

P. O. BOX 2219

ZIA ENERGY, INC.

HOBBS, NEW MEXICO 88241

PC N/R
948
PHONE (505) 393-2937

July 1, 1997

JUL - 7 1997

New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Ref: Application to Surface Commingle Production from Pools on the same Lease
Elliott 'B' Lease, NE ¼ Sec7 & SE ¼ Sec 6 of Township 22S, Range 37E

To Whom It May Concern:

Zia Energy, Inc. is requesting administrative approval for the surface commingling of production from pools located on the Elliott 'B' lease (Federal lease No. LC-032573(b)). All working interests and mineral interests ownership for the pools to be commingled are the same. Plans are to commingle production from the Penrose-Skelly and the Blinebry pools. We believe that under guidelines outlined in OCD Rule 303.B and the Division's "Manual for the Installation and Operation of Commingling Facilities" that we have meet the requirements for commingling marginal pools on the same lease in which there is common ownership and mineral interest.

Zia Energy has been producing 18 BOPD and 58 MCFD from four Penrose-Skelly wells (No.s 2,3,4,5) and has recently re-entered Elliott 'B' No. 7 and completed it in the Blinebry. It was potentialed for 27 BOPD and 96 MCFD. API Gravity for the Penrose-Skelly is 35.1° and the Blinebry is 38.8°. Crude oil is sold to Navajo Refining and there is no price adjustment for oil in this API gravity range.

Zia Energy proposes to produce all wells into a common heater treater and to allocate production between wells on the basis of periodic well test. Attached for your records are a facility diagram and a plat depicting well locations, pools, and facilities.

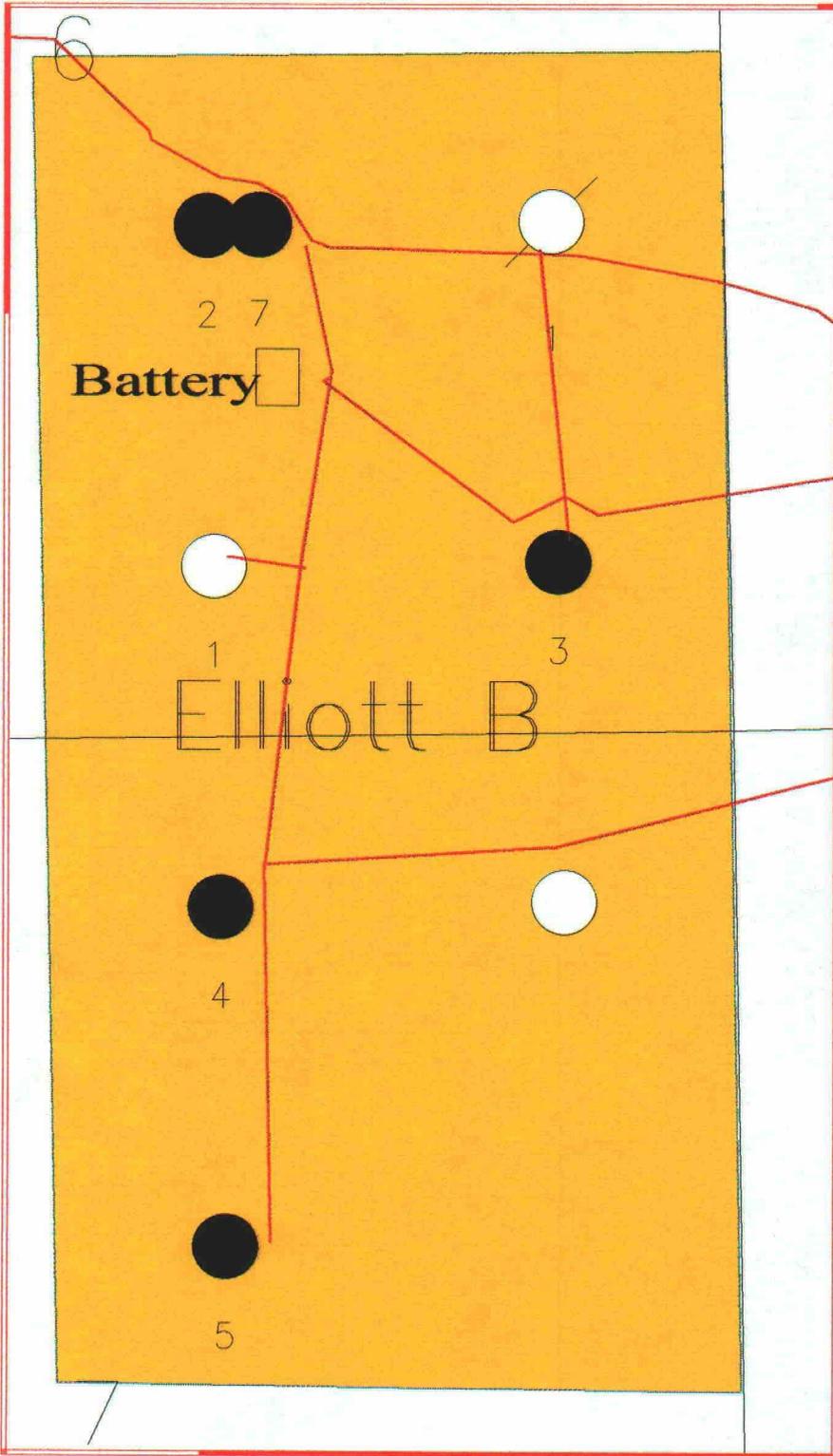
If you should have any questions or require additional information, please give me a call or I can be reached by e-mail at nelsosd@leaconet.com.

Sincerely,



Scott Nelson

Attachments



LEGEND

- Wells 2,3,4,5 Penrose-Skelly
- Well 7 Blinebry

Elliott 'B' Production Facility

