

Catanach, David, EMNRD

From: Catanach, David, EMNRD
Sent: Wednesday, June 29, 2005 8:08 AM
To: 'reedf@mcelvain.com'
Subject: Application

Reed,

I am in the process of reviewing your application to surface commingle the production on the Parcell and EM Elliot Federal Leases. Your sundry notice to the BLM states that the working interest and royalty interest is identical for both wells. You provided notice of this application to four parties. Are these working interest owners? Is the ownership between the wells exactly common, including overriding royalty interest? Please elaborate on the ownership of the wells. Also, please be advised that if the interest ownership between the wells is not exactly common, you will be required to meter the production from each well prior to commingling.

I hope to hear from you as soon as possible so that we may process this application.

You can E-mail me or call me at (505) 476-3466.

David Catanach

June 29, 2005

To: Mr. David Catanach
From: Reed Fischer
303.893.0933 xtn 330
Re: Surface Commingle Application

Hello David:

Please take a look and let me know what is needed on our part to be able to surface commingle.

Thanks

Reed

DATE: Tue Apr 12, 2005
TIME: 10:21:15

HOLLY CORPORATION & SUBSIDIARIES
Division of Interest - Listing

REPORT: DC3
PAGE: 1

Lease: 00017059 Sub:
G/L Comp: 84 Division: 48

Name: E M ELLIOTT
Period: 04-2005

Username: irena

Owner	Name	Sec	Adr	From	To	Int	Pay	Stat	OV	Interest
000002	MINERALS M OF INTERIOR-MMS ✓	00		11/1992	99/9999	RI	GF	Y		0.02100000
019843	ELLIOTT INDUSTRIES ✓	00		11/2001	12/9999	WI	PA			0.19580000
019843	ELLIOTT INDUSTRIES ✓	01		11/2001	12/9999	OR	PA			0.02250000
019848	ELLIOTT-HALL COMPANY ✓	00		11/2001	12/9999	WI	PA	Y		0.19580000
019845	ELLIOTT-HALL COMPANY ✓	01		11/2001	12/9999	OR	PA	Y		0.02250000
020899	T H MCELVAIN OIL & GAS LTD PRT ✓	00		11/2001	12/9999	WI	PA	Y		0.39052800
054987	T H MCELVAIN OIL & GAS LTD PARTNERSHIP ✓	00		01/2005	12/9999	WI	PA			0.15187200
Interest Total:										1.00000000

RI 0.02100000 WI 0.93400000 OR 0.04500000

DATE: Tue Apr 12, 2005
TIME: 10:21:02

HOLLY CORPORATION & SUBSIDIARIES
Division of Interest - Listing

REPORT: DC3
PAGE: 1

Lease: 00017422 Sub: Name: PARCELL, FEDERAL #2
G/L Comp: 84 Division: 48 Period: 04-2005 Username: irene

Owner	Name	Seq	Adr	From	To	Int	Pay	Typ	Stat	OV	Interest
000002	MINERALS M OF INTERIOR-MMS ✓	00		10/1992	99/9999	RI	CF	Y			0.04500000
002944	CHARLES L PARCELL ✓	00		03/1988	99/9999	OR	PA				0.01500000
019843	ELLIOTT INDUSTRIES ✓	00		11/2001	12/9999	WI	PA				0.18500000
019843	ELLIOTT INDUSTRIES ✓	01		11/2001	12/9999	OR	PA				0.01350000
019845	ELLIOTT-HALL COMPANY ✓	00		11/2001	12/9999	WI	PA	Y			0.18500000
019845	ELLIOTT-HALL COMPANY ✓	01		11/2001	12/9999	OR	PA	Y			0.01350000
020899	T. H MCELVAIN OIL & GAS LTD PRT ✓	00		11/2001	12/9999	WI	PA	Y			0.38016000
037714	PATRICIA PEPPLER ✓	00		07/2000	12/9999	OR	PA				0.01500000
054987	T H MCELVAIN OIL & GAS LTD PARTNERSHIP ✓	00		01/2005	12/9999	WI	PA				0.14784000
Interest Total:											1.00000000

RI 0.04500000 OR 0.05700000 WI 0.89800000

Patricia Pepler et vir Patrick C
 P.O. Box 482
 Meals, CO.
 80542
 346 5th Street
 Meal 80542-9707
 970 535-4658

McELVAIN OIL & GAS PROPERTIES, INC.

1050 17TH STREET
SUITE 1800
DENVER, COLORADO 80265

E. REED FISCHER
OPERATIONS ENGINEER
E-MAIL: REEDF@MCELVAIN.COM

TELEPHONE 303/893-0933 EXT. 330
FAX 303/893-0914

June 10, 2005

TO: All Interest Owners
Parcell Federal #2 & E.M. Elliott #4
Section 31, T18S-R30 E
Eddy County, New Mexico

FROM: E. Reed Fischer

RE: Request for Approval to Produce Wells On Separate Leases to a Common Oil
Storage Tank

Dear Interest Owner:

McElvain Oil & Gas Properties, Inc. (MOG), operates the above 2 referenced stripper wells. The Parcell Federal #2 well is situated on Federal Lease #NMLC-069111 dated January 1, 1949. The E.M. Elliott #4 well is situated on Federal Lease #NMNM-027279 dated July 1, 1949. Please refer to the attached plat identifying both leases within the boundaries of Section 31. Both wells produce from identical members of the Queen and Greyberg formations, and both wells produce at roughly equivalent rates of 1.25 to 1.50 barrels of "like quality" oil per day to their individual oil storage tank. Both the Parcell tank and the Elliott tank are located at the 2-tank battery facility situated on the Elliott lease. No gas is sold off either lease.

The roof on the oil storage tank servicing the Parcell Federal #2 well is bad and the entire tank will have to be replaced. The estimated cost of a tank replacement and the associated plumbing costs total \$13,500. The payout for the tank replacement is expected to exceed 1 year provided the Parcell well continues to sell 2 loads of oil per year and we have no additional surface or down-hole problems.

The estimated costs can be substantially reduced if we can obtain the consent of the interest owners to produce both wells to the remaining good tank on this battery, the E.M. Elliott #4 tank. In other words, we wish to surface commingle the production from these two separate leases. In order to commingle production, MOG is required by the State of New Mexico, even on Federal leases, to obtain interest owner approval. With both stripper wells producing to a single tank we will be able to accumulate and subsequently sell oil more frequently. This will improve the lease economics for both these leases.

The major reason the State requires owner consent prior to surface commingling of production from separate leases is that once oil from multiple leases is combined into a single tank, the proceeds from

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Request for Commingle

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the sale of this oil will need to be allocated back to the individual leases. If ownership of the individual leases is identical in all respects, individual owners of "like quality" commingled production will be paid exactly their proportionate share of gross sales proceeds as they would have received without commingling. Problems can arise with commingled production from leases with differing ownership and/or differing oil quality, if the commingled production is not properly allocated back to the individual leases.

The potential problems identified above are readily resolved as follows:

- 1) Both wells are perforated in identical members of the Queen and Greyberg formations and the oil produced from each well is of "like quality" and is sold for exactly the same price.
- 2) Production volumes, by well, are easily determined. Both wells produce via electric powered beam pump operated on timer. Simply controlling timer settings to pump one well to the common tank at a time, and measuring this produced volume before individually pumping and measuring the other well's produced volume will allow for an accurate lease allocation of combined production and sales volumes.

With the exception of the 1.5% overriding royalty interest (ORRI) owned by Mr. Charles L. Parcell and the 1.5% (ORRI) owned by Ms. Patricia Pepler on the Parcell lease, the working interest owners and base lease royalty owners of the Elliott and Parcell leases are the same. On both leases, the base lease royalty owner is United States Department of Interior, and the working interest owners are McElvain Oil & Gas Properties, Elliott Industries, and the Elliott-Hall Company.

MOG is requesting your consent to commingle the production from these two wells. I have already received approval to commingle from the Department of Interior, Bureau of Land Management via an approved Sundry Notice, copies of which are attached to this letter. I have listed the remaining interest owners on the attached approval and consent sheet. Please execute and date this sheet on the appropriate line and return two copies to my attention in the self addressed stamped return envelope. One of the originals will be kept in my file, and one original will be sent in with my State of New Mexico Oil Conservation Division Form C-107-B (Application for Surface Commingling). If you have any questions, please do not hesitate to contact the undersigned at the letterhead address. Your prompt attention to this matter is appreciated.

Sincerely,



E. Reed Fischer
303.893.0933 xtn 330

Request for Commingle

June 10, 2005

McELVAIN OIL & GAS PROPERTIES, INC.

1050 17TH STREET
SUITE 1800
DENVER, COLORADO 80265

E. REED FISCHER
OPERATIONS ENGINEER
E-MAIL: REEDF@MCELVAIN.COM

TELEPHONE 303/893-0911 EXT. 330
FAX 303/893-0914

Regarding McElvain Oil & Gas Properties, Inc. request to surface commingle, production test, and allocate production from the Parcell Federal #2 well situated on Federal Lease #NMLC-069111 dated January 1, 1949 and the E.M. Elliott #4 well situated on Federal Lease #NMINM-027279 dated July 1, 1949:

Please indicate consent or non-consent, sign and date.

CONSENT	INTEREST OWNER	Non-CONSENT	DATE
<input checked="" type="checkbox"/>	By: <u>[Signature]</u> McElvain Oil & Gas Properties	<input type="checkbox"/>	<u>6-13-05</u>
<input checked="" type="checkbox"/>	By: <u>[Signature]</u> Elliott Industries	<input type="checkbox"/>	<u>6/28/05</u>
<input type="checkbox"/>	By: _____ Elliott-Hall Company	<input type="checkbox"/>	_____
<input type="checkbox"/>	By: _____ Charles L. Parcell	<input type="checkbox"/>	_____
<input type="checkbox"/>	By: _____ Patricia Pepler	<input type="checkbox"/>	_____

Request for Commingle

June 10, 2005

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Please indicate consent or non-consent, sign and date.

CONSENT	INTEREST OWNER	Non-CONSENT	DATE
<u>✓</u>	By: <u><i>Daniel Deffen</i></u> McElvain Oil & Gas Properties	_____	<u>6-13-05</u>
_____	By: _____ Elliott Industries	_____	_____
<u>✓</u>	By: <u><i>Mary A. Miller</i></u> Elliott-Hall Company	_____	<u>6/16/05</u>
_____	By: _____ Charles L. Parcell	_____	_____
_____	By: _____ Patricia Pepler	_____	_____

Request for Commingle

June 10, 2005

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Please indicate consent or non-consent, sign and date.

CONSENT	INTEREST OWNER	Non-CONSENT	DATE
<input checked="" type="checkbox"/>	By: <u>Amey Shufan</u> McElvain Oil & Gas Properties	<input type="checkbox"/>	<u>6-13-05</u>
<input type="checkbox"/>	By: _____ Elliott Industries	<input type="checkbox"/>	_____
<input type="checkbox"/>	By: _____ Elliott-Hall Company	<input type="checkbox"/>	_____
<input checked="" type="checkbox"/>	By: <u>Charles L. Parcell</u> Charles L. Parcell	<input type="checkbox"/>	<u>6-22-05</u>
<input type="checkbox"/>	By: _____ Patricia Pepler	<input type="checkbox"/>	_____

Request for Commingle

June 10, 2005

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Please indicate consent or non-consent, sign and date.

CONSENT	INTEREST OWNER	Non-CONSENT	DATE
<input checked="" type="checkbox"/>	By: <u><i>Scott Duda</i></u> McElvain Oil & Gas Properties	<input type="checkbox"/>	<u>6-13-05</u>
<input type="checkbox"/>	By: _____ Elliott Industries	<input type="checkbox"/>	_____
<input type="checkbox"/>	By: _____ Elliott-Hall Company	<input type="checkbox"/>	_____
<input type="checkbox"/>	By: _____ Charles L. Parcell	<input type="checkbox"/>	_____
<input checked="" type="checkbox"/>	By: <u><i>Patricia Pepler</i></u> Patricia Pepler	<input type="checkbox"/>	<u>6-16-05</u>

TRANSACTION REPORT

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JUN-29-2005 WED 10:28 AM

FOR:

RECEIVE

DATE	START	SENDER	RX TIME	PAGES	TYPE	NOTE	M#	DP
JUN-29	10:26 AM		2' 12"	9	RECEIVE	OK		