

P. O. BOX 2510



DHC 6/19/00

PHONE (505) 393-2937

May 25, 2000

RECEIVED  
MAY 30 2000  
LEASING DIVISION  
SANTA FE, NEW MEXICO

2762

Oil Conservation Division  
2040 S. Pacheco  
Santa Fe, NM 87505-6429

Attn: Mr. David Catanach

Reference: Request for Exception to Rule 303-A  
Downhole commingling  
Elliott 'B' #6  
Eumont and Penrose Skelly Pools  
Lea County, New Mexico

Zia Energy, Inc. requests administrative approval for an exception to Rule 303-A to downhole commingle production from Eumont and Penrose Skelly pools in our Elliott 'B' #6 wellbore. Attached for your review is a C 107A, C102 for each pool, and decline curves.

The well was originally completed as an open hole Penrose Skelly Grayburg well. In 1997 the wellbore was plugged back to test the Eumont. As you can see from the Eumont decline curve that the workover was of marginal success. The Grayburg is also of marginal nature. We would like to knock out the CIBP and downhole commingle the two pools. The well has pumping equipment installed that will maintain minimum bottom hole pressure and prevent cross flow. Allowing commingling of the two intervals will allow the pump to be lowered and therefore lower back pressure on the Eumont and allow more of the gas reserves to be produced along with reserves from the Grayburg that otherwise would not have been recovered.

Approval of this request will maximize pumping efficiency and will allow for additional reserves to be recovered that would normally be below economical value.

If you have any questions or need additional information please call me at (505) 393-2937 or e-mail at nelsosd@leaco.net.

Sincerely,

Scott Nelson

Attachments

DISTRICT I  
1625 N. French Dr., Hobbs, NM 88240  
DISTRICT II  
811 South First St., Artesia, NM 88210  
DISTRICT III  
1000 Rio Brazos Rd, Aztec, NM 87410  
DISTRICT IV  
2040 S. Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department  
**OIL CONSERVATION DIVISION**

Form C-107-A  
Revised August 1999

APPROVAL PROCESS:

2040 S. Pacheco  
Santa Fe, New Mexico 87505-6429

Administrative  Hearing

**APPLICATION FOR DOWNHOLE COMMINGLING**

EXISTING WELLBORE

YES  NO

Zia Energy, Inc.

PO Box 2510, Hobbs, NM 88241

Operator

Address

Elliott 'B'

6

A - 17 - 22S - 37E

Lea

Lease

Well No.

Unit Ltr. - Sec - Twp - Rge

County

Spacing Unit Lease Types: (check 1 or more)

OGRID NO. 025616 Property Code 013025 API NO. 3002510333 Federal , State , (and/or) Fee

The following facts are submitted in support of downhole commingling.	Upper Zone	Intermediate Zone	Lower Zone
1. Pool Name and Pool Code	Eumont		Penrose Skelly Grayburg
2. Top and Bottom of Pay Section (Perforations)	3438-80		3530-3700
3. Type of production (Oil or Gas)	Gas		Oil
4. Method of Production (Flowing or Artificial Lift)	Artificial Lift		
5. Bottomhole Pressure Oil Zones - Artificial Lift: Gas & Oil - Flowing: All Gas Zones: Estimated Current Measured Current Estimated Or Measured Original	a. (Current) <u>250</u>	a.	a. <u>250</u>
	b. (Original) <u>1450</u>	b.	b. <u>1420</u>
6. Oil Gravity (° API) or Gas BTU Content	31.2/1180		34.1/1213
7. Producing or Shut-In?	Producing		Shut In
Production Marginal? (yes or no)	Yes		Yes
* If Shut-In, give date and oil/gas/water rates of last production  Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data  * If Producing, give date and oil/gas/water rates of recent test (within 60 days)	Date: Rates:	Date: Rates:	Date: April 1997 Rates: 1.6/29/.25
	Date: Nov. 1999 Rates: .5/48/0	Date: Rates:	Date: Rates:
8. Fixed Percentage Allocation Formula -% for each zone (total of %'s to equal 100%)	Oil: 24 % Gas: 62 %	Oil: % Gas: %	Oil: 76 % Gas: 38 %

9. If allocation formula is based upon something other than current or past production, or is based upon some other method, submit attachments with supporting data and/or explaining method and providing rate projections or other required data.

10. Are all working, overriding, and royalty interests identical in all commingled zones?  Yes  No  
If not, have all working, overriding, and royalty interests been notified by certified mail?  Yes  No

11. Will cross-flow occur?  Yes  No If yes, are fluids compatible, will the formations not be damaged, will any cross-flowed production be recovered, and will the allocation formula be reliable.  Yes  No (If No, attach explanation)

12. Are all produced fluids from all commingled zones compatible with each other?  Yes  No

13. Will the value of production be decreased by commingling?  Yes  No (If Yes, attach explanation)

14. If this well is on, or communitized with, state or federal lands, either the Commissioner of Public Lands or the United States Bureau of Land Management has been notified in writing of this application.  Yes  No

15. NMOCD Reference Cases for Rule 303(D) Exceptions: ORDER NO(S). R-4363, R-4374

16. ATTACHMENTS:

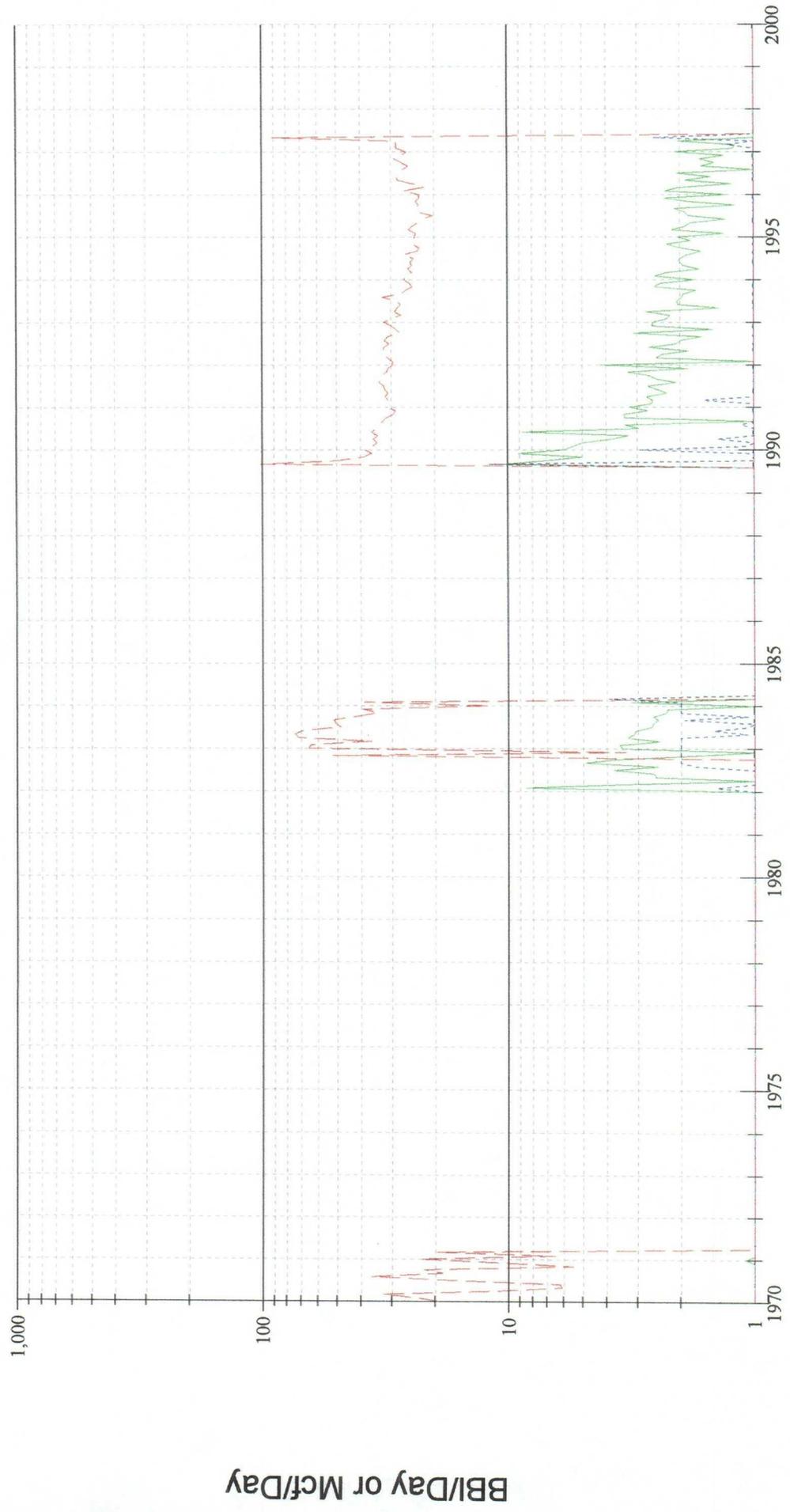
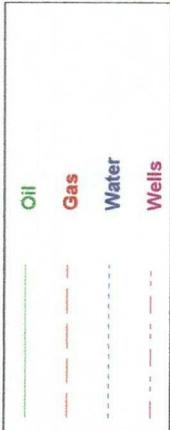
- \* C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- \* Production curve for each zone for at least one year. (If not available, attach explanation.)
- \* For zones with no production history, estimated production rates and supporting data.
- \* Data to support allocation method or formula.
- \* Notification list of working, overriding, and royalty interests for uncommon interest cases.
- \* Any additional statements, data, or documents required to support commingling.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Scott Nelson TITLE Engineer DATE 5/25/00

TYPE OR PRINT NAME Scott Nelson TELEPHONE NO. 505-393-2937

**Field: PENROSE SKELLY**  
**Lease: ELLIOTT B | Well #6**  
**Operator: ZIA ENERGY INCORPORATED**  
 Production Rate vs Time  
 For the Period 01/1970 to 12/1999 | API: 30025103330000

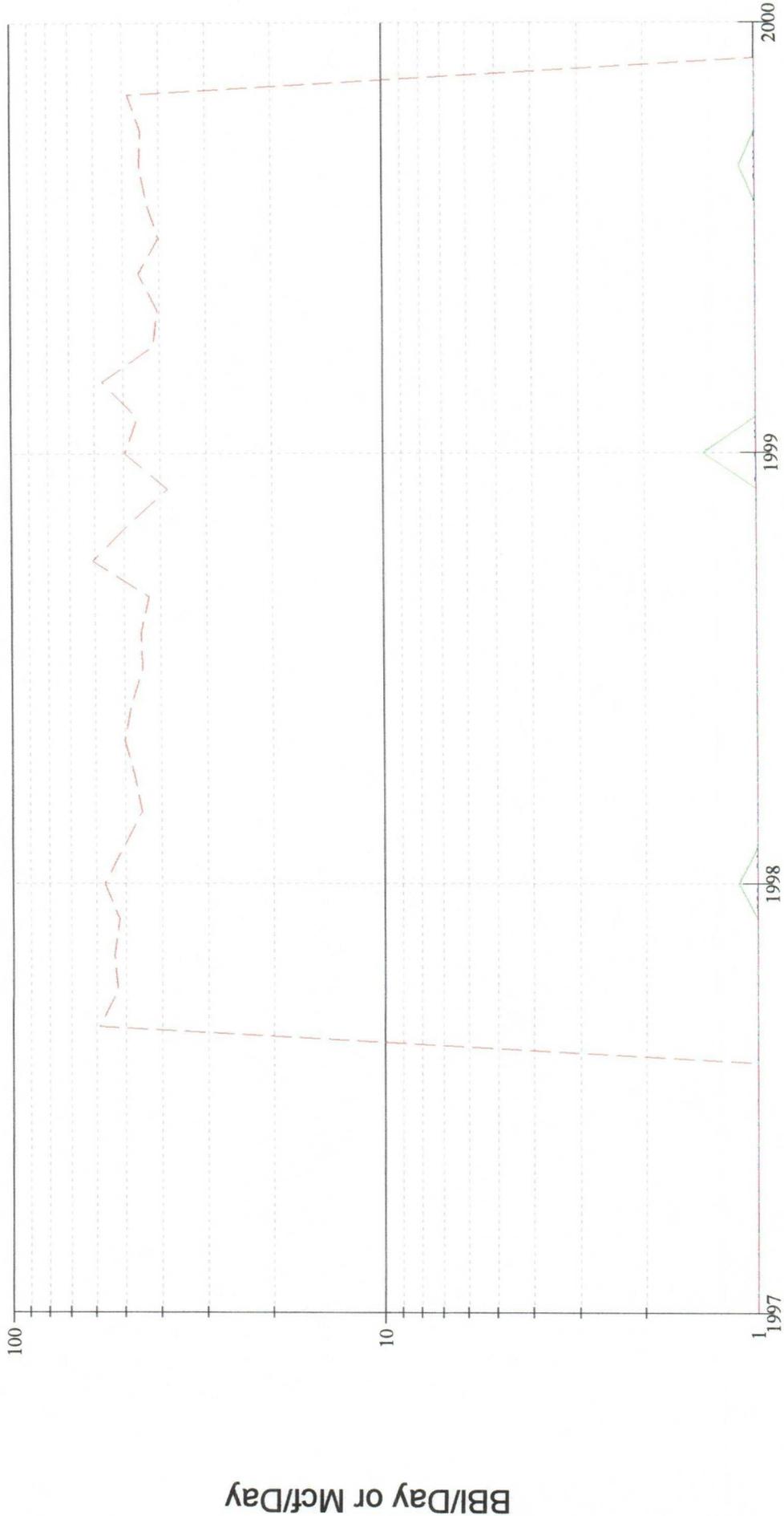


Time

Reported Oil Production = 76,151 Bbls  
 Reported Gas Production = 339,413 Mcf  
 Reported Water Production = 2,642 Bbls

Plot Displays Daily Averages  
 Copyright (C) 1900 by Petroleum Information/Dwights LLC

Field: EUMONT  
 Lease: ELLIOTT B | Well #6  
 Operator: ZIA ENERGY INCORPORATED  
 Production Rate vs Time  
 For the Period 01/1997 to 12/1999 | API: 30025103330000



Time

Reported Oil Production = 273 Bbls  
 Reported Gas Production = 39,589 Mcf  
 Reported Water Production = 0 Bbls

District I  
 PO Box 1980, Hobbs, NM 88241-1980  
 District II  
 811 South First, Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION  
 2040 South Pacheco  
 Santa Fe. NM 87505

Form C-102  
 Revised October 18, 1994  
 Instructions on back  
 Submit to Appropriate District Office  
 State Lease - 4 Copies  
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number 30-025-10333		<sup>2</sup> Pool Code 50350		<sup>3</sup> Pool Name Penrose Skelly Grayburg	
<sup>4</sup> Property Code 013025		<sup>5</sup> Property Name Elliott 'B'			<sup>6</sup> Well Number 6
<sup>7</sup> OGRID No. 025616		<sup>8</sup> Operator Name Zia Energy, Inc.			<sup>9</sup> Elevation 3404

<sup>10</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	17	22S	37E		660	North	660	East	Lea

<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

<sup>12</sup> Dedicated Acres 40	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16					<p><b><sup>17</sup> OPERATOR CERTIFICATION</b></p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i></p> <p style="text-align: right;"><i>Scott Nelson</i></p> <p>Signature</p> <p>Scott Nelson</p> <p>Printed Name</p> <p>Engineer</p> <p>Title</p> <p>Date 5/25/00</p>
				<p><b><sup>18</sup> SURVEYOR CERTIFICATION</b></p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my</i></p> <p style="text-align: right;">Date of</p> <p>Survey</p> <p>Signature and Seal of Professional Surveyer:</p>	
				Certificate Number	

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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number 30-025-10333		<sup>2</sup> Pool Code 76480		<sup>3</sup> Pool Name Eumont Yates Seven River (Pro Gas)	
<sup>4</sup> Property Code 013025		<sup>5</sup> Property Name Elliott 'B'			<sup>6</sup> Well Number 6
<sup>7</sup> OGRID No. 025616		<sup>8</sup> Operator Name Zia Energy, Inc.			<sup>9</sup> Elevation 3404

<sup>10</sup> Surface Location

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<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

<sup>12</sup> Dedicated Acres 40	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No. NSP-1777
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				<p><b><sup>18</sup> SURVEYOR CERTIFICATION</b></p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my</i></p> <p style="text-align: right;">Date of</p> <p>Survey</p> <p>Signature and Seal of Professional Surveyer:</p>	
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