

ZIA ENERGY, INC.

HOBBS, NEW MEXICO 88240

September 3, 1986

Oil Conservation Division
P.O. Box 1980
Hobbs, NM 88240

Attention: Mr. Jerry Sexton

Re: Cities Federal No. 3 well
located 330' FNL & 2310' FWL
Sec. 20-T22S-R36E

Gentlemen:

The above described well was originally completed in 1978 in the Queen formation from 3796' to 3866' in the Eunice Seven Rivers Queen, South field. A recent workover was attempted with additional perforations from 3628' to 3748' and a fracture treatment. Test results following this workover showed 100% water and no gas. All perforations from 3628' to 3866' were squeezed below a retainer set at 3409', using 300 sxs of cement.

Another workover was attempted in the Yates formation. Perforations were made from 3189' to 3282', a total of 19 holes. Following a breakdown of the perfs with acid, the well was treated using 20,000 gallons of gelled 2% KCL water and 50,000 # of sand. Production tests are now indicating 0 BOPD, 98 BWPD and 405 MCF/day.

This well is on an unorthodox gas well location and on a non-standard proration unit, which was established by OCD order R-4139 in 1971. This was a 280 Jalmat gas unit.

The Cities Federal No. 1 well, located in the NW/4 - SW/4 of Sec. 20, was a Jalmat gas well which was the first well on this 280 non-standard proration unit. Water production from this well increased until it reached approximately 150 BWPD. There was no produced water disposal system available at that time and the price of gas was so low that it was no longer economically feasible to produce the well. The well was shut in until a water disposal system became available. We returned the No. 1 well production but we were never able to pump the water off and get the 150 MCF/day of gas production, following the shut in period.

We are scheduling a hearing before the Oil Conservation Division at their first hearing date in October, 1986 to request approval