



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

IN REPLY REFER TO:
NM-05791
3162.7-3 (07100)

MAR 26

Phoenix Hydrocarbons Operating Corp.
Attn. : Gregg Baiano
P.O. Box 3638
Midland, TX 79702

Dear Mr. Baiano:

Recently a field inspection was conducted on Federal oil and gas lease No. NM-05791 which includes the following wells which you now operate:

- 1) **No. 3 Federal M, located 1700' FSL and 1800' FWL section 3, T. 27N., R. 8W., San Juan County, NM in the Chacra Formation.**
- 2) **No. 1 Federal M, located 1190' FSL and 1800' FWL section 3, T. 27N., R. 8W., San Juan County, NM in the dualled Mesaverde and Dakota Formations.**
- 3) **No. 2 Federal M, located 1220' FNL and 1590' FWL section 3, T. 27N., R. 8W., San Juan County, NM in the Chacra Formation.**
- 4) **No. 1A Federal M, located 1500' FNL and 1680' FWL section 3, T. 27N., R. 8W., San Juan County, NM in the Mesaverde Formation.**

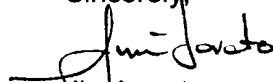
Based on this field inspection, it appears that production from the No. 3 Federal M and the No. 1 Federal M wells are surface commingled at a common facility. In addition, the No. 1 Federal M well appears to be down hole commingled. The same observation was made on the No. 2 Federal M and the No. 1A Federal M wells. These wells also appear to be measured at a common surface facility. These observations were based on the meters being removed from the Chacra Formation wells.

This office has no record of issuing either a surface or down hole commingling approvals. As such, within 30 days of receipt of this notice please file your application for surface commingling on the referenced wells and your application for down hole commingling on the No. 1 Federal M well.

Under the provisions of 43 CFR 3165.3, you may request an Administrative Review of any instructions, orders, or decisions issued by the Authorized Officer. Such a request, including all supporting documents, must be filed in writing within 20 business days of receipt of this notice and must be filed with the State Director, Bureau of Land Management, P.O. Box 27115, Santa Fe New Mexico 87502-0115. Such a request will not result in a suspension of the instructions, orders, or decision unless the reviewing official so determines. Procedures governing appeals from the instructions, orders, or decisions are contained in 43 CFR 3165.4 and 43 CFR 4.400 et seq.

If you have any questions regarding the above, contact me (505) 599-6367.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lovato". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Jim Lovato
Senior Technical Advisor,
Petroleum Management Team

NMOCD Aztec
