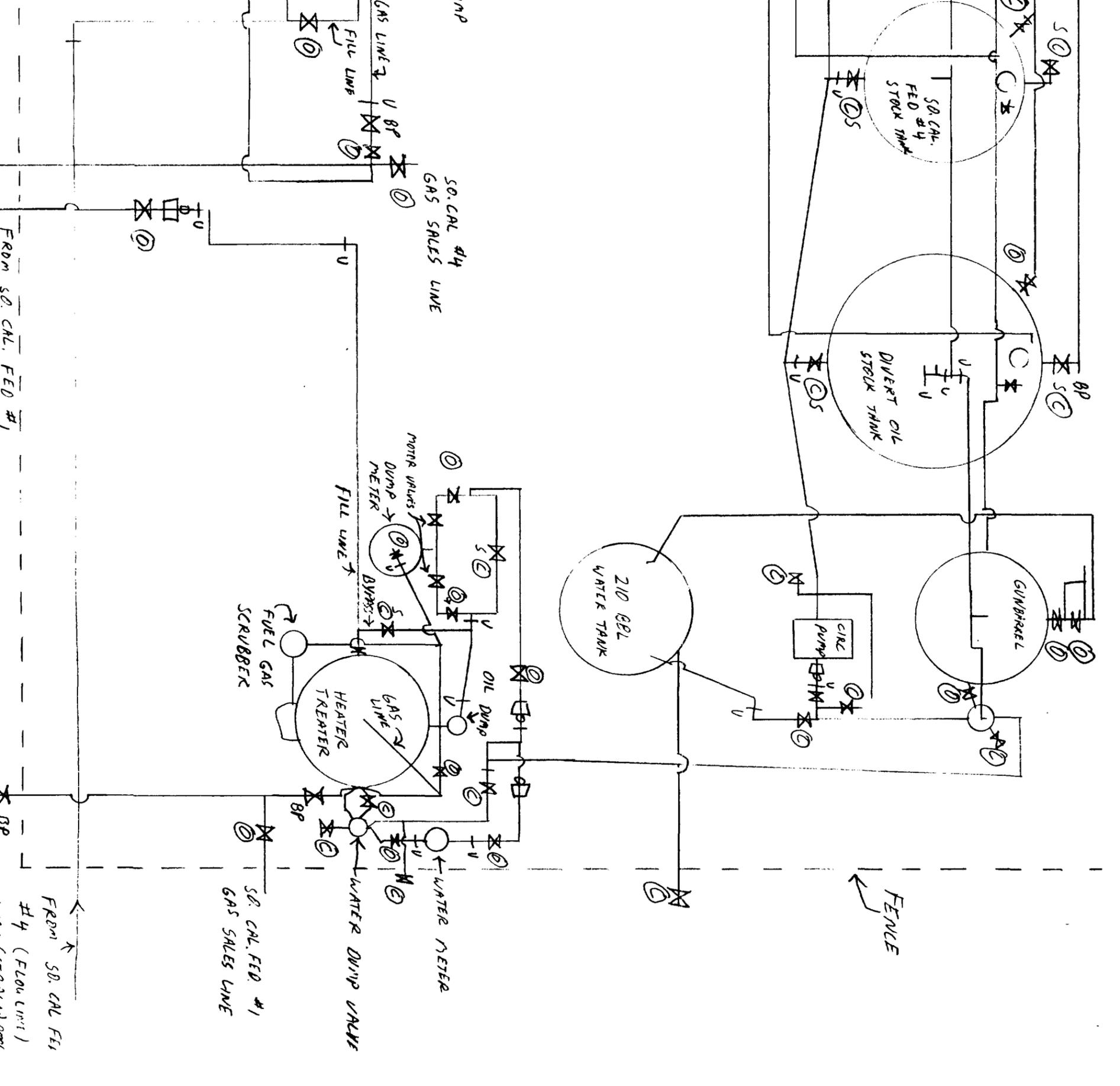


Brent L. Lowery

BLL/kag
Attachment

DAMSON OIL CORP.
 SOUTHERN CALIFORNIA FEDERAL
 LUSK (DELAWARE) & LUSK (STRAWN)
 SURFACE COMMINGLING FACILITY

SYMBOLS
 + U - UNION
 ⊙ - NORMALLY OPEN VALVE
 ⊙ - NORMALLY CLOSED VALVE
 S - SEALABLE VALVE
 BP - BACKPRESSURE VALVE
 ⊠ - CHECK VALVE



FROM SO. CAL. FEED #1
 #4 (FLOW LINE)
 LUSK (STRAWN) SIDE