

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5853

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

Phone (505) 827-5765

Fax (505) 827-5766



**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

COMMERCIAL RESOURCES

Phone (505) 827-5724

Fax (505) 827-6157

MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

August 11, 1999

Hallwood Petroleum, Inc.

P.O. Box 378111

Denver, Colorado 80237

Attn: Mr. Kevin E. O'Connell

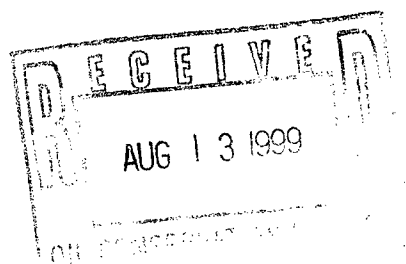
Re: Downhole Commingling Application

Ocotillo Hills Com Well No. 2

Unit Letter G, Section 21-21S-26E

Avalon-Upper Penn, Avalon-Strawn and Avalon-Morrow Pools

Eddy County, New Mexico



Dear Mr. O'Connell:

Your application to downhole commingle the production from within the wellbore of the above-captioned well was received on August 9, 1999. Your application requests our approval to downhole commingle the Avalon-Upper Penn, Avalon-Strawn and Avalon-Morrow production within the wellbore of the Ocotillo Hills Com Well No. 2 located in Unit Letter G, Section 21-21S-26E, Eddy County, New Mexico.

It is our understanding that production from the subject well will be allocated as follows:

<u>POOL</u>	<u>ALLOCATION</u>	
	<u>Oil %</u>	<u>Gas %</u>
Avalon-Upper Penn	15%	3%
Avalon-Strawn	78%	46%
Avalon-Morrow	7%	51%
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	100%	100%

Since it appears that the New Mexico Oil Conservation Division's rules and regulations have been complied with, and there will be no loss of revenue to the State of New Mexico as a result of your proposed operation, your request for downhole commingling the production from the above-mentioned well is hereby approved. Any deviation from the substance of your request will be sufficient grounds for rescinding our approval. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

Please submit your filing fee in the amount of \$30.00.

"WE WORK FOR EDUCATION"

310 Old Santa Fe Trail, P. O. Box 1148 Santa Fe, New Mexico 87504-1148

Hallwood Petroleum, Inc.

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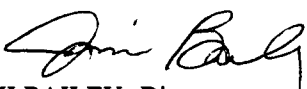
Also, please submit a copy of the Oil Conservation Division's Order approving this application.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY:


JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

RP/JB/cpm

Enclosure

xc: Reader File

OCD--Attention: David Catanach, Ben Stone