

P. O. BOX 2219

ZIA ENERGY, INC.

PHONE (505) 393-2937

HOBBS, NEW MEXICO 88241

8 85

February 14, 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 Cole State lease.

Gentlemen:

Zia Energy, Inc. is requesting administrative approval for the surface commingling of production from three marginal pools which are currently being produced on our Cole State lease. This lease is located in the north half of Section 16, Township 22 South, Range 37 East, Lea County, New Mexico. All mineral and working interest ownerships for the three pools and six wells to be surface commingled are the same. Plans are to commingle production from the Eumont Yates Seven Rivers Queen, Eunice Southwest San Andres, and the Penrose-Skelly Grayburg. 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.

Since this is a New Mexico State Oil and Gas Lease No. B-3480, we have applied to the State Land Commissioner for State Land Office approval. Enclosed is a copy of their letter approving surface commingling.

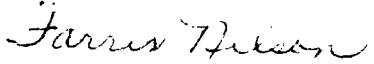
A schematic of the battery facilities is included for your information. A plat showing the location of the lease and the six wells is also included. Well Nos. are 1-A, 2-D, 3-C, 4-E, 5-H, and 6-B.

Crude oil from this lease is sold to Shell Pipe Line Company and no reduction in average sales price for the oil is expected as a result of surface commingling. The natural gas is sold to Warren Petroleum Company and no change in price is expected as a result of surface commingling natural gas from these three pools.

Zia Energy, Inc. proposes to produce all wells into a common Heater Treater. Production to each well will be allocated on the basis of a 24 hour well test to be performed quarterly. All production records will be kept as per Oil Conservation Division regulations governing commingling.

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

Sincerely,


Farris Nelson



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760
FAX (505) 827-5766

February 9, 1994

Zia Energy, Inc.
P.O. Box 2219
Hobbs, New Mexico 88241

Attention: Mr. Farris Nelson

Re: Surface Commingling
Cole State B-3480 Lease
Southwest Eunice San Andres, Penrose Skelly Grayburg and
Eumont Yates Seven Rivers Queen Pools
N $\frac{1}{2}$, Section 16-22S-37E
Lea County, New Mexico

Dear Mr. Nelson:

This office is in receipt of your application to commingle the production from the Southwest Eunice San Andres, Penrose-Skelly Grayburg and Eumont Yates Seven Rivers Queen pools on the captioned lease.

According to your application, the following wells will be surface commingled. The Cole State Well Nos. 2, 3, 4 and 5 which are producing from the Penrose Skelly Grayburg pool. The Cole State Well No. 1 which is producing from the Southwest Eunice San Andres pool, and the Cole State Well No. 6 which is producing from the Eumont Yates Seven Rivers Queen pool.

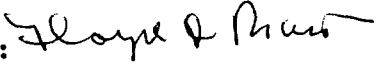
Since ownership is common throughout, and there will be no loss of revenue to the State of New Mexico's beneficiaries from your proposed operation, the Commissioner of Public Lands, this date approves your request. Our approval is given with the understanding that the Commissioner of Public Lands reserves the right to amend or withdraw his approval should this operation prove to be unprofitable to the State at any time in the future. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

Zia Energy, Inc.
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If you have any questions, or if we may be of further help,
please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY B. POWELL, M.S., D.V.M
COMMISSIONER OF PUBLIC LANDS

BY: 

FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744

RBP/FOP/pm

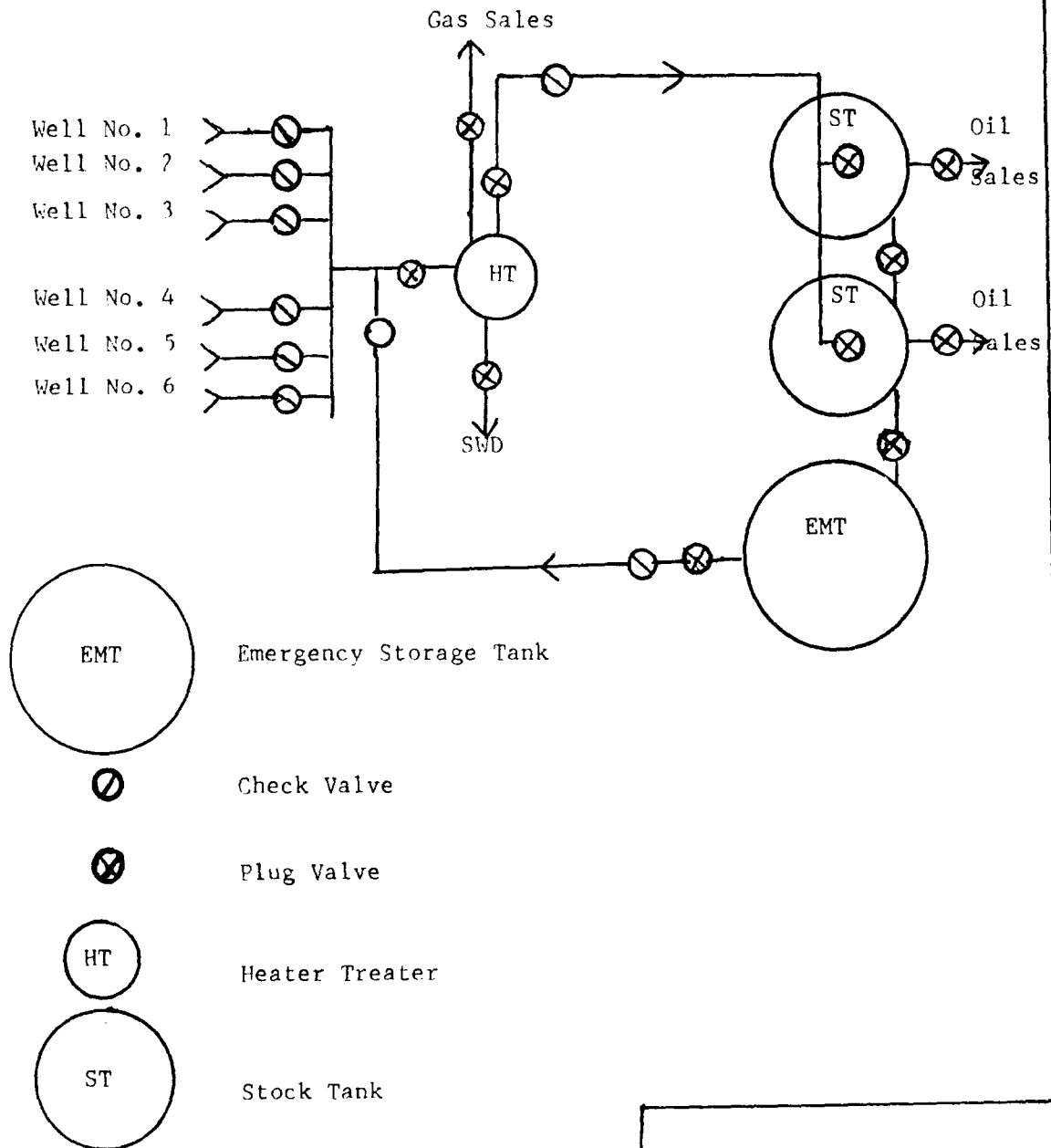
cc: Reader File

B-3480

TRD

OCD

ZIA ENERGY, INC.



Cole State B-3480

Fig. 1

2/16/94

