



June 14, 2010

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

**RECEIVED**

JUN 15 2010

**HOBBSOCD**

**RE: Application for Exception for Downhole Commingling  
Bugler #3-House Field-API # 30-025-39648  
Unit L, Section 13, T-20-S, R-38-E  
House; Blinebry, South House; Tubb and House; Drinkard Pools  
Lea County, New Mexico**

Dear Mr. Kautz,

I am proposing to use offset production allocation data to determine the allocation percentages used when downhole commingling the Blinebry, Tubb, and Drinkard Oil & Gas pools. I have enclosed the administrative application form (C-103) and attachments used to determine the new allocation method proposed for the Bugler #3 completion. The ownership (WI, NRI, and ORRI) of these pools are identical in this well. The fluids from each of these zones are compatible as seen in other surrounding commingled wells in this area. Commingling these fluids together will not damage the wellbore nor have any impact on the value of the total remaining production. The wells in this area are operated by a production lift system which maximizes production by keeping the well pumped off. This system can easily handle cross flow without encountering any problems. Overall, commingling will improve the efficiency of our present and future recovery operations.

This allocation method was found by calculating the cumulative and average production data for each individual zone in a nine section area surrounding the Bugler #3. By analyzing the average oil, gas and water production for the Blinebry, Tubb and Drinkard pools, I was unable to calculate the percentage production allocation for each zone. Please refer to the attached spreadsheets for my calculations.

If you need additional information or have any questions, please give me a call at (918) 491-4968.

Sincerely,

Amber Cooke

Production Engineering Tech

Enclosures

| Lease Name       | Well Number | 10DIGITAP  | Location             | Cum Oil (BBL) |       |         | Cum Gas (MCF) |         |         | Cum Water (BBL) |       |         |
|------------------|-------------|------------|----------------------|---------------|-------|---------|---------------|---------|---------|-----------------|-------|---------|
|                  |             |            |                      | Blinery       | Tubb  | Drnkard | Blinery       | Tubb    | Drnkard | Blinery         | Tubb  | Drnkard |
| ARNOLD A         | 1           | 3002507761 | 11F 20S 38E          | 454           | 28897 | 670     | 1654          | 1362973 |         | 2813            | 4503  |         |
| HOUSE B          | 1           | 3002507764 | 11P 20S 38E          |               | 9855  |         |               | 118752  |         |                 |       |         |
| BLANKENSHIP      | 1           | 3002507766 | 12E 20S 38E          |               |       | 54657   |               |         | 16638   |                 |       | 7010    |
| BLANKENSHIP      | 2           | 3002507767 | 12L 20S 38E          | 3906          | 20    | 134312  | 9570          | 42      | 1177187 | 2664            | 114   | 37126   |
| BLANKENSHIP      | 3           | 3002507768 | 12M 20S 38E NE SW SW | 5093          | 8669  | 39616   | 30097         | 46619   | 2435461 | 4277            | 15152 | 22235   |
| CONE A           | 1           | 3002507770 | 12F 20S 38E          |               | 16853 | 206392  |               | 66151   | 236861  |                 | 56322 | 83837   |
| 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   |
| CARTER A         | 1           | 3002507987 | 19M 20S 39E          |               |       | 10840   |               |         |         |                 |       |         |
| CARTER B         | 1           | 3002507988 | 19N 20S 39E          |               |       | 19665   |               |         | 41425   |                 |       | 63553   |
| HESTER 12        | 1           | 3002512549 | 12K 20S 38E          |               |       | 97448   |               |         | 457760  |                 |       | 16669   |
| CROWN            | 1           | 3002520195 | 13B 20S 38E NW NW NE |               | 8453  | 57149   |               | 40093   | 687081  |                 |       | 11360   |
| HOWSE C          | 1           | 3002522165 | 11H 20S 38E SE NE    |               |       | 26370   |               |         | 143078  |                 |       | 6340    |
| LINDA FEDERAL    | 1           | 3002524724 | 23K 20S 38E C NE SW  | 53301         | 85464 |         | 439625        | 497793  |         | 35147           | 28916 |         |
| LINDA FEDERAL    | 2           | 3002525758 | 23L 20S 38E          | 21514         |       |         | 147797        |         |         | 16681           |       |         |
| LINDA FEDERAL    | 3           | 3002525759 | 23E 20S 38E          | 3866          |       |         | 38006         |         |         | 2158            |       |         |
| LINDA FEDERAL    | 4           | 3002525760 | 23F 20S 38E          | 26892         |       |         | 174625        |         |         | 25551           |       |         |
| LLANO FEDERAL    | 1Y          | 3002525870 | 23M 20S 38E          | 73026         |       |         | 166670        |         |         | 266105          |       |         |
| CONE B           | 2           | 3002525921 | 12G 20S 38E          |               |       | 398     |               |         | 86772   |                 |       | 1460    |
| LINDA FEDERAL    | 5           | 3002526043 | 23N 20S 38E SE SW    | 16157         | 45943 |         | 25812         | 236083  |         | 7295            | 28732 |         |
| SIMS FEDERAL     | 1           | 3002527653 | 23O 20S 38E          | 52536         | 25547 |         | 181175        | 54779   |         | 34835           | 7192  |         |
| KYTE             | 1           | 3002530793 | 23J 20S 38E C NW SE  | 72948         | 2414  | 7837    | 284539        | 10395   | 8472    | 63381           | 7758  | 13795   |
| HOUSE            | 1           | 3002531006 | 13D 20S 38E NW NW    | 32922         | 164   | 36210   | 772812        | 7546    | 515800  | 15436           |       | 13278   |
| FEDERAL 24       | 1           | 3002533182 | 24M 20S 38E C SW SW  | 17325         | 72065 |         | 72193         | 535742  |         | 19538           | 30720 |         |
| KYTE             | 3           | 3002533427 | 23I 20S 38E C NE SE  | 32458         | 75034 |         | 122982        | 391537  |         | 13495           | 9277  |         |
| KYTE             | 4           | 3002533683 | 23H 20S 38E C SE NE  | 34008         | 18522 |         | 272950        | 66525   |         | 51377           | 42969 |         |
| PAYDAY           | 1           | 3002533706 | 24L 20S 38E          | 67671         | 87512 |         | 429496        | 660802  |         | 42311           | 35179 |         |
| FEDERAL 24       | 2           | 3002533779 | 24N 20S 38E C SE SW  | 25356         | 22845 |         | 86638         | 115902  |         | 21212           | 32855 |         |
| PAYDAY           | 2           | 3002533833 | 24K 20S 38E          | 30579         |       |         | 404890        | 0       |         | 37696           |       |         |
| NMFU FEDERAL     | 1           | 3002533836 | 23P 20S 38E C SE SE  | 23179         | 29580 |         | 115822        | 123506  |         | 31302           | 54855 |         |
| M & M            | 1           | 3002533837 | 24E 20S 38E          | 18368         | 36656 |         | 340310        | 667064  |         | 49185           | 49406 |         |
| M & M            | 2           | 3002533879 | 24F 20S 38E          | 45544         |       |         | 410865        |         |         | 28051           |       |         |
| M & M            | 3           | 3002533880 | 24D 20S 38E          | 40925         |       |         | 550509        |         |         | 27084           |       |         |
| CARTER 19        | 1           | 3002533904 | 19M 20S 39E SW SW SW | 22088         |       |         | 84921         |         |         | 80300           |       |         |
| KYTE             | 5           | 3002533927 | 23G 20S 38E C SW NE  | 21004         | 5090  |         | 220365        | 46807   |         | 37331           | 26435 |         |
| M & M            | 4           | 3002534018 | 24C 20S 38E          | 40796         |       |         | 438046        |         |         | 33064           |       |         |
| SHARPS           | 1           | 3002534060 | 13M 20S 38E          | 38209         |       |         | 199070        |         |         | 40301           |       |         |
| SHARPS           | 2           | 3002534061 | 13N 20S 38E          | 32153         |       |         | 135685        |         |         | 29689           |       |         |
| FEDERAL 24       | 4           | 3002534104 | 24P 20S 38E S2 SE SE | 12987         | 269   |         | 55092         | 589     |         | 26048           | 7757  |         |
| KYTE             | 7           | 3002534107 | 23A 20S 38E SE NE NE | 29569         |       |         | 737583        |         |         | 38858           |       |         |
| TERRY            | 1           | 3002534157 | 24G 20S 38E SW NE    | 14009         | 24391 |         | 149880        | 16442   |         | 32483           | 25640 |         |
| JOE CAMEL        | 1           | 3002534160 | 13K 20S 38E          | 37204         | 93    | 167     | 64647         | 332     | 400     | 65928           |       |         |
| BULL DURHAM      | 1           | 3002534187 | 14P 20S 38E S2 SE SE | 46470         | 6502  |         | 1063845       |         |         | 41228           | 6159  |         |
| FEDERAL 24       | 5           | 3002534199 | 24J 20S 38E C NW SE  | 14699         | 21869 |         | 73488         | 287537  |         | 10942           | 38864 |         |
| FEDERAL 24       | 6           | 3002534200 | 24I 20S 38E S2 NE SE | 6803          | 2913  | 8385    | 25281         | 10561   | 30342   | 21183           | 7074  | 21795   |
| JOE CAMEL        | 2           | 3002534211 | 13F 20S 38E SW SE NW | 18402         | 1460  |         | 61992         | 3204    |         | 38473           | 477   |         |
| CAPPS FEDERAL    | 1           | 3002534267 | 24B 20S 38E C NW NE  | 33126         |       |         | 209185        |         |         | 30382           |       |         |
| DIAMONDBACK      | 1           | 3002534274 | 14J 20S 38E NW SE    | 29537         |       |         | 195342        |         |         | 32013           |       |         |
| PEARL            | 1           | 3002534275 | 13J 20S 38E NW SE    | 11214         |       |         | 34904         |         |         | 27152           |       |         |
| LUCKY STRIKE     | 1           | 3002534285 | 14I 20S 38E NE SE    | 77853         |       |         | 1051713       |         |         | 68515           |       |         |
| CAPPS FEDERAL    | 2           | 3002534289 | 13O 20S 38E SW SE    | 33763         | 6851  |         | 143067        | 41928   |         | 28897           | 9408  |         |
| KYTE             | 8           | 3002534296 | 23B 20S 38E NW NE    | 20929         | 1633  |         | 347554        | 8899    |         | 36780           | 5702  |         |
| BULL DURHAM      | 2           | 3002534363 | 14O 20S 38E SW SE    | 35880         | 119   |         | 319494        | 885     | 481     | 55172           |       |         |
| MCCASLAND 18 FEE | 1           | 3002534391 | 18K 20S 39E NE SW    | 17338         | 2072  | 3027    | 430789        | 137308  | 13825   | 74900           | 6470  | 1490    |
| CHESTERFIELD     | 1           | 3002534420 | 14H 20S 38E SE NE    | 26379         | 107   | 310     | 736857        | 49285   | 5786    | 36636           |       |         |
| KYTE             | 9           | 3002534457 | 23C 20S 38E C NE NW  | 12496         |       |         | 49067         |         |         | 35150           |       |         |
| CARTER 19        | 2           | 3002534469 | 19L 20S 39E NW SW    | 34581         |       |         | 134739        |         |         | 104865          |       |         |
| BUGLER           | 1           | 3002534506 | 13L 20S 38E NW NW SW | 73063         | 539   |         | 429937        | 79590   |         | 40981           | 488   |         |
| MCCASLAND 18 FEE | 2           | 3002534523 | 18F 20S 39E SW SE NW | 27267         | 8719  | 4891    | 16969         | 126548  | 21209   | 21204           | 7396  | 4242    |
| MOONEY           | 1           | 3002534569 | 13I 20S 38E NE SE    |               |       | 21639   |               |         |         | 31362           |       | 94985   |
| PAIGE            | 1           | 3002534570 | 13P 20S 38E SE SE    | 7282          |       | 18729   | 14757         |         | 28807   | 16483           |       | 26466   |
| VICEROY          | 1           | 3002534625 | 13E 20S 38E SW NW    | 30415         |       |         | 512155        |         |         | 75010           |       |         |
| PALL MALL        | 1           | 3002534634 | 14A 20S 38E NE NE    | 331           | 133   | 30192   | 310           | 5394    | 339096  | 52              | 165   | 73926   |
| KOOL             | 1           | 3002534642 | 14B 20S 38E NW NE    | 36249         | 494   | 2960    | 330977        | 2088    | 3344    | 34773           |       |         |
| PICAYUNE         | 1           | 3002534734 | 11J 20S 38E C NW SE  |               | 13624 | 25383   | 825           | 66539   | 376047  |                 |       | 17895   |
| ROITAN           | 1           | 3002534735 | 14G 20S 38E SW NE    | 23698         | 4815  |         | 571182        | 108505  |         | 53256           |       |         |
| MARLBORO         | 1           | 3002534968 | 14C 20S 38E S2 NE NW | 968           |       |         | 9591          |         |         |                 |       |         |
| GINGER MC        | 1           | 3002535203 | 24A 20S 38E SW NE NE | 3034          |       |         | 19095         |         |         | 6883            |       |         |
| MERIT            | 1           | 3002535240 | 11O 20S 38E E2 SW SE |               | 9304  |         |               | 581439  |         |                 | 7350  |         |
| BEECHNUT         | 1           | 3002535241 | 14E 20S 38E SE SW NW | 540           |       |         | 2239          |         |         |                 |       |         |
| JONES ROBINSON   | 1           | 3002535246 | 19O 20S 39E C SW SE  |               |       | 370     |               |         | 1030    |                 |       | 7624    |
| MERIT II         | 1           | 3002535448 | 11G 20S 38E C SW NE  | 2502          | 16444 | 21816   | 11231         | 26589   | 151181  | 11887           | 19464 |         |
| DUKES            | 1           | 3002535614 | 11K 20S 38E E2 NE SW |               | 7818  | 30981   |               | 38544   | 130109  | 8390            | 26341 |         |
| BOURDON 18       | 1           | 3002536233 | 18O 20S 39E C SW SE  |               | 13561 | 12254   |               | 70858   | 82566   | 15704           | 13376 |         |
| DUNCAN 19        | 1           | 3002536235 | 19A 20S 39E          |               | 814   | 814     |               | 13021   | 13020   |                 |       |         |
| BOURDON 18       | 2           | 3002536385 | 18P 20S 39E C SE SE  |               |       | 30324   |               |         | 89105   |                 |       | 7990    |
| DIXIE QUEEN      | 1           | 3002536421 | 11P 20S 38E S2 SE SE |               | 7221  |         |               | 500644  |         |                 |       |         |
| BIG KICK         | 1           | 3002536745 | 13C 20S 38E W2 NE NW | 14915         | 861   | 9326    | 220996        | 12958   | 63667   | 2410            |       | 2526    |
| BOURDON 18       | 4           | 3002536793 | 18J 20S 39E C NW SE  | 570           | 2059  |         | 7760          | 20333   |         |                 | 4879  |         |
| HESTER 12        | 6           | 3002536795 | 12N 20S 38E SW SE SW | 25369         | 7728  | 9830    | 312775        | 177221  | 53932   | 24880           | 5838  | 4417    |
| HESTER 12        | 4           | 3002536800 | 12O 20S 38E SW SW SE | 15093         | 4520  | 4017    | 255628        | 108238  | 98166   | 37277           |       | 2318    |
| BOURDON 18       | 5           | 3002537015 | 18H 20S 39E C SE NE  |               | 2709  | 1544    | 10293         | 6320    |         | 9754            | 574   |         |
| JOE CAMEL        | 3           | 3002538033 | 13F 20S 38E NW SE NW | 3685          | 1651  | 1016    | 179380        | 150098  | 36607   | 5844            | 1587  | 918     |
| HESTER 12        | 8           | 3002538076 | 12K 20S 38E SW NE SW | 12023         | 3511  | 3365    | 117774        | 79893   | 50666   | 9111            | 10279 | 3973    |

| Lease Name   | Well Number | 10DIGIT API | Location             | Cum Oil (BBL) |         |           | Cum Gas (MCF) |           |            | Cum Water (BBL) |         |          |
|--------------|-------------|-------------|----------------------|---------------|---------|-----------|---------------|-----------|------------|-----------------|---------|----------|
|              |             |             |                      | Blinbry       | Tubb    | Drinkard  | Blinbry       | Tubb      | Drinkard   | Blinbry         | Tubb    | Drinkard |
| M & M        | 5           | 3002538112  | 24C 20S 38E NE NE NW | 2718          | 3639    |           | 20768         | 21712     |            | 5164            | 9077    |          |
| HESTER 12    | 5           | 3002538211  | 12P 20S 38E NW SE SE | 17831         | 5179    | 9985      | 169076        | 73325     | 70494      | 37049           | 4884    |          |
| HESTER 12    | 7           | 3002538369  | 12N 20S 38E NE SE SW | 5676          | 6538    | 2696      | 49998         | 47207     | 27622      | 14939           | 7710    | 9281     |
| MELOT        | 1           | 3002538370  | 11C 20S 38E SW NE NW | 4166          | 5356    | 2377      | 38978         | 30316     | 17327      | 20539           | 19955   | 18195    |
| BULL DURHAM  | 3           | 3002538379  | 14P 20S 38E NE SE SE | 5359          | 6591    |           | 63167         | 46303     |            | 613             |         |          |
| M & M        | 6           | 3002538380  | 24E 20S 38E SW SW NW | 3693          | 4012    |           | 35736         | 90970     |            | 10511           | 7909    |          |
| PAYDAY       | 3           | 3002538381  | 24L 20S 38E SW NW SW | 5493          | 3864    |           | 45839         | 25830     |            | 13666           | 2010    |          |
| BLANKENSHIP  | 4           | 3002538397  | 12L 20S 38E NE NW SW | 2504          | 2692    | 5673      | 11431         | 19204     | 20098      | 9309            | 3850    | 2888     |
| BLANKENSHIP  | 5           | 3002538399  | 12M 20S 38E SW SW SW | 10952         | 4028    | 4995      | 39032         | 73423     | 220817     | 17925           | 3984    | 2989     |
| BLANKENSHIP  | 6           | 3002538400  | 12L 20S 38E SW NW SW | 6154          | 4696    | 1052      | 26840         | 1470      | 52942      | 6842            | 502     | 9340     |
| KOOL         | 2           | 3002538439  | 14B 20S 38E SW NW NE | 6932          | 1106    | 620       | 14004         | 24351     |            |                 |         |          |
| RHINO        | 2           | 3002538484  | 11N 20S 38E SE NE SW | 7997          | 2175    | 4348      | 22026         | 14794     |            |                 |         |          |
| MAGNOLIA     | 1           | 3002538660  | 11E 20S 38E NE SW NW | 4783          | 4459    | 3254      | 67510         | 13023     | 13584      | 15616           | 2293    | 28752    |
| DIXIE QUEEN  | 2           | 3002538661  | 11P 20S 38E NE SE SE | 9287          | 2505    | 3676      | 44417         | 19972     | 35812      |                 |         |          |
| HESTER 12    | 10          | 3002538662  | 12O 20S 38E NE SW SE | 3598          | 264     | 2087      | 25714         | 5696      | 15197      | 22769           | 2577    | 6700     |
| HESTER 12    | 11          | 3002538663  | 12P 20S 38E SW SE SE | 1266          | 1114    | 2080      | 69050         | 68388     | 6528       | 5447            | 7112    | 3980     |
| BIG KICK     | 2           | 3002538664  | 13C 20S 38E SE NE NW | 7111          | 1177    | 2894      | 20476         |           | 52417      | 32283           | 13445   | 4480     |
| HOUSE        | 2           | 3002538665  | 13D 20S 38E SE NW NW | 4095          | 1803    |           | 28688         | 2242      |            |                 |         |          |
| M & M        | 7           | 3002538666  | 24E 20S 38E NE SW NW | 1021          | 988     |           | 5076          | 4626      |            | 4057            | 2689    |          |
| PAYDAY       | 4           | 3002538667  | 24L 20S 38E NE NW SW | 3768          | 7700    |           | 7132          | 39202     |            | 6870            | 6891    |          |
| LUCKY STRIKE | 2           | 3002538688  | 14I 20S 38E SW NE SE | 3347          | 926     |           | 19352         | 4411      |            |                 |         |          |
| BUGLER       | 2           | 3002538689  | 13L 20S 38E SW NW SW | 5235          | 1106    |           | 46094         | 14519     |            | 11427           | 3168    |          |
| MELOT        | 2           | 3002538700  | 11C 20S 38E NW NE NW | 12871         | 3995    | 1570      | 32994         | 5493      | 16015      | 13600           | 16051   | 12036    |
| HESTER 12    | 9           | 3002538791  | 12K 20S 38E NE NE SW | 1587          | 1011    | 3587      | 37531         | 4813      | 4167       | 17409           | 4720    | 9638     |
| MAGNOLIA     | 2           | 3002539090  | 11D 20S 38E NE NW NW | 1173          | 374     | 3146      | 48512         | 26458     | 72032      | 11677           | 2502    | 2502     |
| MCCASLAND    | 1           | 3002539091  | 7L 20S 39E SW NW SW  | 1360          | 1732    |           | 10334         | 26572     |            | 9667            | 9290    |          |
| DIXIE QUEEN  | 3           | 3002539451  | 11I 20S 38E          | 531           | 137     | 1046      | 1272          | 541       | 1368       |                 |         |          |
| CROWN        | 2           | 3002539457  | 13B 20S 38E          | 264           | 119     | 216       | 406           | 207       | 250        |                 |         |          |
| MELOT        | 3           | 3002539458  | 11B 20S 38E          | 649           | 168     | 1277      | 2231          | 948       | 2398       | 6421            | 1180    | 5504     |
| BLANKENSHIP  | 7           | 3002539488  | 12E 20S 38E          |               |         |           | 356           | 151       | 382        | 1968            | 410     | 1722     |
| MAGNOLIA     | 3           | 3002539489  | 11E 20S 38E          | 483           | 125     | 953       | 5105          | 2170      | 5488       | 3852            | 707     | 3302     |
| ARNOLD A     | 2           | 3002539490  | 11F 20S 38E          | 215           | 54      | 406       | 1518          | 645       | 1632       | 1705            | 348     | 1426     |
| PALL MALL    | 2           | 3002539530  | 14A 20S 38E          | 200           | 91      | 164       | 3031          | 1582      | 1977       | 1368            | 426     | 448      |
| TOTALS       |             |             |                      | 1,787,549     | 832,946 | 1,462,398 | 16,079,411    | 8,491,465 | 10,051,236 | 2,464,495       | 746,163 | 849,389  |
| AVERAGES     |             |             |                      | 18,620        | 10,158  | 24,786    | 164,076       | 103,554   | 176,337    | 28,657          | 12,035  | 17,696   |

| Proposed Allocations | Oil  | Gas  | Water |
|----------------------|------|------|-------|
| Blinbry              | 35%  | 37%  | 49%   |
| Tubb                 | 19%  | 23%  | 21%   |
| Drnkard              | 46%  | 40%  | 30%   |
| TOTAL                | 100% | 100% | 100%  |