

MUSSELMAN, OWEN & KING OPERATING, INC.

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ARTESIA, OFFICE

April 11, 1991

Mr. Jim Morrow
Chief Petroleum Engineer
State of New Mexico
Energy, Minerals and Natural Resources Dept.
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico

RE: Smith Federal Well #2L 1-22S-23E
Indian Basin Upper Penn (Pro. Gas)
Eddy County, New Mexico

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Dear Sir,

As has been discussed and documented in our previous correspondence of March 5 and April 5, 1991, Musselman, Owen & King Operating, Inc. (MO&K) acknowledges that the statistics and allowables as published by the OCD in the Southeast Gas Proration Schedule for the Smith Federal #2L have been recorded and calculated incorrectly since the beginning of production in May, 1988. We believe that it is in the best interest of all parties to amend the incorrect figures, and, as a small operator with only one active well in New Mexico, we welcome the regulatory guidance on allowables that will enable us to conform to pool rules.

One of the problems that must be solved, as a result of correcting the schedule, is that of dealing with the resulting "old over-production" that we have unknowingly accrued since 1988. From May, 1988 through September, 1990, there was no over-production listed in the proration schedule (total cumulative production was incorrectly listed as over-production from October, 1988 through February, 1990; numerous calls were made to the OCD during this time requesting correction). Virtually all of the information in the schedule needed to determine production volumes for the Smith Federal through October, 1990, was either not provided or erroneous.