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October 17, 1988

New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Subject: Application to Surface Commingle Production
from Pools on the same Lease

Gentlemen:

Zia Energy, Inc. is requesting administrative approval for the surface commingling of production from pools located on our New Mexico 'M' State Lease (B-934). All working interests and mineral interests ownership for the pools to be commingled are the same. Plans are to commingle production from the Southwest Eunice San Andres and production from the Blinebry, Tubb, and Drinkard 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 met the requirements for commingling marginal pools on the same lease in which there is common ownership and mineral interest.

Zia Energy, Inc. is currently producing Well No.48 on this lease under Commission Order No. DHC-688 allowing for the downhole commingling of the Blinebry, Tubb, and Drinkard formations. API gravity from the commingled oil stream is 35.0 degrees at 72 degrees (F). The well averages approximately 10 BOPD, 70 MCFPD, and 15 BWPD.

Zia Energy, Inc. has recently recompleted its Well No.49 on this same lease to the Southwest Eunice San Andres Pool. This well was previously completed in the Blinebry Pool and produced to the same surface facility as Well No.48. We would like to continue producing into the same surface facility. Production from Well No.49 averages approximately 2 BOPD, 150 MCFPD, and 550 BWPD. API gravity of the oil is 35.8 degrees at 70 degrees (F).

Crude oil from both wells is sold to Permian Crude Oil Purchasing and no reduction in average sales price is expected as a result of surface commingling. Casing head gas is sold to El Paso Natural Gas Company and processed by Texaco Producing Inc. under a processing agreement. No changes are expected as a result of surface commingling from these pools. Produced water is disposed of through Agua, Inc.'s disposal system.

Zia Energy, Inc. proposes to produce both wells into a common heater treater and to allocate production between the wells on the basis of a 24 hour well test to be performed quarterly. A diagram showing the surface facility is attached (Figure 1) for your records. All production records will be kept per Commission regulations governing commingling.

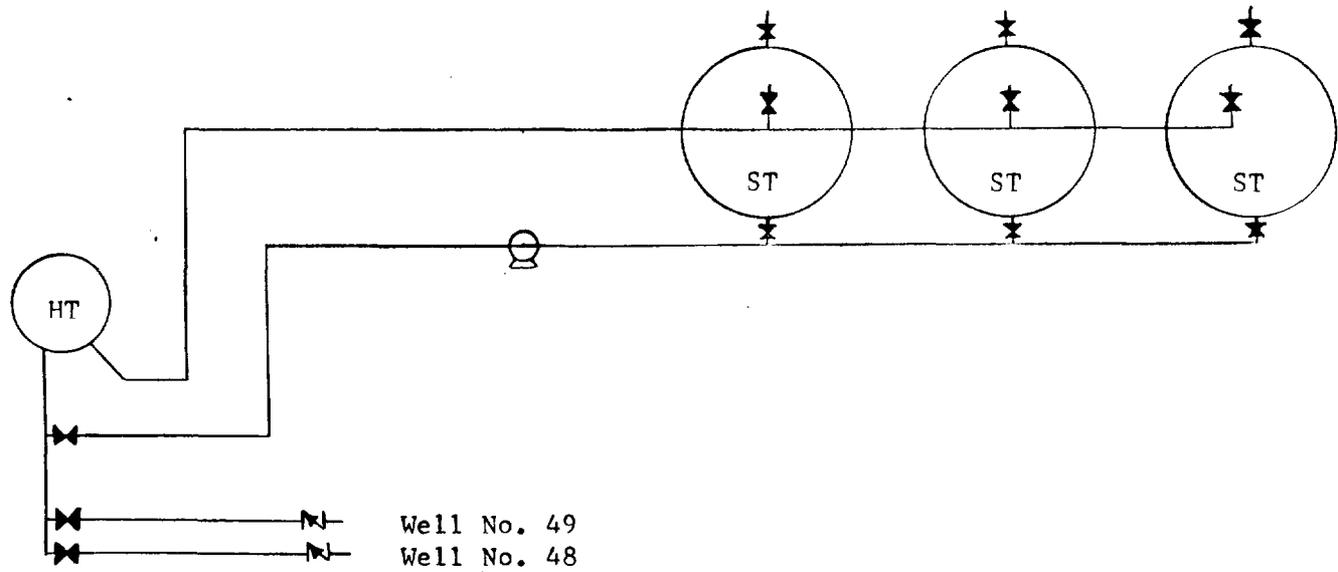
If you should have any questions or require additional information, please give me a call.

Sincerely,



Don Bratton

Attachment



SYMBOLS

-  Block Valve
-  Check Valve
-  Stock Tank
-  Heater Treater
-  Circ. Pump

New Mexico "M" State Lease (B-934)

FIG. 1

9/01/88