

P. O. BOX 2219

ZIA ENERGY, INC.

PHONE (505) 393-2937

HOBBS, NEW MEXICO 88240

June 1, 1989

Oil Conservation Division
P.O. Box 1980
Hobbs, NM 88241-1980

Attention: Mr. J.T. Sexton
Supervisor & Oil & Gas Inspector

Re: BJ Well No. 1-P 17-22S-37E
OCD Order DHC-714

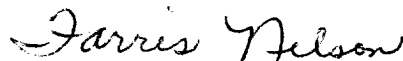
Dear Mr. Sexton:

Oil Conservation Order DHC-714 provides, among other things, that production from the above well shall not exceed 40 barrels of water per day. After producing this well for five months following a 33 month shut-in period, we find the well has stabilized at a rate of 80 barrels of water production, 9 barrels of oil production and 25 MCF per day of gas production.

The well is within the specified limits of Order DHC-714 except for the water production. It would be uneconomical to try to produce the well in any manner other than downhole commingled. To force the well to adhere to the limit placed on water production would force the well to be not only shut down but it would require plugging. This would result in the loss of otherwise recoverable reserves - causing a loss to the State of New Mexico of applicable production taxes and income taxes, a loss of revenue to the working interest and royalty owners and a loss of useable hydrocarbons to the consumer. Therefore, we propose that production from this well be continued as conditions now exist or exist in the future.

If you require any additional information, please call on us.

Yours truly,



Farris Nelson

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