

EXHIBIT

PAN AMERICAN PETROLEUM CORPORATION
PROPOSAL TO COMMINGLE OIL PRODUCTION
FROM THE DRINKARD AND PENROSE SKELLY POOLS
FROM ALL WELLS PRESENTLY COMPLETED ON
THE J. W. GRIZZELL LEASE
SW/4 SEC. 5, T-22-S, R-37-E
LEA COUNTY, NEW MEXICO
NEW MEXICO OIL CONSERVATION COMMISSION
EXAMINER HEARING CASE NO. 2204
MARCH 3, 1961

GENERAL

Pan American Petroleum Corporation respectfully requests that the New Mexico Oil Conservation Commission grant an exception to Statewide Rule 303 to permit commingling in common tankage without prior metering of Drinkard and Penrose Skelly crudes on its J. W. Grizzell Lease located in the SW/4 of Section 5, T-22-S, R-37-E.

There are presently four wells on this lease which are completed as follows:

| <u>Well No.</u> | <u>Pool in which Well is completed</u> |
|-----------------|--|
| 1 | Drinkard |
| 2 | Penrose Skelly |
| 3 (Shut-In) | Penrose Skelly |
| 4 | Penrose Skelly |

The purchaser, Shell Pipeline Company, has verbally agreed to this proposal.

Production will be allocated to the respective reservoirs on the basis of periodic well tests. Review of the attached schematic diagram will indicate that the Drinkard well No. 1, may be tested by diverting its production into a separate tank. Either of the Penrose Skelly Wells, Nos. 2 and 4, may be tested by shutting in the other Penrose Skelly wells and producing the test well into a separate tank.

Granting of this proposal will: (1) Eliminate replacement of two stock tanks which will be required in the near future if storage of the two crudes is continued in separate tank batteries, (2) eliminate a need for oil meters which would cost approximately \$1400 installed, and (3) eliminate intangible maintenance and depreciation expense through elimination of a tank battery.