



March 31, 2010

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

Re: Application for Exception to Rule 303-C – Downhole Commingling
Red Tag #3
Unit J, Section 2, T-20-S, R-38-E
Blinebry, 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". The signature is fluid and cursive, with a stylized "F" and "K".

Frank Kubes
Production Engineer

Enclosures

Lease Name	Well Number	10DIGITAPI	Location	Cum Oil (BBL)			Cum Gas (MCF)			Cum Water (BBL)		
				Blinebry	Tubb	Drnkard	Blinebry	Tubb	Drnkard	Blinebry	Tubb	Drnkard
L D 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		28351	670		1361478			4442	
HOUSE B	1	3002507764	11P 20S 38E		9855			118752				
BLANKENSHIP	1	3002507766	12E 20S 38E			54657			16638			7010
BLANKENSHIP	2	3002507767	12L 20S 38E		4	134312		9	1177187		27	37126
BLANKENSHIP	3	3002507768	12M 20S 38E NE SW SW		8629	39616		46320	2435461		15034	22235
CONE A	1	3002507770	12F 20S 38E		16802	206383		66067	236562		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
HOWSE C	1	3002522165	11H 20S 38E SE NE			26370			143078			6340
CONE B	2	3002525921	12G 20S 38E			398			86772			1460
WERTA FEDERAL	1	3002527696	35O 19S 38E SW SE		14640	11778	203157	10262	24012		10929	29470
L & M	1	3002528267	2L 20S 38E C S2 SW		9424	72	2972	129360	350		125	85
FRANCES EVELYN	1	3002532163	35N 19S 38E SE SW				61072					
PICAYUNE	1	3002534734	11J 20S 38E C NW SE		13415	25010	660	65769	374234			17895
DREESSEN	1	3002534857	1G 20S 38E C SW NE				7175					
HOWSER	1	3002534970	1J 20S 38E C NW SE				28097					
MERIT	1	3002535240	11O 20S 38E E2 SW SE		9225			577075			7350	
REDTAG	1	3002535333	2J 20S 38E NW NW SE		3936	523		9314	5443			
MERIT II	1	3002535448	11G 20S 38E C SW NE		16288	21816		26091	151015		11887	19464
DUKES	1	3002535614	11K 20S 38E E2 NE SW		7818	30429		38544	127571		8390	26341
REDTAG	2	3002535630	2K 20S 38E NE NE SW									
DIXIE QUEEN	1	3002536421	11P 20S 38E S2 SE SE		7143			495863				
WHITE OWL	1	3002536689	2 20S 38E NW NW NW									
HESTER 12	6	3002536795	12N 20S 38E SW SE SW		7561	9208		174382	53152		5470	4376
HESTER 12	4	3002536800	12O 20S 38E SW SW SE		4299	3821		103897	94229			2182
PLOW BOY FEDERAL	1	3002536962	35J 19S 38E NW NW SE									
ROUND-UP	1	3002537100	35H 19S 38E SW SE NE			6262			10688			
SALEM	1	3002537316	3A 20S 38E SE NE NE	2149		8392	6709		24989	4230		1564
HESTER 12	8	3002538076	12K 20S 38E SW NE SW	11708	3368	3228	115777	77413	49093	8804	9933	3839
HESTER 12	5	3002538211	12P 20S 38E NW SE SE	17493	5023	9614	166428	71538	68310	35785	4884	
HESTER 12	7	3002538369	12N 20S 38E NE SE SW	5455	6297	2541	47772	45152	26195	14572	7485	8933
MELOT	1	3002538370	11C 20S 38E SW NE NW	3936	5061	2247	37257	28978	16562	19682	19122	17436
BLANKENSHIP	4	3002538397	12L 20S 38E NE NW SW	2344	2521	5389	10855	18235	19338	8807	3642	2732
BLANKENSHIP	5	3002538399	12M 20S 38E SW SW SW	10364	3785	4672	38047	70185	210963	17064	3792	2845
BLANKENSHIP	6	3002538400	12L 20S 38E SW NW SW	5912	4401	986	25691	1383	49762	6338	465	8652
RHINO	2	3002538484	11N 20S 38E SE NE SW	7600	2052	4103	21016	14061				
MAGNOLIA	1	3002538660	11E 20S 38E NE SW NW	4507	4120	2978	64169	12345	12761	15098	2170	26928
DIXIE QUEEN	2	3002538661	11P 20S 38E NE SE SE	8608	2311	3162	39755	17763	30415			
HESTER 12	10	3002538662	12O 20S 38E NE SW SE	3380	204	1612	23522	4535	12101	21372	2121	5516
HESTER 12	11	3002538663	12P 20S 38E SW SE SE	1183	1019	1879	65513	64621	8144	5184	6708	3707
MELOT	2	3002538700	11C 20S 38E NW NE NW	12074	3629	1426	30723	4978	14515	13226	14930	11195
HESTER 12	9	3002538791	12K 20S 38E NE NE SW	1475	945	3256	34766	4580	3833	16445	4595	8942
MAGNOLIA	2	3002539090	11D 20S 38E NE NW NW	983	314	2638	42720	23300	63433	10443	2238	2238
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				103,107	202,652	1,460,304	1,263,625	3,686,102	8,569,490	206,893	203,480	714,038
AVERAGES				5,427	6,333	36,508	50,545	115,191	225,513	12,170	8,139	21,001

Proposed Allocations	Oil	Gas	Water
Blinebry	11%	13%	29%
Tubb	13%	29%	20%
Drnkard	76%	58%	51%
TOTAL	100%	100%	100%