PHILLIPS PETROLEUM COMPANY
FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

May 3, 1998

State of New Mexico
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

ATTN: MS. LORI WROTENBERY
DIRECTOR

RE: REQUEST FOR ADMINISTRATIVE APPROVAL
OF UNORTHORODOX WELL LOCATION
SAN JUAN 32-7 UNIT #242 WELL
SAN JUAN COUNTY, NEW MEXICO
PHILLIPS G. F. 5464

Dear Ms. Wrotenbery:

Phillips Petroleum Company (Phillips), as Operator of the captioned well, respectfully requests administrative approval of an unorthodox well location for the San Juan 32-7 Unit #242 (Fruitland Coal) well.

Phillips proposes to drill this well at a location of 1683' FNL and 1749' FWL of Section 33-32N-7W, San Juan County, New Mexico. The proposed well will be located in the Basin Fruitland Coal Pool and would have the N/2 of Section 33 designated as the drillblock. This unorthodox location was selected based on primarily geologic conditions which make drilling at an orthodox location unfavorable. For your benefit in reviewing this request, we have included the following:

1. Ownership Plat
2. Unit Plat of San Juan 32-7 Unit
3. Topographical Plat
4. Aggregate Net Coal Isolith Plat
5. Rate Data Plat
6. Copy of log for San Juan 32-7 #207 Well

Phillips is the Operator of the San Juan 32-7 Unit. All offsetting drillblocks, with the exception of the S/2 of Section 33 are located within the Unit boundaries. As to the S/2 of Section 33, the leasehold rights in the SW/4 and W/2 SE/4 are owned in full by Coleman Oil & Gas, Inc. Phillips and Williams Production Company own the leasehold rights in the E/2 SE/4. The portion of the S/2 owned by Coleman Oil & Gas, Inc. is not committed to the San Juan 32-7 Unit. (See Ownership Plat).

The Aggregate Net Coal Plat demonstrates little difference in the average Coal thickness between an orthodox location in the NE/4 and the requested location in the NW/4, and rightly so as this is not the issue. The compelling reason for this request is based on the permeability of the Coal formation in Section 33.

As is clearly evidenced on the Rate Data Plat, wells to the North, South and East, (white area of plat) which directly offset an orthodox location in the NE/4 of Section 33, produce at substantially lower rates than wells to the West (green, yellow & orange areas). While gas production in the colored areas has gradually increased with the dewatering of the cleat system, it has remained relatively constant in the white area of the map. These wells were drilled between 1991-1993. Moreover, the magnitude of the initial water production in the white area is relatively lower than it is in the colored area. These things are indicative of a poorly developed cleat system (ie low permeability). In order to drill a well which meets economic guidelines, based on current costs and parameters, it is necessary to move the location West to encounter Coal deposits with cleat development that is adequate to provide the necessary permeability to produce the well at economic rates.

To reiterate, this N/2 drillblock is totally located within the confines of the San Juan 32-7 Unit boundaries and is surrounded (with the exception of the SW/4 & W/2 SE/4 of Section 33) on all sides by said unit. In order to promote full development of the Unit and prevent economic waste, we ask that you approve this request.

We have contacted the affected offset operator on this matter and they have been furnished a copy of this request by certified mail.

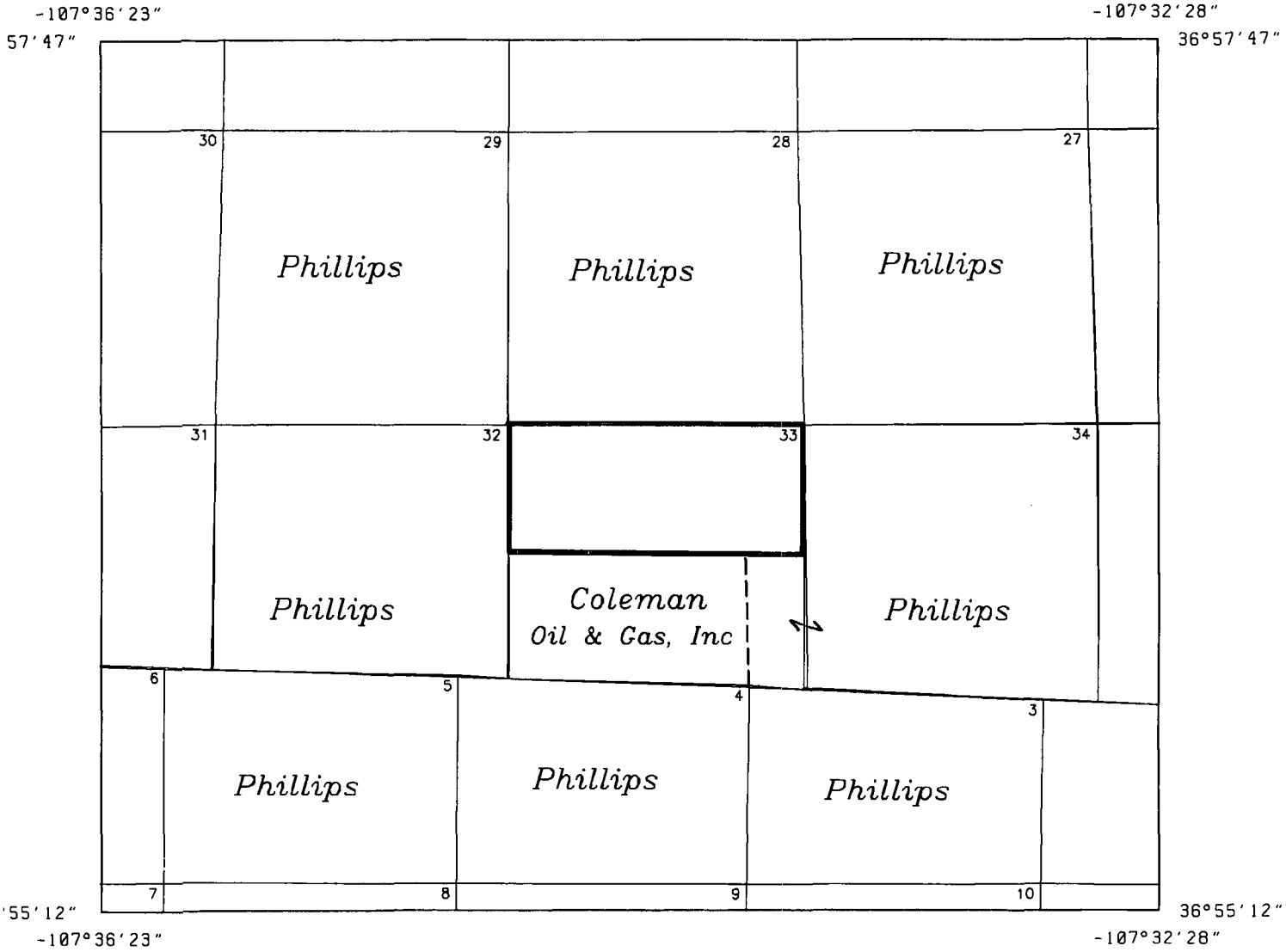
We thank you for your considerate time and attention to this matter and should you have any questions, please contact the undersigned.

Very truly yours,

Gillian Arrieta for

S. Scott Prather, CPL
Senior Landman
San Juan Basin
(505) 599-3410

cc: J. L. Mathis (r) 5464
Ernie Busch – OCD, Aztec
Coleman Oil & Gas, Inc.



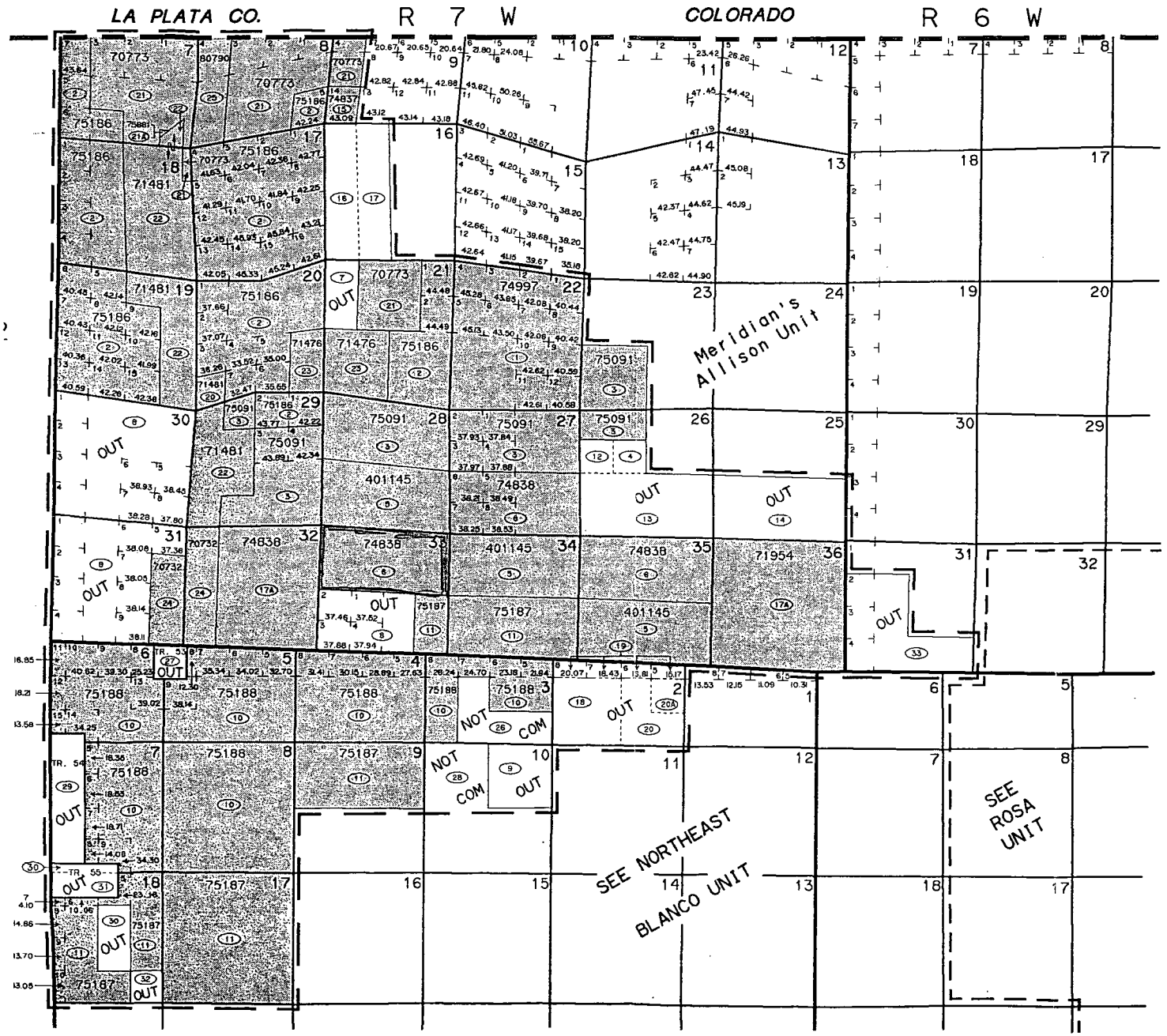
Phillips Petroleum Company

AREA Offsetting Ownership
Sec. 33-32N-7W

COUNTY San Juan STATE New Mexico JOB P7410CLC USR00229

SCALE 1" = 3000 FEET

0 3,000 6,000
SCALE (FEET)



Plat # 30045027

37.46
37.52
74.98
37.88
112.86
37.94
150.80
160

SAN JUAN ~~32-7~~ UNIT
BASE PLAT

310.80

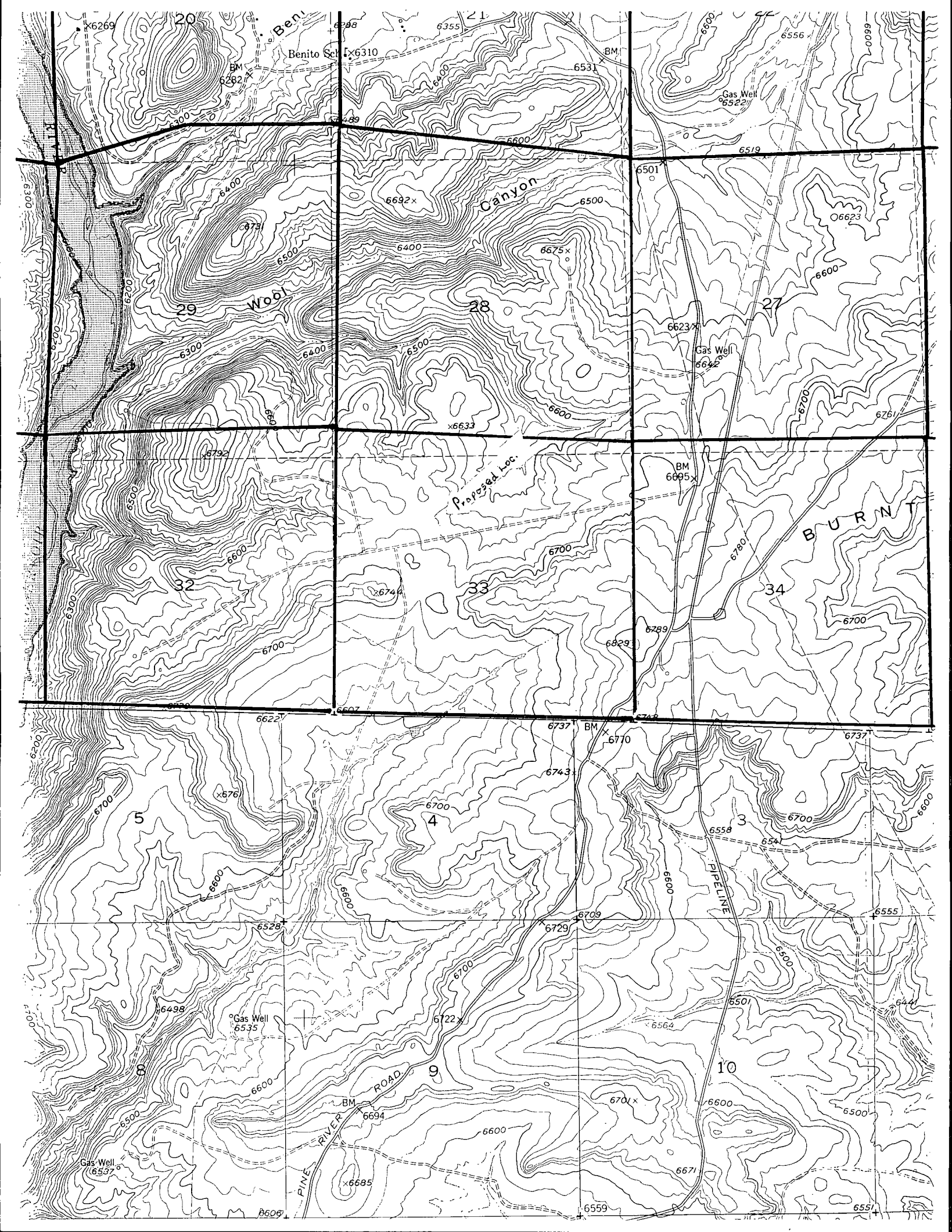
UNIT BOUNDARY
(17,828.51 ac. unit area)

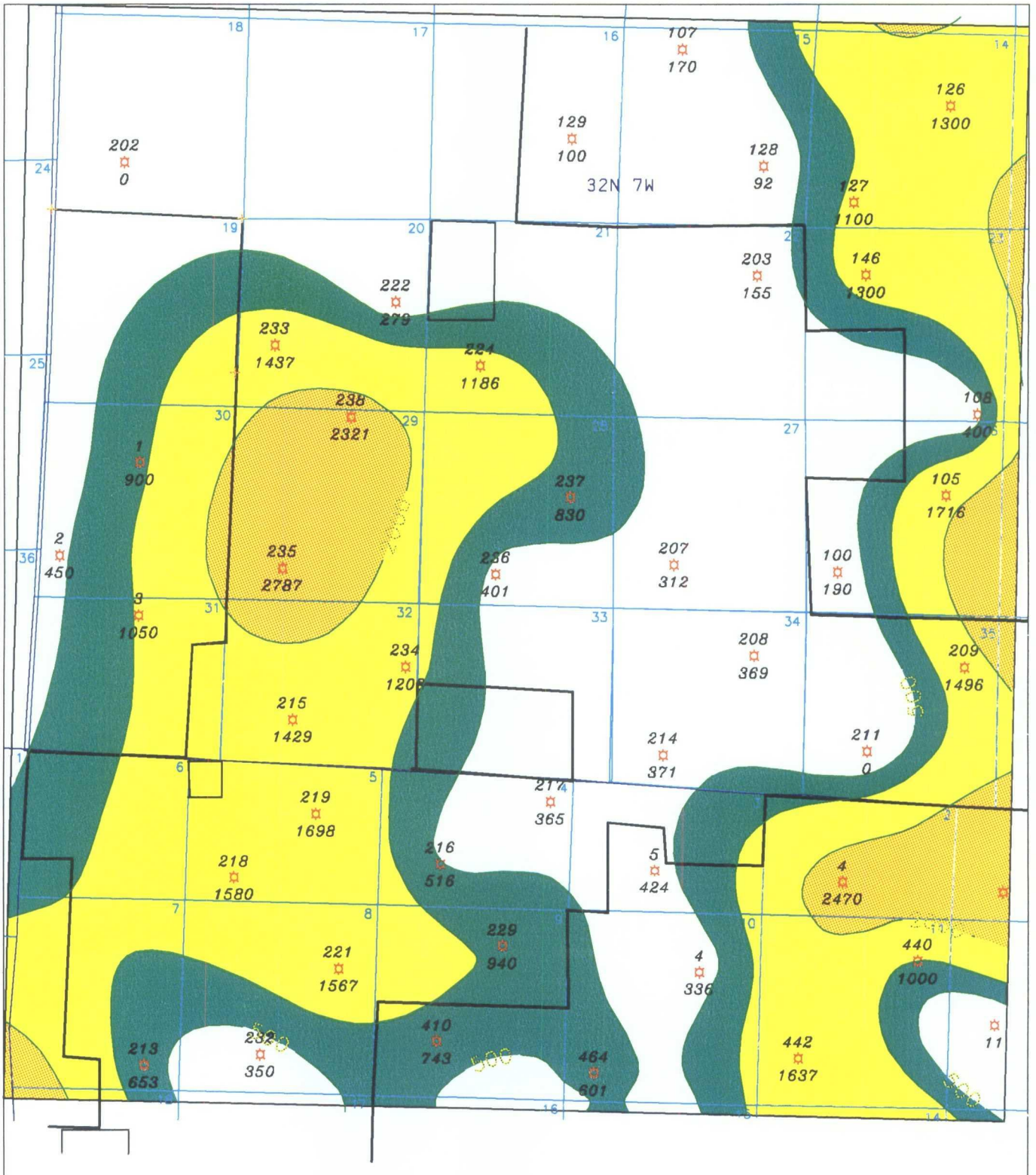
OUT - Acreage eliminated from unit

NOT COMMITTED - failure of commitment to join the unit by any working interest owner in a tract

SAN JUAN CO., NM
Scale: 1" = 4000'

1/91 JD


Benito Sch.
Canyon
Wool
Proposed Loc.
BURNT
PIPELINE
PINE RIVER ROAD
Gas Well
BM
20
21
29
28
27
32
33
34
5
4
3
8
9
10



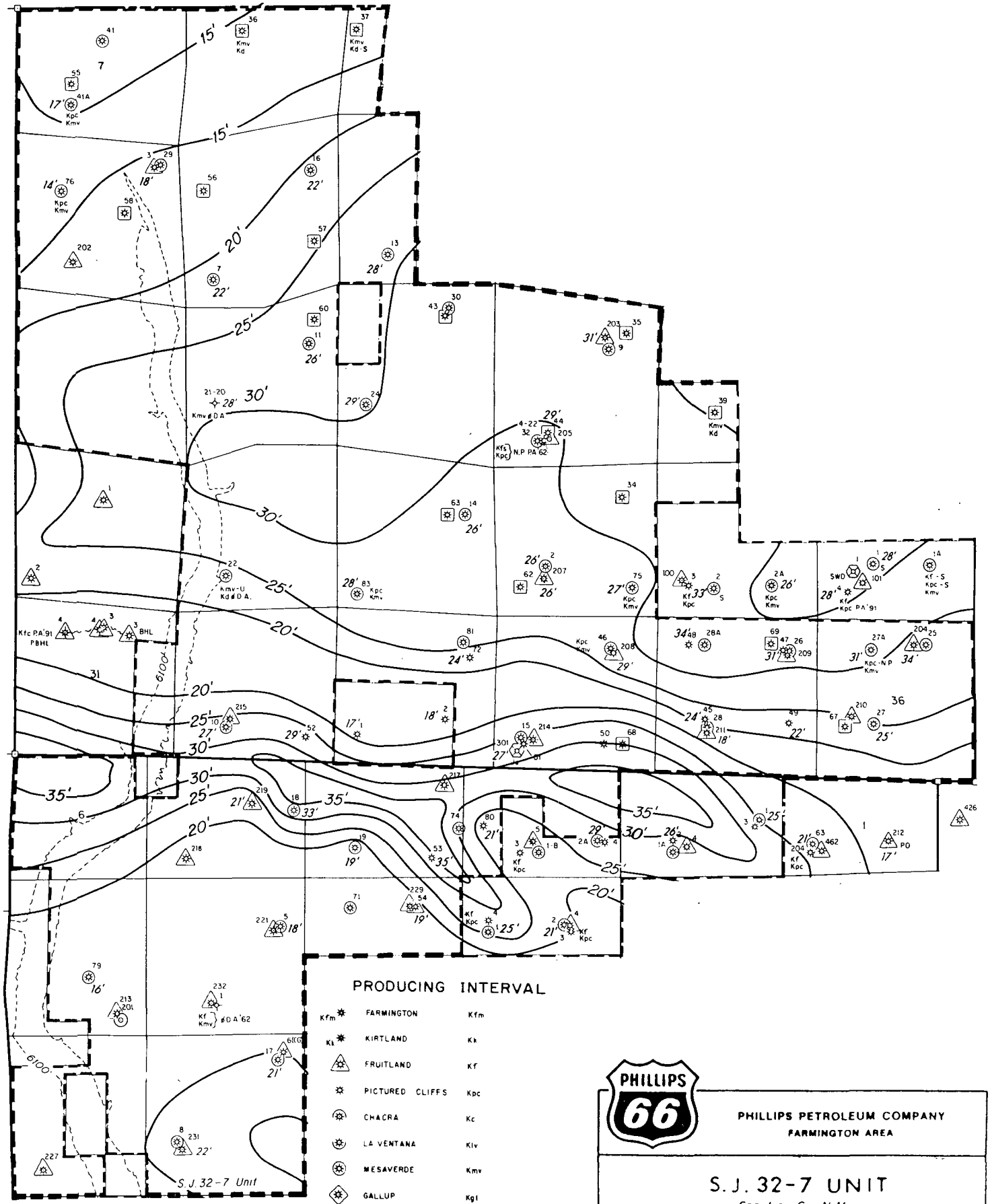
Portions of San Juan 32-7 Unit & Surrounding Areas

1st Quarter 1997 Rate Data (MCFD)

R - 7 - W

T 32 N

T 31 N



PRODUCING INTERVAL

Kfm	FARMINGTON	Kfm
Kk	KIRTLAND	Kk
Kf	FRUITLAND	Kf
Kpc	PICTURED CLIFFS	Kpc
Kc	CHACRA	Kc
Klv	LA VENTANA	Klv
Kmv	MESAVERDE	Kmv
Kgl	GALLUP	Kgl
Kd	DAKOTA	Kd
Je Pp	ALL PRODUCTION BELOW CRETACEOUS	Je Pp

PHILLIPS 66

PHILLIPS PETROLEUM COMPANY
FARMINGTON AREA

S.J. 32-7 UNIT

San Juan Co., N.M.

AGGREGATE NET COAL ISOLITH OF THE FRUITLAND COAL

C.I. = 5'

5-1-92

Typical Coal Section

FINAL PRINT

Schlumberger

CNL/LDT WITH HIGH RES. LOGGING

73522

COMPANY Phillips Petroleum Company

WELL San Juan 32-7 Unit #207

FIELD Basin Fruitland Coal

COUNTY San Juan **STATE** New Mexico

COUNTY	San Juan
FIELD	Basin Fruitland Coal
LOCATION	1230' FSL & 1577' FWL
WELL	San Juan 32-7 Unit #207
COMPANY	Phillips Petroleum Company

LOCATION: 1230' FSL & 1577' FWL

Other Services: LDT W/HRL, CNT, MLT, NGT, COAL LOG

API SERIAL NO.	SECT.	TWP.	RANGE
N/A	27	32 N	7 W

Permanent Datum	Ground Level	Elev.	6648.0 F	Elev.: K.B. 6660.0 F
Log Measured From	Kelly Bushing	12.0 F	above Perm. Datum	D.F. 6659.0 F
Drilling Measured From	Kelly Bushing			G.L. 6648.0 F

Date	08-SEP-1990		
Run No.	One		
Depth Driller	3410.0 F		
Depth Logger (Schl.)	3410.0 F		
Btm. Log Interval	3407.0 F		
Top Log Interval	3180.0 F		
Casing-Driller	9 5/8" @287.0 F	7" @3243.0 F	@
Casing-Logger		3241.0 F	
Bit Size	12 1/4"	8 3/4"	6 1/4"
Type Fluid in Hole	PRODUCED WATER		
Dens. / Visc.	8.34 LB/G		
pH / Fld. Loss			
Source of Sample	BLEWIELINE		
Rm @ Meas. Temp.	.682 OHMM @ 66.0 DEGF	@	@
Rmf @ Meas. Temp.		@	@
Rmc @ Meas. Temp.		@	@
Source: Rmf / Rmc			
Rm @ BHT	.433 OHMM @ 108. DEGF	@	@
TIME: Circulation Ended	10:15 9/6		
TIME: Logger on Bottom	See Log		
Max. Rec. Temp.	108. DEGF		
Equip. / Location	5869	Farmington	
Recorded By	V. Ayres		
Witnessed By	D. Green & R. Hawks		

FILE COPY

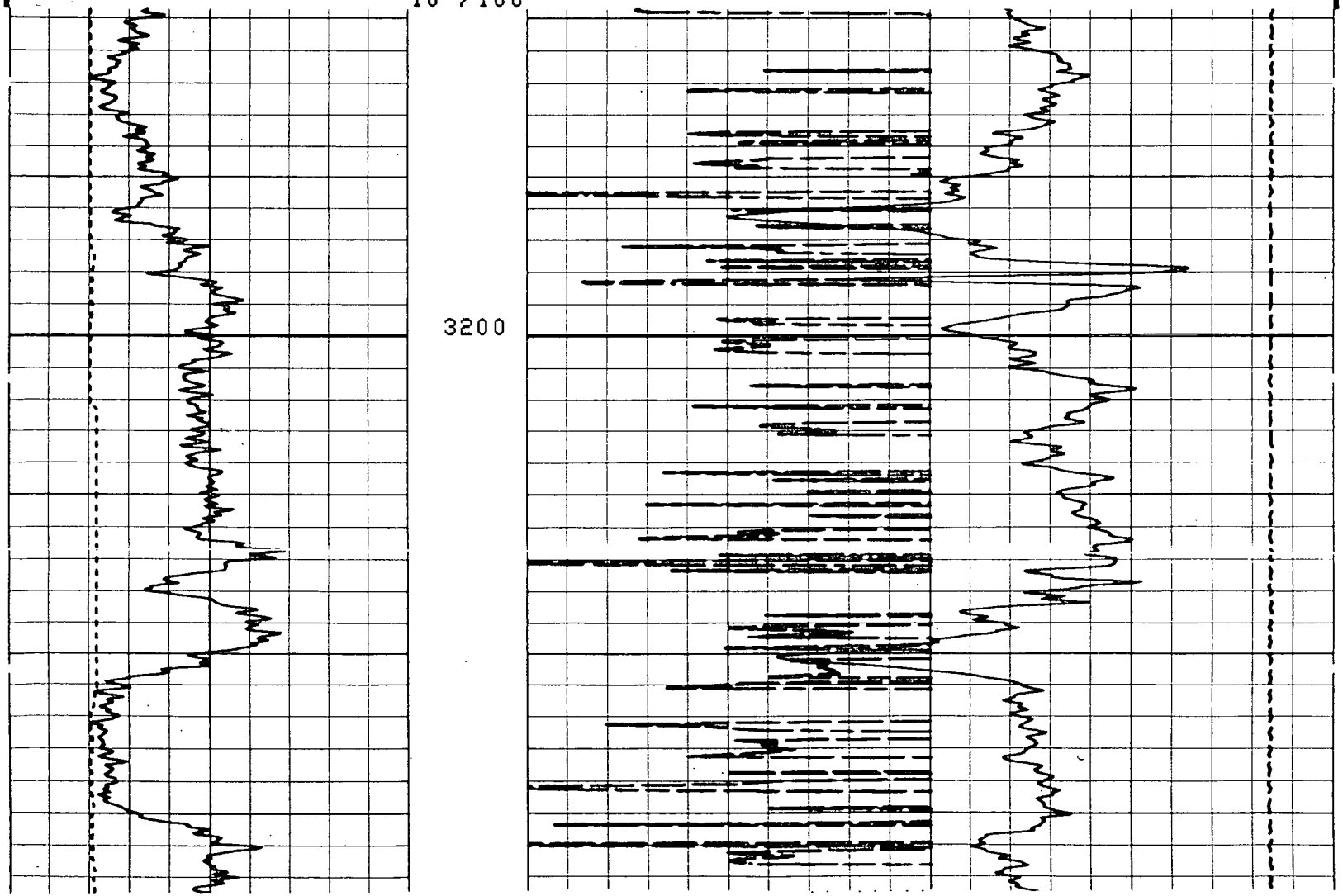
The well name, location and borehole reference data were furnished by the customer.

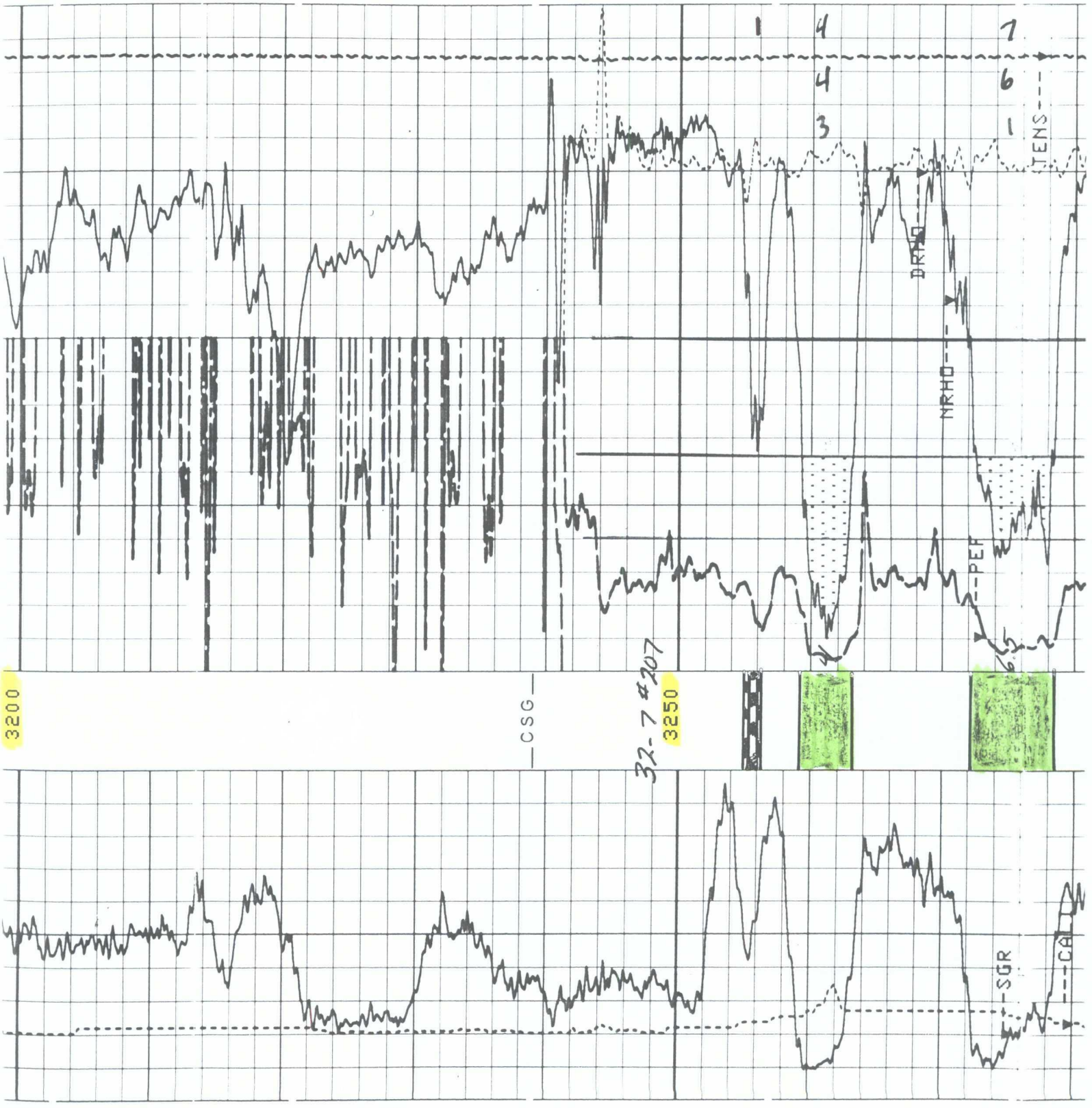
SGR (GAPI)		PEF	DRHO(G/C3)
0.0	200.00	0.0 10.000	-.2500 .25000
CALI(IN)			TENS(LBF)
4.0000	14.000	1.0000	10000. 0.0
		NRHO(G/C3)	
		1.0000	3.0000

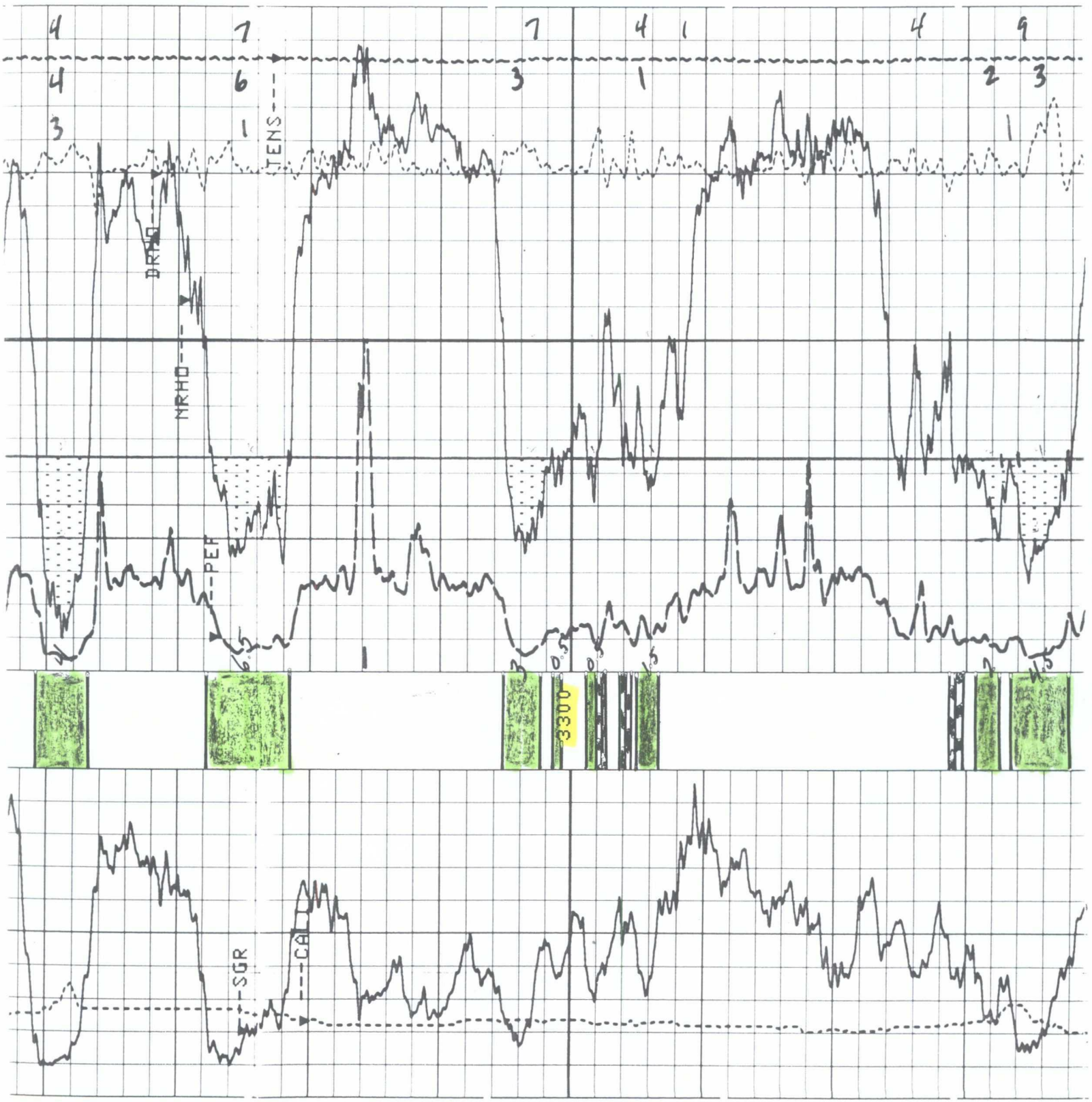
CP 32.4 FILE 3 06-SEP-1990 14:00 (UP)

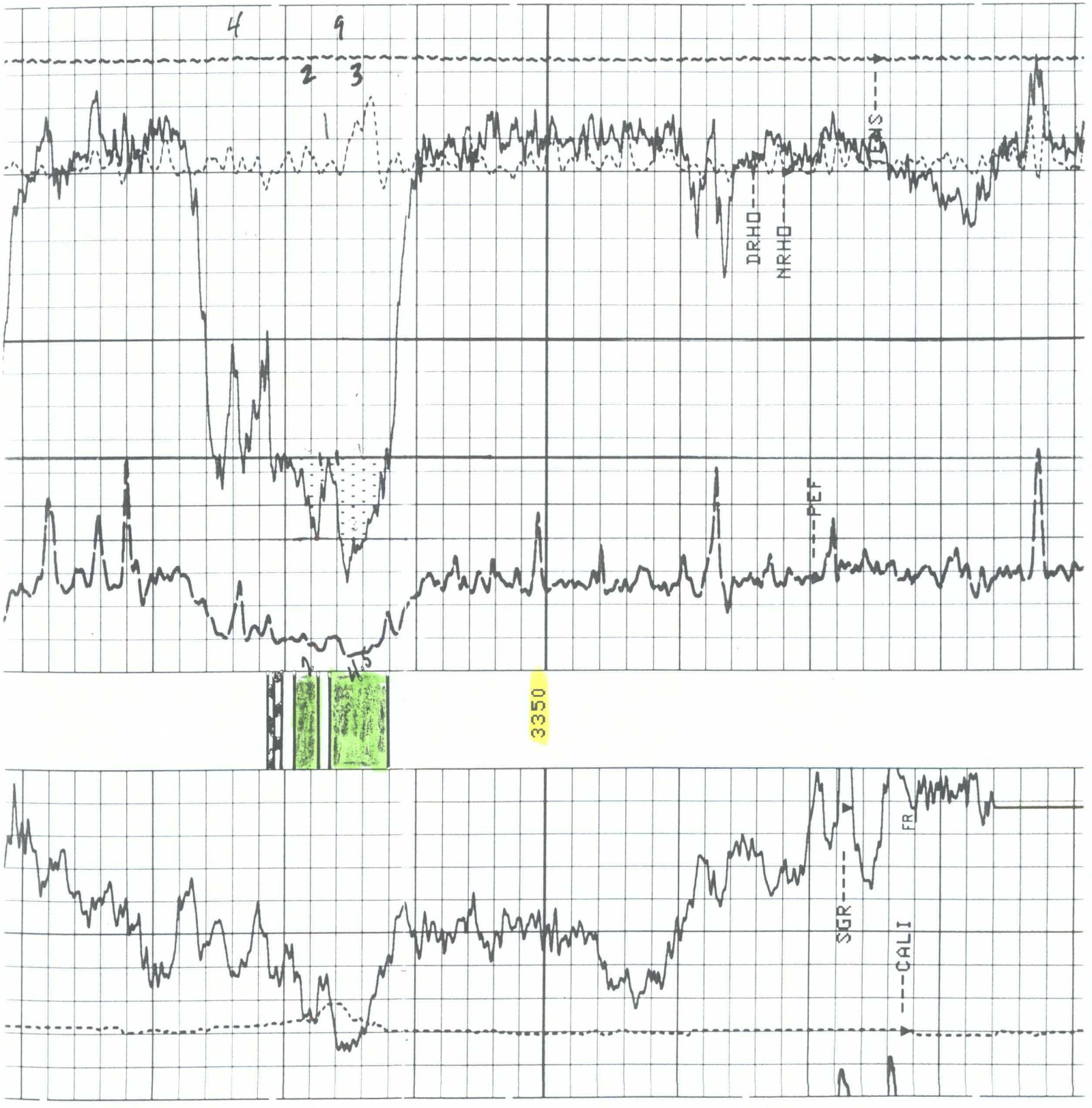
HIGH RESOLUTION LOG

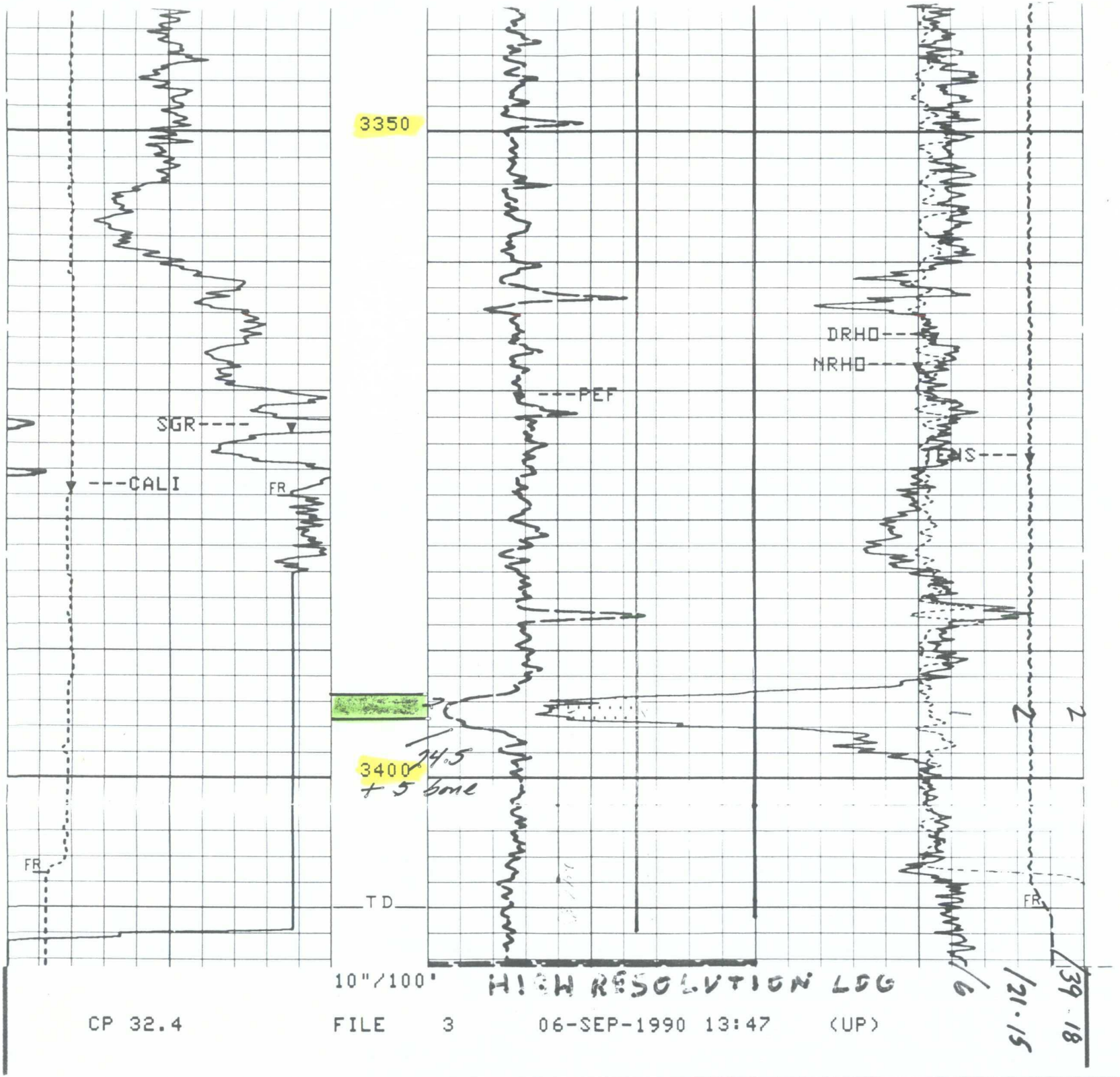
10"/100'




1
4
4
3
7
6
1
TENS
DRHO
NRHO
PEF
CSG
3200
3250
32-7 #207
SGR
CAL


TENS
DRHO
MRHO
PEF
3300
SGR
CAL


4
9
2
3
1
DRHO
NRHO
PEF
3350
SGR
CALI
FR


3350
SGR----
---CALI
FR
---PEF
DRHO---
NRHO---
TENS---
3400
74.5
+5 bone
FR
TD
FR
10"/100'
HIGH RESOLUTION LOG
CP 32.4
FILE 3
06-SEP-1990 13:47
(UP)
1/21.15
139.18