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ENGINEERING & PRODUCTION CORP.

Petroleum Engineering Consulting
Lease Management
Contract Pumping

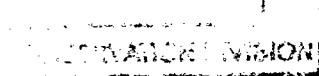
7415 East Main
Farmington, New Mexico 87402
(505) 327-4892

September 17, 1997

Mr. William J. LeMay
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

SEP 23 1997

Re: Application for Surface Commingling
Thompson Engineering
Callow #1 and Callow #1R
Section 27, T29N, R13W
San Juan County, New Mexico
W. Kutz Pictured Cliffs and Basin Fruitland Coal



Dear Mr. LeMay,

This is a request on behalf of Thompson Engineering for approval to surface commingle the gas production from the above mentioned wells.

1. Proposed System The wells are commingled upstream of a CPD meter so that they can reduce measurement costs. The Callow #1R well will have an allocation meter on location. The Callow #1 production is the difference between the CPD meter and the allocation meter. The gas flows into El Paso Natural Gas' gathering system and they maintain the CPD meter. Neither well produces liquid hydrocarbons.

2. Location Map Exhibit 1 is a topo map showing the location of the two wells.

3. Wells, Locations, and Lease Numbers Exhibit 2 is an acreage dedication plat. Both wells are located on Federal lease # NM-0468126. The Callow #1 is a Basin Fruitland Coal well and the east half of Section 17, T29N, R13W is dedicated to this zone. The SE/4 of Section 17 has been dedicated to the Callow #1R, which is the Pictured Cliffs completion. Exhibit 3 is a list of the royalty, overriding royalty, and working interests in both wells.

4. Schematic Diagram Exhibit 4 is a schematic diagram of the facilities.

5. Fuel Gas Each well has a separator that uses approximately 0.5 MCFD of fuel gas.



6. Mechanical Integrity The flow line from the Callow #1R to the Callow #1 is 2" SDR-7 poly pipe with a pressure rating of 267 psig. This line and all of the connections will be tested to wellhead pressure which will be approximately 150 psig. The MAOP of El Paso's gathering system is 250 psig.

7. Production - Gravity/BTU Actual production from the Callow #1 is attached as Exhibit 5. The Callow #1R has not been completed so no data is available.

8. Allocation Formula The Callow #1R well has an allocation meter. The production assigned to this well will be the integrated volume from the allocation meter plus separator fuel gas. The volume of gas allocated to the Callow #1 will be the total integrated volume from the CPD meter, minus the volume allocated to the #1R, plus separator fuel gas.

9. Line Purging We do not anticipate purging the system very often, but if it is purged, the lost gas will be allocated equally to each of the two wells.

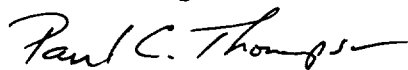
10. Purged Fluids Any fluids purged will be natural gas, and condensed water vapor.

11. Meter Calibration Schedule The allocation and CPD meters will be calibrated once each quarter. El Paso Field Services will maintain the CPD meter.

12. Gas Analysis Schedule El Paso Field Service will analyze the gas from the commingled stream twice a year.

13. Effective Date The system will be placed in service as soon as this application is approved.

Sincerely,


Paul C. Thompson, P.E.

[illegible]