

8/15/04
 District I
 1625 N. French Drive, Hobbs, NM 88240

District II
 1301 W. Grand Avenue, Artesia, NM 88210

District III
 1000 Rio Brazos Road, Aztec, NM 87410

District IV
 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
 Energy, Minerals and Natural Resources Department

Oil Conservation Division
 1220 South St. Francis Dr.
 Santa Fe, New Mexico 87505

Form C-107A
 Revised June 10, 2003

APPLICATION TYPE
 Single Well
 Establish Pre-Approved Pools
 EXISTING WELLBORE
 Yes No

APPLICATION FOR DOWNHOLE COMMINGLING

Zia Energy, Inc. 2203 Timberloch Place, Site 229 The Woodlands, TX 77380
 Operator LOT10 Address ~~_____~~
 Hill 1 J-4-T21S-R37E Lea
 Lease Well No. Unit Letter-Section-Township-Range County
 OGRID No. 025616 Property Code 26985 API No. 30-025-06394 Lease Type: Federal State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	Penrose Skelly Grayburg OIL	Blinebry 61L FGO	Tubb OIL (OIL)
Pool Code	50350	6660	60240
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	Perfs 3890—3908	Perfs 5630-5870	Perfs 6195-6394
Method of Production (Flowing or Artificial Lift)	Artificial Lift	Flowing	Flowing
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)	810	925	950
Oil Gravity or Gas BTU (Degree API or Gas BTU)	38 Grav oil, 1285 btu	1280 btu	1260 btu
Producing, Shut-In or New Zone	Producing	Shut In	Shut In
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: 3-01-04 Rates: 5 oil, 2 water, 20 mcf Per Day	Date: Dec 2000. Rates: 5 Oil, 0 water, 20 mcf Per Day	Date: Initial Test --1954 Rates: 5 Oil, 0 Water, 25 mcf Per Day
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil 33.3 % Gas 33.3 %	Oil 33.3% Gas 33.3%	Oil 33.3% Gas 33.3%

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes No
 If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes No
 Are all produced fluids from all commingled zones compatible with each other? Yes No
 Will commingling decrease the value of production? Yes No
 If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application? Yes No
 NMOCD Reference Case No. applicable to this well: _____

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- Production curve for each zone for at least one year. (If not available, attach explanation.)
- For zones with no production history, estimated production rates and supporting data.
- Data to support allocation method or formula.
- Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
- Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

- List of other orders approving downhole commingling within the proposed Pre-Approved Pools
- List of all operators within the proposed Pre-Approved Pools
- Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
- Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE _____ TITLE Agent DATE 3-22-04
 TYPE OR PRINT NAME Gene Lee TELEPHONE NO. (505) 626-4292
 E-MAIL ADDRESS leeconinc@aol.com

Stogner, Michael

From: Lee Consulting, Inc. [lci@dfn.com]
Sent: Monday, August 16, 2004 7:53 AM
To: mstogner@state.nm.us
Subject: Hill #1 C107a

Mr. Stogner,

Please find attached a C107a for the Hill #1 operated by Zia Energy, Inc. The royalty and working interest is the same in all of the intervals to be commingled and offset acreage is also owned by Zia Energy, Inc. The BHP's on the form are from recent tests and the allocation of production will be based off of last production from each interval. This well lies in an area of Pre-Approved commingling of pools. We are currently in non compliance according to the NMOCD--Hobbs office because the C107a was not approved. We misunderstood the approval of our C101 and thought that since the C107a was attached, it also was approved. Please accept our apology for this and we would like to get our C107a approved as soon as possible. The Hobbs, NM office gave us until 8-20-04 to submit our C107a to you for approval and get in compliance. Your assistance in this matter is greatly appreciated. Thanks,

Gene Lee
for
Zia Energy, Inc.

505-626-4292
505-624-2911 Fax
leeconinc@aol.com

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10-25-2004

Well,
I am fortunate to see an abbreviation
that I received on August 16th, 2004.



10/25/2004

Stogner, Michael

From: Stogner, Michael
Sent: Monday, October 25, 2004 7:45 AM
To: Fesmire, Mark
Subject: RE: Hill #1 C107a

FYI

I looked an found that I still have the initial August 16th e-mail from Mr. Gene Lee to me. I made a hard copy of the e-mail correspondence portion and the attachment and set it out in front of Mr. Jones's office for review and processing.

-----Original Message-----

From: Stogner, Michael
Sent: Monday, October 25, 2004 7:17 AM
To: Fesmire, Mark
Subject: RE: Hill #1 C107a

Mr. Fesmire,

I initially received what was e-mailed by Mr. Lee on August 16th. Even though it was submitted to me, I am not the engineer assigned to review downhole commingling request. I forwarded the e-mail to Mr. Ezeanyim. That was the only thing I ever saw from Zia. For some reason my name keeps popping up in this matter. Mr. Lee evidently felt some kind of impulse to e-mail me on Oct. 15th for some kind of insight on how to handle the matter. I forwarded to you my response. Again, I never reviewed the matter initially or have seen any subsequent filings. I suggest Mr. Jones be consulted and given the application to review if he doesn't have it all ready.

-----Original Message-----

From: Fesmire, Mark
Sent: Sunday, October 24, 2004 9:59 AM
To: Stogner, Michael; Ezeanyim, Richard
Subject: RE: Hill #1 C107a

Mike and Richard:

Get with me Monday on this.

Mark

-----Original Message-----

From: Stogner, Michael
Sent: Monday, October 18, 2004 8:30 AM
To: 'lci@dfn.com'
Cc: Fesmire, Mark; Williams, Chris
Subject: RE: Hill #1 C107a

Mr. Lee,

Please understand that I am only a staff Engineer here in Santa Fe with little authority. I apologize for the problems you are having in getting the proper authorization for your exception. My suggestion to you is to file in writing an application with the Division in Santa Fe, attention Mr. Mark E. Fesmire, Director.

-----Original Message-----

From: lci [mailto:lci@dfn.com]
Sent: Friday, October 15, 2004 11:55 AM
To: Stogner, Michael

>

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Sent: Friday, October 15, 2004 11:55 AM
To: Stogner, Michael
Cc: REZEANYIM@state.nm.us; CWILLIAMS@state.nm.us
Subject: RE: Hill #1 C107a

I have still never received any type of approval, request for additional info or anything. Do you have any suggestions on what it is going to take for approval of this application? There are wells all around it that are producing from each interval and we are now receiving letters of non-compliance due to lack of any approval. Please let me know what needs to be done in order to get an approval. Thanks for your help.

Gene Lee

----- Original Message -----

From: "Stogner, Michael" <MSTOGNER@state.nm.us>
Date: Mon, 16 Aug 2004 08:53:43 -0600

>Mr. Lee I am forwarding your commingling application to the Division's Chief
>Engineer for distribution and processing. Should you have any questions
>please contact Mr. Richard Ezeanyim at (505) 476-3467.

>

>-----Original Message-----

>From: Lee Consulting, Inc. [mailto:lci@dfn.com]
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>Gene Lee

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