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ZIA ENERGY, INC.

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May 10, 1989

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RECEIVED

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**OIL CONSERVATION DIV.
SANTA FE**

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 Grizzell Lease. 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, Blinebry, Drinkard, and/or Paddock 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 Nos. 1, 2, and 3 on this 80 acre lease. The No. 1 well (shutin 07/86) was recently returned to production in the Blinebry pool and the No. 2 well (shutin 04/84) was returned to production in the Penrose-Skelly pool. The No. 3 has produced from the Brunson Fusselman and Cary Montoya, but is currently shutin pending evaluation of plugging back to either the Drinkard and/or Paddock pools. In the event that Well No. 3 exceeds marginal production limits following recompletion, then separate metering and storage will be arranged. API gravity for the commingled oil stream based on samples from other wells in these pools is expected to be approximately 36.0 degrees at 72 degrees (F). Oil gravity ranges from approximately 34.7 to 38.4 degrees within these pools.

Current production based on well test is approximately 230 MCFPD, 18 BOPD, and 13 BWPD from the Blinebry and 30 MCFPD, 5 BOPD, and 12 BWPD from the Penrose-Skelly. Well No. 2 is currently shutin pending Surface Commingling approval (This well is a marginal well that was previously in the Gulf operated Penrose Skelly Unit which was disbanded in 1984. No separate production facility exists.) Recent production tests on Well Nos. 1 and 2 are higher than expected due to the extended shutin time prior to returning these wells to production. Historical production data for these wells indicate that production can be expected to level at approximately 100 MCFPD, 8 BOPD, and 6 BWPD. We anticipate that an additional 150 MCFPD, 8 BOPD, and 3 BWPD will be produced from the No. 3 well following plugback to the Drinkard and/or Paddock.

Crude oil from the facility is sold to Shell Oil Company and no reduction in average sales price is expected as a result of surface commingling. Casing head gas is sold to Texaco USA and gas well gas is not dedicated at this time.

No changes are expected as a result of surface commingling from these pools. Produced water is disposed of by trucking to Mar Water Disposal, Inc..

Zia Energy, Inc. proposes to produce all three 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,

A handwritten signature in cursive script that reads "Don Bratton".

Don Bratton

Attachment

FIGURE '1'

