



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Surface Commingling Order CTB-587

February 27, 2008

SG Interests I Ltd.

C/o NIKA Energy Operating, LLC

PO Box 2677

Durango, CO 81303

Attention: Mr. William Schwab III

SG Interests I Ltd. (OGRID 20572) is hereby authorized to surface commingle gas production from the Basin-Fruitland Coal Gas Pool (71629) within the following-described area (hereinafter referred to as the El Pintado CDP Gas Gathering System Area), Sandoval and McKinley Counties, New Mexico:

El Pintado CDP Gas Gathering System Area

Township 21 North, Range 6 West, NMPM

Section 29: S/2
Section 30: All
Section 31: N/2
Section 32: W/2
Section 34: All
Section 36: W/2

Township 20 North, Range 6 West, NMPM

Section 2: S/2
Section 3: S/2
Section 10: N/2
Section 16: All

This area contains all or portions of Federal Leases No. NM-99732, NM-99733, and NM-24964, State Leases No. VA2322, VA2344, and VA2284.

This area currently contains eighteen (18) wells that are completed in the Basin-Fruitland Coal Gas Pool. All wells within the area are currently operated by SG Interests I Ltd.

Production shall be allocated by metering the gas production from each of the wells within the El Pintado CDP Gas Gathering System Area utilizing individual allocation meters. Gas production shall then be commingled and transported to a Public Service of New Mexico (PNM) gas sales meter located within the NW/4 of Section 10, Township 20 North, Range 6 West. Production

shall be allocated back to each well utilizing allocation and sales meter volume data, and shall be determined in accordance with the procedure outlined in this application.

All liquids (oil, condensate and water) shall be separated, stored, measured and sold at each individual well.

All meter calibration shall be in conformance with Division Rule No. 19.15.5.303(B)(4)(b).

Additional existing or future drilled wells can be added to the commingling authority granted by this order without additional application or notice to interest owners provided that:

- a) the well(s) are located within the El Pintado CDP Gas Gathering System Area defined by this order;
- b) each new well is equipped with a gas allocation meter; and
- c) the well(s) produce from Basin-Fruitland Coal Gas Pool.

To obtain approval to add wells, SG Interests I Ltd. shall file a C-103 (Sundry Notice) with the Santa Fe and Aztec Offices of the Division that describe the well(s) to be included. Additional notice may be required to the Bureau of Land Management and/or the State Land Office.

To add additional wells located OUTSIDE of the El Pintado CDP Gas Gathering System to the gathering system, SG Interests I Ltd. must apply for an additional order or to amend this order and (per Rule 303) must notify all owners of revenue interests within the existing El Pintado CDP Gas Gathering System as well as all owners of revenue interests in the new wells to be added.

NOTE: This installation shall be installed and operated in accordance with the applicable rules and regulations of the Division applicable to surface commingling. It is the responsibility of the producer to notify the transporter of this commingling authority.

FURTHER: The operator shall notify the Aztec district office of the Division upon commencement of commingling operations.


MARK E. FESMIRE, PE
Director

MEF/wvjj

cc: Oil Conservation Division – Aztec
Bureau of Land Management – Farmington
State Land Office – Oil, Gas, and Minerals Division