



March 30, 2010

Mr. Paul Kautz
New Mexico Oil Conservation Division
1625 N. French Dr.
Hobbs, New Mexico 88240

RECEIVED

MAR 31 2010

HOBBSOCD

Re: Application for Exception to Rule 303-C – Downhole Commingling
Merit #2
Unit O, Section 11, T-21-S, R-37-E
Blinbry, Tubb, and Drinkard Pools
Lea County, New Mexico

Dear Mr. Kautz,

Enclosed please find an administrative application form (C-103) and attachments for downhole commingling the captioned well. The ownerships (WI, NRI and ORRI) of these pools are identical in this wellbore. The fluids from each of these pools are compatible as seen in other similar commingles in the area. Combining these fluids will not result in any damage to these pools. Commingling will improve the efficiency of present and future recovery operations. Cross flow will not be a problem due to having a production lift system capable of keeping the well pumped off thereby maximizing production. This commingling will not reduce the value of the total remaining production.

The allocation method used for this well was determined by analyzing the cumulative oil, gas and water production in a nine section area of review surrounding this well. Supporting documentation is shown on the attached spreadsheet. Production for active and inactive wells were grouped by pool in the area of review. The totals for each phase were then divided by the number of wells associated with this pool yielding an average. This average was used to determine the percentage allocation.

The main reason for using this method is based on economics and minimizing reservoir damage. Past completion practices had all three zones perforated and fracture stimulated during one full week. Each zone was isolated by a retrievable bridge plug to allow for production testing of each zone for allocation purposes. This testing period lasted as long as one month before a stabilized rate was observed thus allowing the next zone to be brought on and tested. During this time period the completion fluids used were still confined to the other reservoirs causing gel damage. It is a common practice to get these fluids out of the wellbore as soon as possible to help maximize productivity. On a cost basis it is more expensive to have a completion rig move in and out multiple times to bring on each new zone. Several other factors such as weather, other new completions and regulatory well work may interfere with these new wells.



The area of review used encompasses what has been accepted as a good statistical representation for allocation purposes. This method has been used multiple times for up to five completions in the same wellbore. The NMOCD in Santa Fe and the district office in Aztec along with the BLM office in Farmington have approved this method. By using this allocation method all three zones will be brought online in a more effective and efficient manner. This will in turn generate a higher productive rate and quicker revenue streams not only for the operator but for the State of New Mexico too.

If you need additional information or have any questions, please give me a call at (918) 491-5369.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Kubes", written in a cursive style.

Frank Kubes
Production Engineer

Enclosures

Lease Name	Well Number	10DIGITAPI	Location	Cum Oil (BBL)			Cum Gas (MCF)			Cum Water (BBL)		
				Blinbry	Tubb	Drinkard	Blinbry	Tubb	Drinkard	Blinbry	Tubb	Drinkard
LD JONES	1	3002507722	1H 20S 38E SE NE	3476			186180			5043		
PHILLIPS HOUSE STATE	1	3002507725	2O 20S 38E			101253			474627			25059
STATE U	1	3002507727	2P 20S 38E			157611			97687			184324
ARNOLD A	1	3002507761	11F 20S 38E		27203	670		1355259			4442	
HOWSE A	1	3002507763	11I 20S 38E									
HOUSE B	1	3002507764	11P 20S 38E		9855			118752				
BLANKENSHIP	1	3002507766	12E 20S 38E			54657			16638			7010
BLANKENSHIP	2	3002507767	12L 20S 38E	3821	4	134312	9274	9	1177187	2256	27	37126
BLANKENSHIP	3	3002507768	12M 20S 38E NE SW SW	4354	8567	39616	27228	45611	2435461	3109	14720	22235
BLANKENSHIP A	1	3002507769	12L 20S 38E									
CONE A	1	3002507770	12F 20S 38E		16653	206383		65582	236084		56289	83804
CONE B	1	3002507771	12J 20S 38E			239833			591551			69199
HESTER 12	3	3002507772	12O 20S 38E			150171			853402			32702
HESTER 12	2	3002507773	12N 20S 38E			82932			540453			17896
HESTER 12	1	3002512549	12K 20S 38E			97448			457760			16669
CROWN	1	3002520195	13B 20S 38E NW NW NE		7517	57149		36870	687081			11360
HOWSE C	1	3002522165	11H 20S 38E SE NE			26370			143078			6340
CONE B	2	3002525921	12G 20S 38E			398			86772			1460
L & M	1	3002528287	2L 20S 38E C S2 SW	289	9424	72	2972	129360	350	289	125	85
HOUSE	1	3002531006	13D 20S 38E NW NW	32766	126	35865	762830	6678	515800	15436		13278
RHINO	1	3002532140	11N 20S 38E SE SW									
SHARPS	1	3002534060	13M 20S 38E	37417			196877			35874		
SHARPS	2	3002534061	13N 20S 38E	31752			133711			28709		
JOE CAMEL	1	3002534160	13K 20S 38E NE SW	36806			63475			59704		
BULL DURHAM	1	3002534187	14P 20S 38E S2 SE SE	46327	5072		1054715			40971	1277	
JOE CAMEL	2	3002534211	13F 20S 38E SW SE NW	18119	961		59203	2224		37223	353	
DIAMONDBACK	1	3002534274	14J 20S 38E NW SE	28983			192879			31289		
PEARL	1	3002534275	13J 20S 38E NW SE	11006			33921			26123		
LUCKY STRIKE	1	3002534285	14I 20S 38E NE SE	76389			1042620			68515		
CAPPS FEDERAL	2	3002534289	13O 20S 38E SW SE	32406	6820		140901	41519		25108	9290	
BULL DURHAM	2	3002534363	14O 20S 38E SW SE	35686	39		316053	289	157	53971		
CHESTERFIELD	1	3002534420	14H 20S 38E SE NE	26209			734711	39133	3857	36636		
BUGLER	1	3002534506	13L 20S 38E NW NW SW	72217	434		428854	59037		38228	343	
MOONEY	1	3002534569	13I 20S 38E NE SE			21316			31111			91751
PAIGE	1	3002534570	13P 20S 38E SE SE	7176		18672	14496		28773	16145		26466
VICEROY	1	3002534625	13E 20S 38E SW NW	29814			499588			75010		
PALL MALL	1	3002534634	14A 20S 38E NE NE			29967			337481			73482
KOOL	1	3002534642	14B 20S 38E NW NE	36016	417	2497	327638	1897	3037	34773		
PICAYUNE	1	3002534734	11J 20S 38E C NW SE		12976	24231		292	64046	370173		17895
ROITAN	1	3002534735	14G 20S 38E SW NE	23698	4001		567995	87183		53256		
DREESSEN	1	3002534857	1G 20S 38E C SW NE	2199			7175			23039		
MARLBORO	1	3002534968	14C 20S 38E S2 NE NW	649			7332			0		
HOWSER	1	3002534970	1J 20S 38E C NW SE	1371			28097			35934		
HOWSER	2	3002535195	1O 20S 38E W2 SW SE									
MERIT	1	3002535240	11O 20S 38E E2 SW SE			9058		567182			7350	
BEECHNUT	1	3002535241	14E 20S 38E SE SW NW	540			2239					
REDTAG	1	3002535333	2J 20S 38E NW NW SE	24871	3936	523	65625	9314	5443	3480		
MERIT II	1	3002535448	11G 20S 38E C SW NE	1647	15964	21816	7445	24992	150650		11887	19464
DUKES	1	3002535614	11K 20S 38E E2 NE SW		7818	29211		38544	121873		8390	26341
REDTAG	2	3002535630	2K 20S 38E NE NE SW	14401			843931			2484		
HAV A TAMPA	1	3002535996	1O 20S 38E NE NE SE									
DIXIE QUEEN	1	3002536421	11P 20S 38E S2 SE SE		6916			485625				
WHITE OWL	1	3002536699	2 20S 38E NW NW NW	30820			114807			9450		
BIG KICK	1	3002536745	13C 20S 38E W2 NE NW	13611	670	9229	203845	10538	63062	2410		2526
HESTER 12	6	3002536795	12N 20S 38E SW SE SW	23909	7394	8583	298534	165595	50736	20937	4951	4318
HESTER 12	4	3002536800	12O 20S 38E SW SW SE	14419	3761	3343	249610	93860	85126	31255		1865
SALEM	1	3002537316	3A 20S 38E SE NE NE	2149		8392	6709		24989	4230		1564
JOE CAMEL	3	3002538033	13F 20S 38E NW SE NW	3291	1475	907	161812	135397	33021	4848	1317	762
HESTER 12	8	3002538076	12K 20S 38E SW NE SW	10944	3023	2897	111005	71484	45333	8060	9094	3515
HESTER 12	5	3002538211	12P 20S 38E NW SE SE	16816	4710	8866	160032	67220	63034	32371	4884	
HESTER 12	7	3002538369	12N 20S 38E NE SE SW	4876	5669	2139	42386	40180	22743	13412	6771	7832
MELOT	1	3002538370	11C 20S 38E SW NE NW	3346	4302	1911	33782	26274	15016	16550	16079	14662
BULL DURHAM	3	3002538379	14P 20S 38E NE SE SE	5109	5523		53276	38210		613		
BLANKENSHIP	4	3002538397	12L 20S 38E NE NW SW	2088	2245	4936	9537	16024	17599	7339	3035	2278
BLANKENSHIP	5	3002538399	12M 20S 38E SW SW SW	9475	3418	4183	35637	62266	186862	14452	3211	2410
BLANKENSHIP	6	3002538400	12L 20S 38E SW NW SW	5451	3838	858	23033	1178	42403	5120	376	6990
KOOL	2	3002538439	14B 20S 38E SW NW NE	5920	917	487	10805	18142				
RHINO	2	3002538484	11N 20S 38E SE NE SW	6826	1814	3628	18613	12319				
MAGNOLIA	1	3002538660	11E 20S 38E NE SW NW	3932	3416	2403	53774	10235	10199	13851	1873	22533
DIXIE QUEEN	2	3002538661	11P 20S 38E NE SE SE	7110	1883	2031	30019	13152	19145			
HESTER 12	10	3002538662	12O 20S 38E NE SW SE	2971	91	722	18538	1898	5067	18005	1023	2660
HESTER 12	11	3002538663	12P 20S 38E SW SE SE	1041	857	1537	56849	55392	5201	4588	5793	3089
BIG KICK	2	3002538664	13C 20S 38E SE NE NW	5509	894	2197	15563		39133	26201	10405	3466
HOUSE	2	3002538665	13D 20S 38E SE NW NW	3427	1478		21373	1798				
LUCKY STRIKE	2	3002538688	14I 20S 38E SW NE SE	2529	402		13364	1844				
BUGLER	2	3002538689	13L 20S 38E SW NW SW	3629	350		31069	4914		9490	1308	
MELOT	2	3002538700	11C 20S 38E NW NE NW	10360	2841	1116	25444	3782	11030	12247	11994	8994
HESTER 12	9	3002538791	12K 20S 38E NE NE SW	1246	810	2582	27530	3972	2963	14280	4314	7378
MAGNOLIA	2	3002539090	11D 20S 38E NE NW NW	656	210	1762	29801	16255	44252	7756	1662	1662
L & M	2	3002539450	2N 20S 38E	203	146	1102	2776	3506	8327	1802	901	3304
MELOT	3	3002539458	11B 20S 38E	257	66	506	816	346	877	2998	551	2570
TOTALS				842,325	215,963	1,609,290	9,618,596	4,054,887	10,162,604	1,034,870	204,035	888,324
AVERAGES				14.778	4.499	33.527	165.838	86.274	216.226	20.697	6.582	21.666

Proposed Allocations	Oil	Gas	Water
Blinbry	28%	35%	43%
Tubb	9%	18%	13%
Drinkard	63%	47%	44%
TOTAL	100%	100%	100%