

PADILLA & SNYDER

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SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
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FAX 988-7592
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(505) 988-7577

September 7, 1988

Mr. Glen Cox
Mobil Producing Texas &
New Mexico, Inc.
P. O. Box 633
Midland, Texas 79702

Re: Zac Federal No. 1 Well, SE/4 SW/4, Section 25,
Township 26 South, Range 30 East, Eddy County,
New Mexico

Dear Mr. Cox:

This letter is a follow-up to my telephone conversation with you last week wherein I discussed with you the desires of my client, Corinne B. Grace, to convert the above-referenced well to a salt water disposal well.

A problem which we see has arisen by virtue of a reassignment clause in the assignment from Mobil to Ms. Grace. The reassignment clause requires conveyance back to Mobile in the event that production ceases for a period of more than 90 days.

Ms. Grace has also drilled and operates the CG Federal No. 1 Well on the same lease through farmout from Mobil to Wendel Schoenberger, which you are familiar with.

Enclosed are production statistics from both of the wells which show the amount of oil and water production from the two wells. As you can see, both wells produce a considerable amount of water which makes production from them uneconomic. For this reason, Ms. Grace would like to convert the Zac No. 1 Well to a salt water disposal well in order to preserve and operate the CG Well. The importance to Mobil of allowing Ms. Grace to convert the Zac No. 1 oil well to a salt water disposal well would be that Mobil would continue to be held by production. It is our understanding that these two wells are the only wells that are holding the federal oil and gas lease now.

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Accordingly, our proposal would be that Ms. Grace, in consideration for holding the entire Mobile lease, would be allowed to retain the 80-acre tract comprising the E/2 SW/4 of Section 25 so that the reassignment clause would not be operative. In this regard, Ms. Grace has contemplated, but has not decided, to drill the remaining 40-acre proration unit which was earned by the drilling of the Zac No. 1.

Because we would like to commence proceedings before the Oil Conservation Commission to allow conversion of the well to a salt water disposal well, we would like an expeditious reply to the request contained in this letter.

Please let me know if you have any questions.

Very truly yours,



Ernest L. Padilla

ELP:crk

Enclosures as stated

cc: Ms. Corinne Grace

CG FED NO. 1 WELL
PRODUCTION REPORT

<u>Year</u>	<u>Month</u>	<u>Days</u>	<u>Oil</u>	<u>BOPD</u>	<u>Gas</u>	<u>MCFD</u>	<u>Water</u>	<u>BWPD</u>
1987	Jan.	1	186	186	-	-	324	324
	Feb.	28	2012	72	-	-	9072	324
	Mar.	24	1387	58	-	-	3587	150
	Apr.	23	1112	48	-	-	3152	137
	May	26	289	11	107	4.2	2852	110
	June	30	606	20	289	9.7	7795	260
	July	31	576	19	313	10.1	9323	304
	Aug.	31	526	17	116	3.8	5723	185
	Sept.	27	514	19	211	7.9	8332	309
	Oct.	31	489	16	365	11.8	8076	261
	Nov.	23	279	12	186	8.1	4342	189
	Dec.	<u>22</u>	<u>224</u>	<u>10</u>	<u>400</u>	<u>18.2</u>	<u>3507</u>	<u>159</u>
	Totals	<u>297</u>	<u>8200</u>		<u>2105</u>		<u>66085</u>	
	Average			<u>28</u>		<u>7.1</u>		<u>223</u>
1988	Jan.	25	347	14	305	12.2	4369	175
	Feb.	2	42	21	84	42	481	241
	Mar.	4	77	19	91	22.8	911	228
	Apr.	<u>20</u>	<u>295</u>	<u>15</u>	<u>239</u>	<u>12.0</u>	<u>2870</u>	<u>144</u>
	Totals	<u>51</u>	<u>761</u>		<u>719</u>		<u>8631</u>	
	Average			<u>15</u>		<u>14.1</u>		<u>170</u>

ZAC FED NO. 1 WELL
PRODUCTION REPORT

<u>Year</u>	<u>Month</u>	<u>Days</u>	<u>Oil</u>	<u>BOPD</u>	<u>Gas</u>	<u>MCFD</u>	<u>Water</u>	<u>BWPD</u>
1987	Sept.	15	406	27	-	-	983	66
	Oct.	31	598	19	-	-	1053	34
	Nov.	19	144	8	-	-	2022	107
	Dec.	<u>31</u>	<u>334</u>	<u>11</u>	-	-	<u>4624</u>	<u>149</u>
	Totals	<u>96</u>	<u>1482</u>				<u>8682</u>	
	Average			<u>16</u>				<u>91</u>
1988	Jan.	25	178	7	-	-	3625	145
	Feb.	2	6	3	-	-	361	181
	Mar.	2	6	3	-	-	269	135
	Apr.	<u>4</u>	<u>14</u>	<u>4</u>			<u>514</u>	<u>129</u>
	Totals	<u>33</u>	<u>204</u>				<u>4769</u>	
	Average			<u>7</u>				<u>145</u>

Mobil Exploration & Producing U.S. Inc.

September 26, 1988

P.O. BOX 633
MIDLAND, TEXAS 79702

MIDLAND DIVISION

Padilla & Snyder
200 West Marcy
Suite 212
P. O. Box 2523
Santa Fe, New Mexico 87504-2523

Attention: Ernest L. Padilla

WAIVER OF REASSIGNMENT OPTION/ZAC
FEDERAL #1 WELL; SONM-1501
E/2 SW/4 SEC. 25, T-26-S, R-30-E
EDDY COUNTY, NEW MEXICO
C-4093

Gentlemen:

Reference is made to that certain Assignment of Operating Rights dated September 14, 1987 from Mobil Producing Texas & New Mexico Inc., Assignor, to Corinne B. Grace, Assignee, recorded in Book 23 at Page 803 of the Records of Eddy County, New Mexico.


Reference is also made to your letter dated September 7, 1988 whereby you requested that Mobil waive its rights to a reassignment of this acreage in the event production ceases in the Zac Federal #1 well.

This letter hereby advises you that Mobil waives its rights for a reassignment of this acreage as to the depths specified in the referenced Assignment. However, any additional wells drilled on the subject acreage would continue to bear a 5% override on all production to Mobil.

Should you have any questions in this regard, please contact me at (915) 688-2114.

Very truly yours,

MOBIL EXPLORATION & PRODUCING U.S. INC.
as agent for
MOBIL PRODUCING TEXAS & NEW MEXICO INC.


Glen D. Cox
Landman

GDC/kac

A:M825005B.GDC