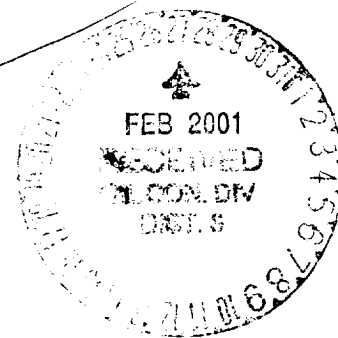




PHILLIPS PETROLEUM COMPANY

FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

February 26, 2001



NM Oil & Gas Conservation Division
Attn: Frank Chavez
1000 Rio Bravos Rd.
Aztec, NM 87410

Recommended Allocation Method
Subtraction Method – San Juan 29-6, Well #106
Unit M, 800' FSL & 990' FEL
API # - 30-039-21039

31-29N-6W

Mr. Chavez:

Phillips plans on using the ratio method beginning January, 2001 to allocate the commingled production to the Mesaverde and Dakota formations. Based upon a review of all available information, the ratio will be 91% to the Mesaverde and 9% to the Dakota.

The subject well produced from the Dakota only from 1974 until July, 1999 when the Mesaverde was added. The Mesaverde was then produced by itself until March, 2000 at which time all production was commingled. The subtraction method for allocating production between the Mesaverde and the Dakota was employed from that time to the present.

Production from the Mesaverde in January and February, 2000, which is the last 2 months of the Mesaverde-only production period, was 13,072 mcf and 13,655 mcf respectively, or an average of 13,363 mcf. Production from the Dakota in May and June, 1999, which is the last 2 months of the Dakota-only production period, was 1,417 mcf and 1,378 mcf respectively, or an average of 1,398 mcf.

The ratio of Mesaverde production is calculated by dividing the sum of the two individual zones into the Mesaverde only production.

$$91\% = \frac{13,363}{(13,363 + 1,398)}$$

Please call me at 505-599-3429 if you have any questions.

Sincerely,

PHILLIPS PETROLEUM COMPANY

K. R. Schramko
Reservoir Engineer

cc: Trish Stuart
Patsy Clugston
Jim Lovato
David Valdez – Burlington

x