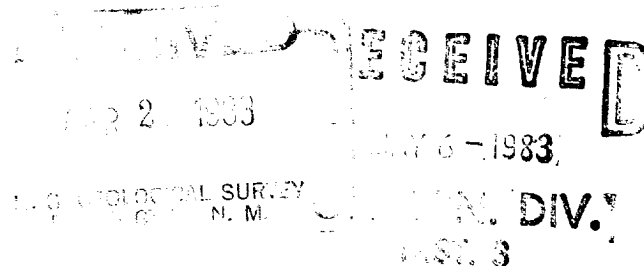




Southland Royalty Company

April 29, 1983

Mr. James F. Sims
Bureau of Land Management
P. O. Drawer 600
Farmington, New Mexico 87499



Dear Mr. Sims:

Southland Royalty Company hereby requests permission to vent the casinghead gas produced from the Holly Federal #1, SE/4 of Section 29, T30N, R15W, San Juan County, New Mexico.

Our previous application discussed the possibility of a gas purchaser laying a line to our well. This is no longer a possibility, due in part to the depressed gas market. We have investigated the possibility of laying a line to tie into the gas purchaser.

The attached map (Attachment #1) shows the route required to stay off the San Juan Coal Company coal lease. We discussed crossing their lease in a more direct route, but strip mining regulations prohibit natural gas lines from strip mining areas. The cost to lay the line as required would be \$180,000.00

The economics of installing the gathering line are shown in the attached computer printout (Attachment #3). Remaining reserves are based on figures supplied to us by the consulting engineering firm who is retained as reserve analyst by Southland Royalty Company. The projected decline rate to economic limit is shown on the attached production curve (Attachment #2). As shown by the computer economic and decline calculations, the remaining life of the well is expected to be 11.2 years. The recoverable reserves, as calculated by our reserve analyst, are 11,969 BO and 27,527 MCF of gas. Therefore, remaining recoverable reserves are 9000 BO and 20,000 MCF of gas (these are the reserves used in our economic calculations). Without considering using any future income to payout the unrecovered drilling cost, the payout of the pipeline installation would be 7.6 years before taxes as shown on page 2 of the computer printout. This is not economically justified.

The actual operating economic consideration for operating this well would include the cost of drilling and completing as well as the installation of the gas line. Attachment #4 gives the total economics required to consider for development of the property. This would dictate the well be abandoned

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Mr. James F. Sims
Page Two
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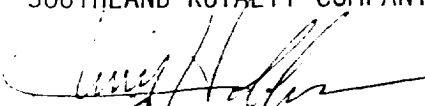
before installing the gas line because the total revenues as shown on page one of \$277,000 are much less than the total development expense of \$520,600.

Consideration of equivalent energy value has oil revenue of \$230,800 and gas value of \$29,100 over the life of the well. Therefore, conservation of the \$29,000 of gas through installation of a pipeline would lead to premature abandonment of the well and would result in loss of oil valued at \$230,800.

Your early consideration and concurrence would be appreciated and would allow uninterrupted oil production. Please excuse our delay in presenting this data.

Sincerely,

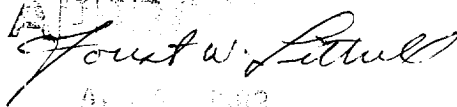
SOUTHLAND ROYALTY COMPANY


C. Terry Hobbs
Petroleum Engineer

CTH/eg

Attachments

RECEIVED
MAY 1 1983
C. T. HOBBS
P. E.

APPROVED

APR 30 1983
for JAMES F. SIMS
DIRECTOR