PRO NEW MEXICO INC.
OIL & GAS PRODUCTION AND PROPERTIES
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VIA FEDERAL EXPRESS

December 6, 1993

Mr. Frank Chavez
District Supervisor
New Mexico Oil & Gas Commission
1000 Rio Brazos Road
Aztec, NM 87410

JAN 6

Dear Mr. Chavez:

Pro New Mexico, Inc. is in the process of obtaining the necessary approvals to install a gas gathering line from the Gracia Navajo 5-K #2 (5K) located in the NE/SW Sec. 5, T25N, R11W and terminating at a field compressor site and Central Delivery Point (CDP)) at the Gallegos Com #5 (Com #5) located in Unit J of Sec. 32, T26N, R11W. The layout of the facilities and mineral ownership of the dedicated acreage is shown on the attached schematic. Due to the diversified mineral ownership and the fact that the 5K is producing from the Fruitland Coals while the Com #5 is producing from the Dakota, in accordance with New Mexico Oil Conservation Division Rule 309-B.4., and in accordance with our discussion with you on Friday, December 2, we are submitting this revised application for approval of the allocation of the production as outlined on the attached method.

In order to facilitate the most economic gas production levels from each well, as well as increasing the total reserve recovery, compression is required. To be cost effective, result efforts are being made to utilize a single compressor for both wells. This effort produces a commingled gas stream delivered to the transmission company through a single sales meter.

Our intention is to allocate the gas sales and production volumes for each well based on the sales meter set at the outlet of the compressor located on the Com #5 location and a standard orifice meter located on the 5K location. The monthly calculations to be used for this allocation are shown on the attached sheet.

By copy of this letter we are advising the Bureau of Land Management, Bureau of Indian Affairs, New Mexico State Land Office and El Paso Natural Gas Company of this revised application. We appreciate your prompt attention to this matter.

Very truly yours,

PRO NEW MEXICO, INC.

By Jolene Dicks
Jolene Dicks
Contract Representative

Enclosures

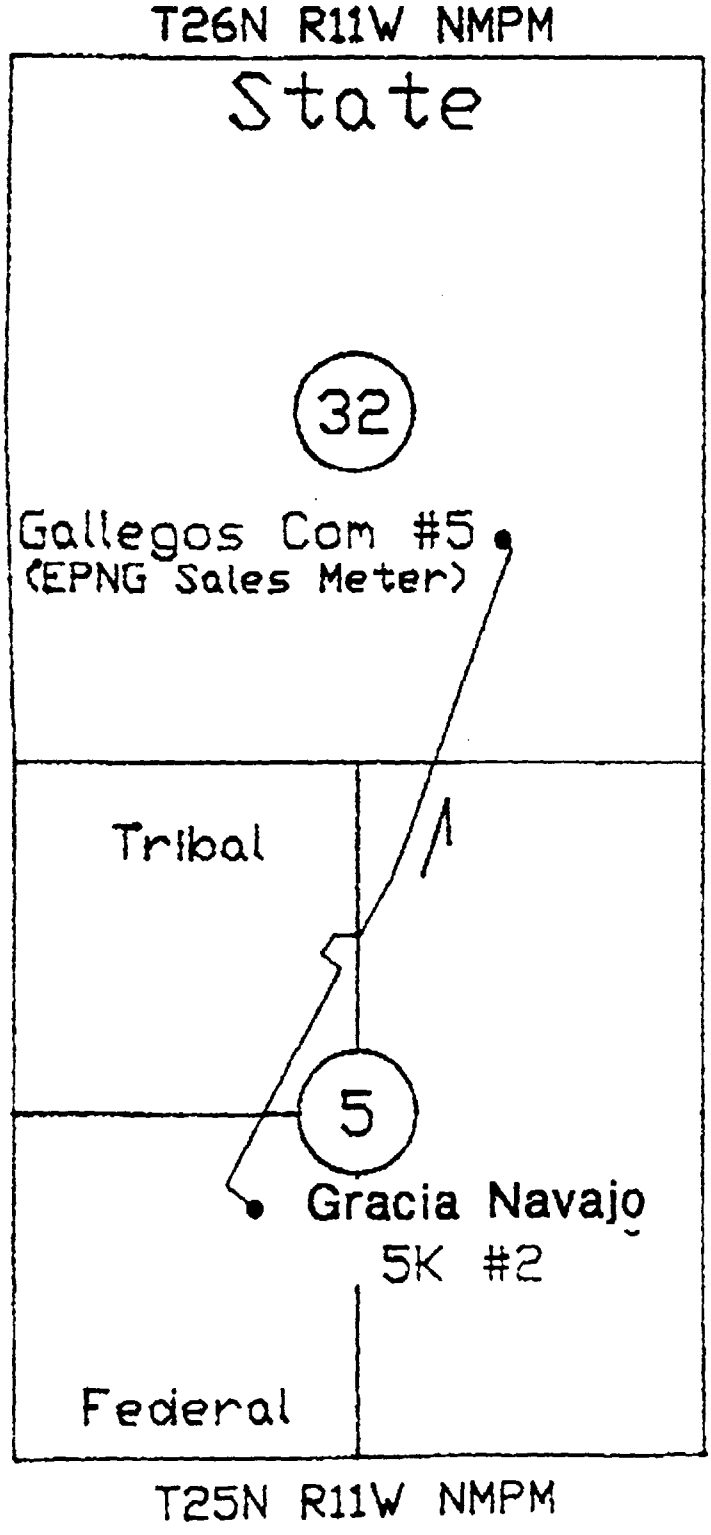
_____ accepts the allocation method as described.

By:_____

Date:_____

PRO New Mexico, Inc.

Schematic of Facilities and Mineral Leases for Allocation of Production



PRO NEW MEXICO, INC.
Allocation Calculations

STEP #1:

Obtain TOTAL MONTHLY GAS SALES from CDP in MCF from transporter.

STEP #2:

Add TOTAL MONTHLY GAS SALES and TOTAL MONTHLY FUEL GAS USAGE to obtained a combined TOTAL MONTHLY PRODUCTION.

STEP #3:

Obtain MONTHLY GAS VOLUME in MCF for 5-K from independent chart integration company.

STEP #4:

Subtract the MONTHLY GAS VOLUME for the 5-K from the TOTAL MONTHLY PRODUCTION to obtain the MONTHLY MCF PRODUCED by the Com #5.

STEP #5:

Divide the MONTHLY MCF PRODUCED from each well by the TOTAL MONTHLY PRODUCTION to calculate the MONTHLY FUEL GAS FACTORS allocated to each well.

STEP #6:

Multiply the individual FUEL GAS FACTORS by the TOTAL MONTHLY FUEL GAS to obtain a MONTHLY FUEL GAS USAGE IN MCF for each well.

STEP #7:

Subtract the MONTHLY FUEL GAS USAGE IN MCF from the MONTHLY MCF PRODUCED for each well to obtain the allocated MONTHLY SALES VOLUMES in MCF for each well.

SAMPLE CALCULATION

ASSUMPTIONS:
Total Monthly Sales at CDP: 10,000 MCF
Monthly Gas Production from 5-K: 2,400 MCF
Fuel Gas Usage for Month: 390 MCF

STEP #1:

TOTAL MONTHLY GAS SALES at CDP = 10,000 MCF

STEP #2:

TOTAL MONTHLY PRODUCTION = 10,000 MCF + 390 MCF
= 10,390 MCF

STEP #3:

MONTHLY GAS VOLUME for 5-K = 2,400 MCF

STEP #4:

MONTHLY MCF PRODUCED by Com #5 = 10,390 - 2,400
= 7,990

STEP #5:

MONTHLY FUEL GAS FACTOR for 5-K = 2,400/10,390 = .2310
MONTHLY FUEL GAS FACTOR for Com #5 = 7,990/10,390 = .7690

STEP #6:

MONTHLY FUEL GAS USAGE by 5-K = 390 * .2310 = 90.09 MCF
MONTHLY FUEL GAS USAGE by Com #5 = 390 * .7690 = 299.91MCF

STEP #7:

MONTHLY SALES VOLUME by 5-K = 2,400 - 90.09 = 2,309.91 MCF
MONTHLY SALES VOLUME by Com #5 = 7,990 - 299.91 = 7,690.09 MCF