

PLC 6/22/00

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June 12, 2000

Mark Ashley
New Mexico Oil Conservation Division
PO Box 2088
Santa Fe NM 87504-2088

Re: Surface Commingling (PLC Commingling)
Paton 'B' Federal Leases
(NM-17157 and LC-029389-C)
Eddy County, NM

Dear Mr. Ashley:

Anadarko (OGRID 000817) requests administrative approval to surface commingle the Paton 'B' Federal Leases in Eddy County. We recently proposed a re-completion of the Paton 'B' Federal #3 to the Shugart Yates/7 Rivers/Queen/Grayburg Field. We wish to surface commingle the #3 with the #1, #2 and #4 wells which are currently completed in the North Shugart Bone Springs Field. Exhibit 1 displays the location of each well and labels its field designation. Attached is the OCD and BLM approval to surface commingle the two leases. (Exhibits 4(a) and 4(b)).

The Shugart Yates/7 Rivers/Queen/Grayburg oil is 37.7° API, and the North Shugart Bone Springs oil is 39.1° API. Anadarko expects a stabilized 40 BOPD production from the Paton 'B' Federal #3 in the Shugart Yates/7 Rivers/Queen/Grayburg Field, which will be combined with approximately 300 BOPD from the Paton 'B' Federal #1, #2 and #4 wells producing from the North Shugart Bone Springs Field. Anadarko currently sells Paton 'B' Federal lease oil to Amoco Pipeline. Our contract is deemed 40° API; hence, the price for each oil is the same. Surface commingling production will result in no revenue loss associated with a reduction in oil quality. The royalty and overriding royalty interests in the two pools are identical.

Anadarko has both a production separator and a test separator on the Paton 'B' Federal Lease. Each well on the lease will be tested periodically through the test separator. From those tests, production will be allocated back to each well monthly based on its tested proportionate share of lease production. Production for each well will be reported to the Oil Conservation Division in each well's respective field designation. Exhibit 2 contains a lease facility diagram.

The Paton 'B' Federal Leases are federal leases and requires BLM approval to surface commingle production from different fields. Exhibit 3 is a copy of the approved BLM form 3160-5, which proposes surface commingling these leases as described in this letter to the BLM.

Please contact me at 915/683-0559 if you have any questions.

Sincerely,

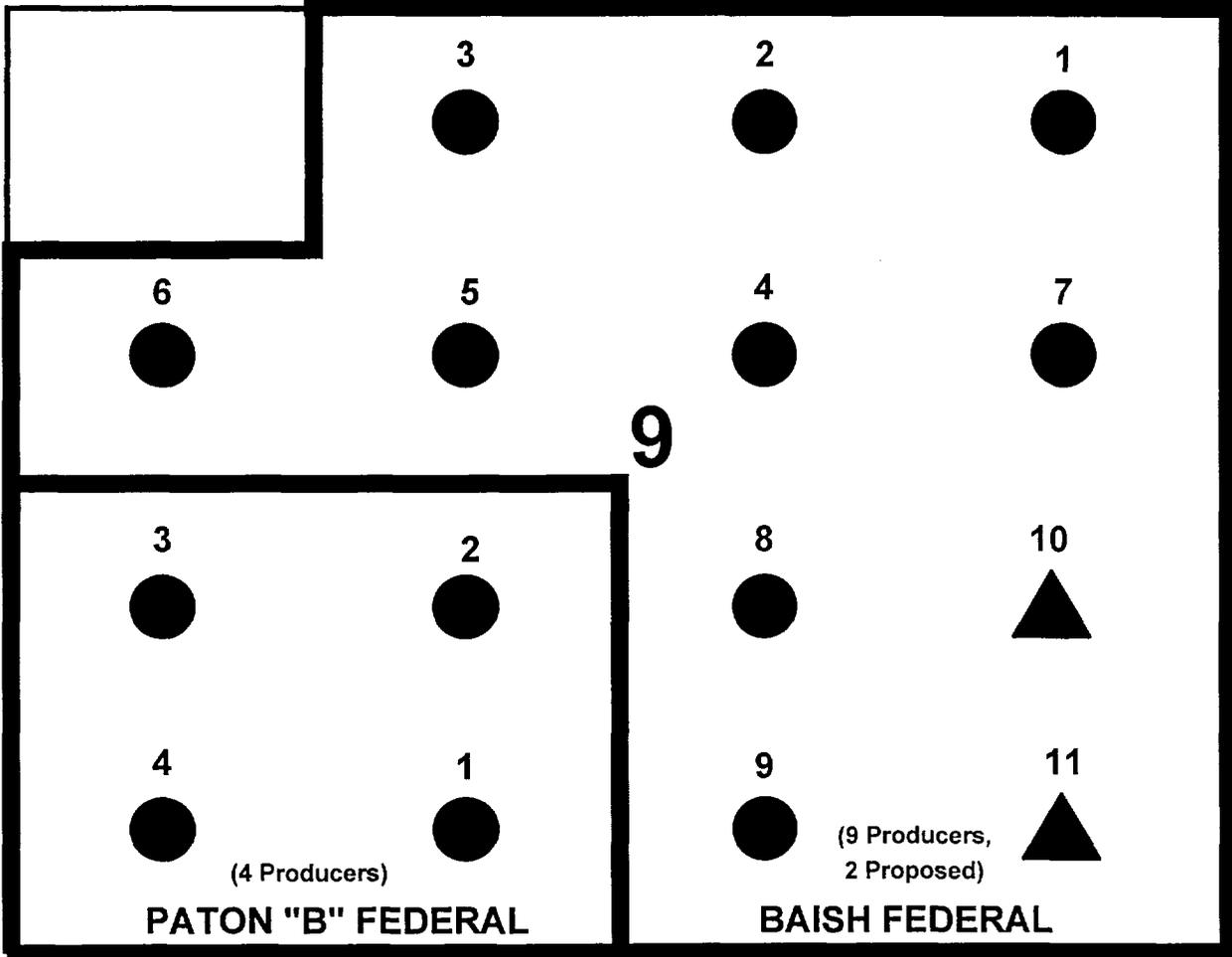
A handwritten signature in black ink that reads "Richard Lauderdale". The signature is written in a cursive, flowing style.

Richard Lauderdale
Production Engineer

RL/bf
Attachments

cc: Lease File

Section 9, T-18-S, R-31-E



Legend

Shugart, North Field



Oil Well



Proposed Producer

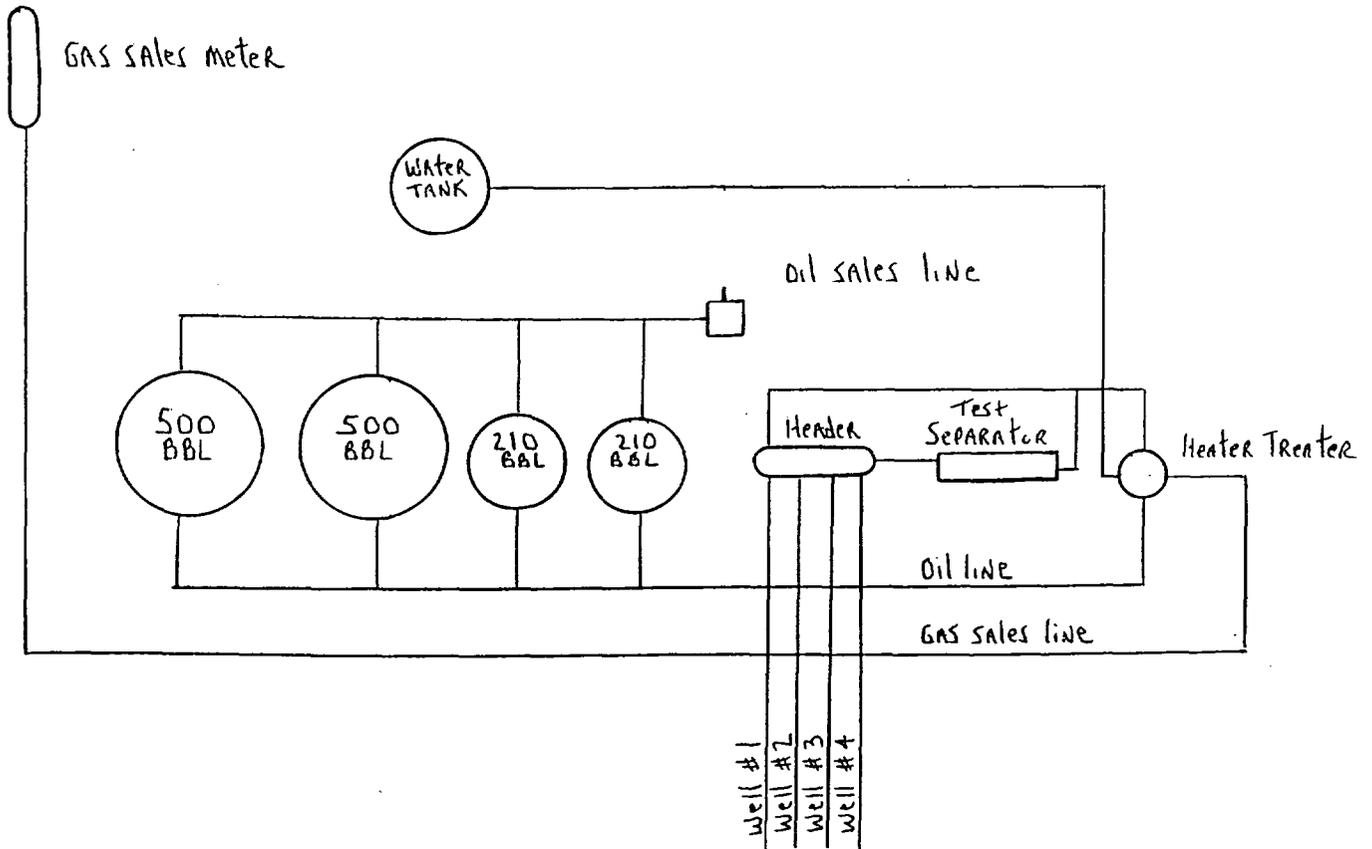
PATON B Federal #1, #2, #4

North Shugart (Dove Spring)

PATON B Federal #3

shugart (PATES/SR/QN/G.B)

Anadarko Petroleum Corporation
Facility Diagram
LC-029389(C)
S/2 SW/4 of Section 9,
T-18-S, R-31-E,
Eddy County, New Mexico
Exhibit 2



Equipment to be Added

Form 3160-5 (August 1999)

Form 3160-5 (August 1999)

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

FORM APPROVED OMB NO. 1004-0135 Expires: November 30, 2000

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

5. Lease Serial No. LC-029389-C / NM-17157
6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE - Other instructions on reverse side

7. If Unit or CA/Agreement, Name and/or No.

1. Type of Well

[X] Oil Well [] Gas Well [] Other

8. Well Name and No. PATON 'B' FEDERAL LEASE

2. Name of Operator

Anadarko Petroleum Corporation

9. API Well No.

3a. Address

P.O. Box 2497, Midland, TX 79702

3b. Phone No. (include area code)

915/683-0525

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)

SEC. 9, T-18-S, R-31-E

10. Field and Pool, or Exploratory Area SHUGART YTES/7RVRS/QN/GB SHUGART BONE SPRING, NORTH

11. County or Parish, State EDDY NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

Table with columns: TYPE OF SUBMISSION, TYPE OF ACTION. Includes checkboxes for Notice of Intent, Subsequent Report, Final Abandonment Notice, Acidize, Deepen, Production, Water Shut-Off, etc.

13. Describe Proposed or Coompleted Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations.

PROPOSED: SURFACE COMMINGLE SHUGART BONE SPRING, NORTH OIL, GAS AND WATER PRODUCTION W/SHUGART (YTES/7 RVRS/QN/GB) OIL, GAS & WATER PRODUCTION FROM LEASE NM-17157 (N/2 SW/4) WITH LEASE LC-029389-C (S/2 SW/4) SECTION 9, T-18-S, R-31-E, EDDY COUNTY, NEW MEXICO.

PURPOSE: COMMINGLING PRODUCTION AT THE SURFACE WILL ALLOW PRODUCTION FROM A RECENTLY PROPOSED PATON FEDERAL 'B' NO. 3 GRAYBURG RECOMPLETION (NM-17157) TO EXISTING FACILITIES AT THE PATON 'B' FEDERAL NO. 1 WELL (LC-029389-C).

** Per telephone conversation w/Richard Lauderdale, price of crude will not be affected
SEPARATION: ALL WELLS ON LEASE WILL BE PRODUCED INTO ONE PRODUCTION SEPARATOR.

PRODUCTION ALLOCATION: EACH WELL ON LEASE WILL BE INDIVIDUALLY TESTED PERIODICALLY USING THE EXISTING TEST SEPARATOR.

*PREVIOUS APPROVAL FOR LEASE COMMINGLING OF NM-17157 AND LC-029389-C WAS GRANTED ON DEC 15, 1999 BY BLM. OIL GRAVITIES: SHUGART YTES/7 RVRS/QZ/GRAYBURG - 37.7 DEGREE API NORTH SHUGART BONE SPRING - 39.1 DEGREE API

(PLEASE SEE ATTACHED PAST APPROVALS)

14. I hereby certify that the foregoing is true and correct. Name (Printed/Typed) RICHARD LAUDERDALE Title PRODUCTION ENGINEER Date 06/06/2000

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by David A. Glass PETROLEUM ENGINEER Date JUN 09 2000

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon. SEE ATTACHED FOR

Title 18 U.S.C. Section 1001, and Title 43 U.S.C. Section 1212, makes it a crime for any person knowingly to make any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction. COMMINGLING OF APPROVAL



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

COMMINGLING ORDER CTB-491

Anadarko Petroleum Corporation
P.O. Box 2497
Midland, Texas 79702

Attention: Mr. Michael P. Coder

The above named company is hereby authorized to commingle North Shugart-Bone Spring (Oil - 56405) Pool production from the following leases:

Lease: Paton "B" Federal Wells No. 2 and 3 (Federal Lease No. NM-17157)

Description: N/2 SW/4 of Section 9, Township 18 South, Range 31 East, NMPM; and

Lease: Paton "B" Federal Wells No. 1 and 4 (Federal Lease No. LC-029389(C))

Description: S/2 SW/4 of Section 9, Township 18 South, Range 31 East, NMPM

all located in Eddy County, New Mexico.

Production shall be allocated to each lease by well tests. This method is authorized only so long as all commingled production is of identical ownership including working interest, royalty interest, and overriding royalty interest.

NOTE: This installation shall be installed and operated in accordance with the applicable provisions of Rule 309-B of the Division Rules and Regulations and the Division "Manual for the Installation and Operation of Commingling Facilities." It is the responsibility of the producer to notify the transporter of this commingling authority.

REMARKS: The commingled production shall be stored in the Paton "B" Federal Lease tank battery facility located in the SE/4 SW/4 of Section 9, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico.

FURTHER: The operator shall notify the Artesia district office of the Division prior to implementation of the commingling process.

PROVIDING: Validation of this authority shall be accomplished by like approval from the U.S. Bureau of Land Management.

DONE at Santa Fe, New Mexico, on this 17th day of December, 1999.

Lori Wrotenbery
LORI WROTENBERY,
Division Director

LW/MWA/kv

cc: Oil Conservation Division - Artesia
U.S. Bureau of Land Management - Carlsbad

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0135
Expires: November 30, 2000

SUNDRY NOTICES AND REPORTS ON WELLS
Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3150-2 (APD) for such proposals

5. Lease Serial No.
LC-029389-C / NM-17157

6. If Includ, Allottee or Tribe Name

SUBMIT IN TRIPLICATE - Other instructions on reverse side

7. If Unit or CA Agreement, Name and/or No.

1. Type of Well
 Oil Well Gas Well Other

8. Well Name and No.
PATON 'B' FEDERAL LEASE

2. Name of Operator
Anadarko Petroleum Corporation

9. API Well No.

3a. Address
P.O. Box 2497, Midland, TX 79702

3b. Phone No. (include area code)
915/683-0525

10. Field and Pool, or Exploratory Area
SHUGART BONE SPRING, NORTH

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
SEC. 9, T-18-S, R-31-E

11. County or Parish, State:
EDDY NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Restart)	<input type="checkbox"/> Water Shut Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other <u>SURFACE</u>
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	<u>COMMINGLING</u>
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

15. Describe Proposed or Commenced Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bend under which the work will be performed or provide the Bond No. on file with ELM/EIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the final site is ready for final inspection.)

PROPOSED: SURFACE COMMINGLE SHUGART BONE SPRING, NORTH OIL, GAS AND WATER PRODUCTION FROM LEASE NM-17157 (N/2 SW/4) WITH LEASE LC-029389-C (S/2 SW/4) SECTION 9, T-18-S, R-31-E, EDDY COUNTY, NEW MEXICO

PURPOSE: COMMINGLING PRODUCTION AT THE SURFACE WILL ALLOW PRODUCTION FROM A RECENTLY DRILLED PATON FEDERAL 'B' NO. 2 WELL (NM-17157) TO EXISTING FACILITIES AT THE PATON 'B' FEDERAL NO. 1 WELL (LC-029389-C).

SEPARATION: ALL WELLS ON LEASE WILL BE PRODUCED INTO ONE PRODUCTION SEPARATOR.

PRODUCTION ALLOCATION: EACH WELL ON LEASE WILL BE INDIVIDUALLY TESTED PERIODICALLY USING THE EXISTING TEST SEPARATOR.

**SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

14. I hereby certify that the foregoing is true and correct
Name (Printed/Typed) MICHAEL P. CODER Title SENIOR LANDMAN
Date 12/10/99
Michael P. Coder

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by *Alexis C. Newboda* Title PETROLEUM ENGINEER Date DEC 15 1999
Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Title 16 U.S.C. Section 1601 and Title 43 U.S.C. Section 1212 makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.