

P. O. BOX 2219

ZIA ENERGY, INC.

PHONE (505) 393-2937

HOBBS, NEW MEXICO 88241

January 25, 1994

New Mexico Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Attention: Mr. William J. LeMay
Director

Re: Request for administrative approval to surface
commingle production on our Toby lease.

Gentlemen:

Zia Energy, Inc. is requesting administrative approval for the surface commingling of production from two pools which are currently being produced on our Toby lease. This lease is located in the SE/4 - NE/4 of Section 13, Township 24 South, Range 36 East, Lea County, New Mexico. All mineral and working interest ownerships for the pools to be commingled are the same. Plans are to commingle production from the Langlie Mattix Seven Rivers Queen and the Jalmat Yates Seven Rivers Queen. 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 of working and mineral interests.

Zia Energy, Inc. is currently producing Well No. 1 from the Jalmat Yates Seven Rivers Queen formations and production from this well averages 1.5 EOPD and 10 MCFPD of gas. Production from Well No. 2 is from the Langlie Mattix Seven Rivers Queen formations and production from this well averages 2.5 BOPD and 20 MCFPD of gas. Gravity from the commingled oil is 32.9 degrees at 47 degrees F. The lease is currently averaging 4 BOPD and 30 MCFPD of gas.

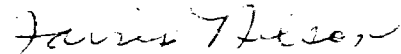
A schematic of the battery facilities is included for your information. A plat showing the location of the lease and the two wells is also included.

Crude oil from this lease is sold to Shell Pipe Line Company and no reduction in average sales price of the oil is expected as a result of surface commingling. The natural gas is sold to Texaco Exploration and Production. No change in price is expected as a result of surface commingling natural gas from these two pools.

Zia Energy, Inc. proposes to produce both wells into a common free water knock out and oil and gas separator and into common storage. Production to each well will be allocated on the basis of a 24 hour well test to be performed quarterly. A diagram showing the surface facility is attached . All production records will be kept as per Oil Commission regulations governing commingling.

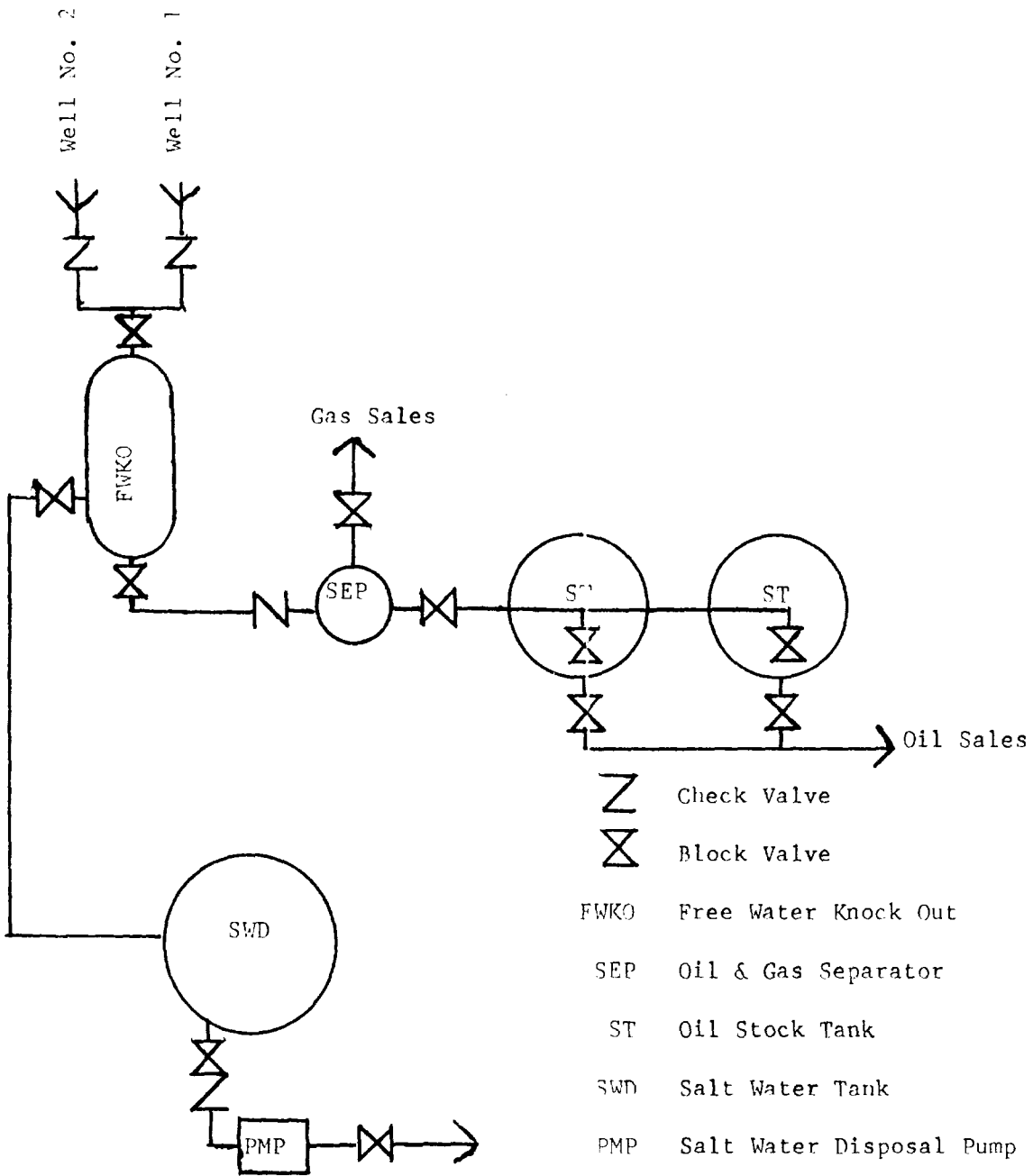
If you should require additional information, please call us collect at the above telephone number.

Sincerely,

A handwritten signature in cursive script, appearing to read "Farris Nelson".

Farris Nelson

ZIA ENERGY, INC.



Cole State NM Lse B-3480

Fig. 1

1/25/94

