



190

DELIVERED BY HAND

August 30, 2001

David Catanach, Petroleum Engineer
New Mexico Oil Conservation Division
P.O. Box 6429
1220 S. Saint Francis Drive
Santa Fe, NM 87504

Re: Application for Administrative Approval
Surface Commingling and Method of Allocation of Production
Gracia Federal 8-L No. 1 and Oneda No. 1
W/2 Section 8, Township 26 North, Range 11 West
San Juan County, New Mexico

Dear Mr. Catanach:

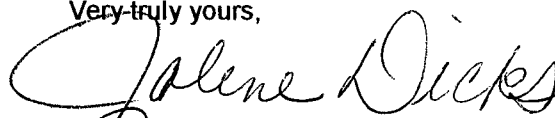
Thank you for providing me with a copy of your letter of August 27, 2001 in connection with the above-referenced application, which has not been delivered by the postal service yet.

The following responds to itemized request for additional information:

- a) Enclosed is the completed Administrative Application Checklist
- b) Both the Gracia Federal 8-L No. 1 and the Oneda No. 1 wells are operated by Pro NM Energy, Inc.
- c) Both the Gracia Federal 8-L No. 1 and the Oneda No. 1 wells are dedicated to the W/2 of Section 8
- d) Attached are schematics of Commingling Facilities showing all equipment on each of the well sites. The only change in the facilities is the incoming line at the Oneda No. 1, a change in the size of the compressor located at the Oneda No. 1, and the addition of an allocation meter at the Gracia Federal 8-L No. 1 location.
- e) A chart is attached which reflects the past 7 months production from each of the wells
- f) No commingling of liquids will occur.

Please give me a call if you have any questions or need any further information. Thank you.

Very truly yours,



Jolene Dicks
Director of Operations

Enclosures

DATE IN	SUSPENSE	ENGINEER	LOGGED IN	TYPE	APP NO.
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☒ PLC ☐ PC ☐ OLS ☐ OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

- [D] Other: Specify _____

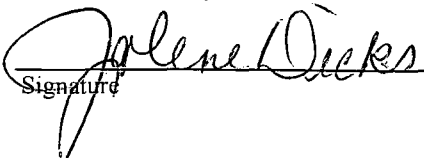
[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

- [A] ☒ Working, Royalty or Overriding Royalty Interest Owners
 [B] ☐ Offset Operators, Leaseholders or Surface Owner
 [C] ☐ Application is One Which Requires Published Legal Notice
 [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] ☒ For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] ☐ Waivers are Attached

[3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Jolene Dicks  Director of Operations 8/29/01
 Print or Type Name Signature Title Date
 jolene@adl.com
 e-mail Address

PRO NM ENERGY, INC.
ONEDA NO. 1 and GRACIA FEDERAL 8-L NO. 1
2001 MONTHLY PRODUCTION
Mcf @ 15.025

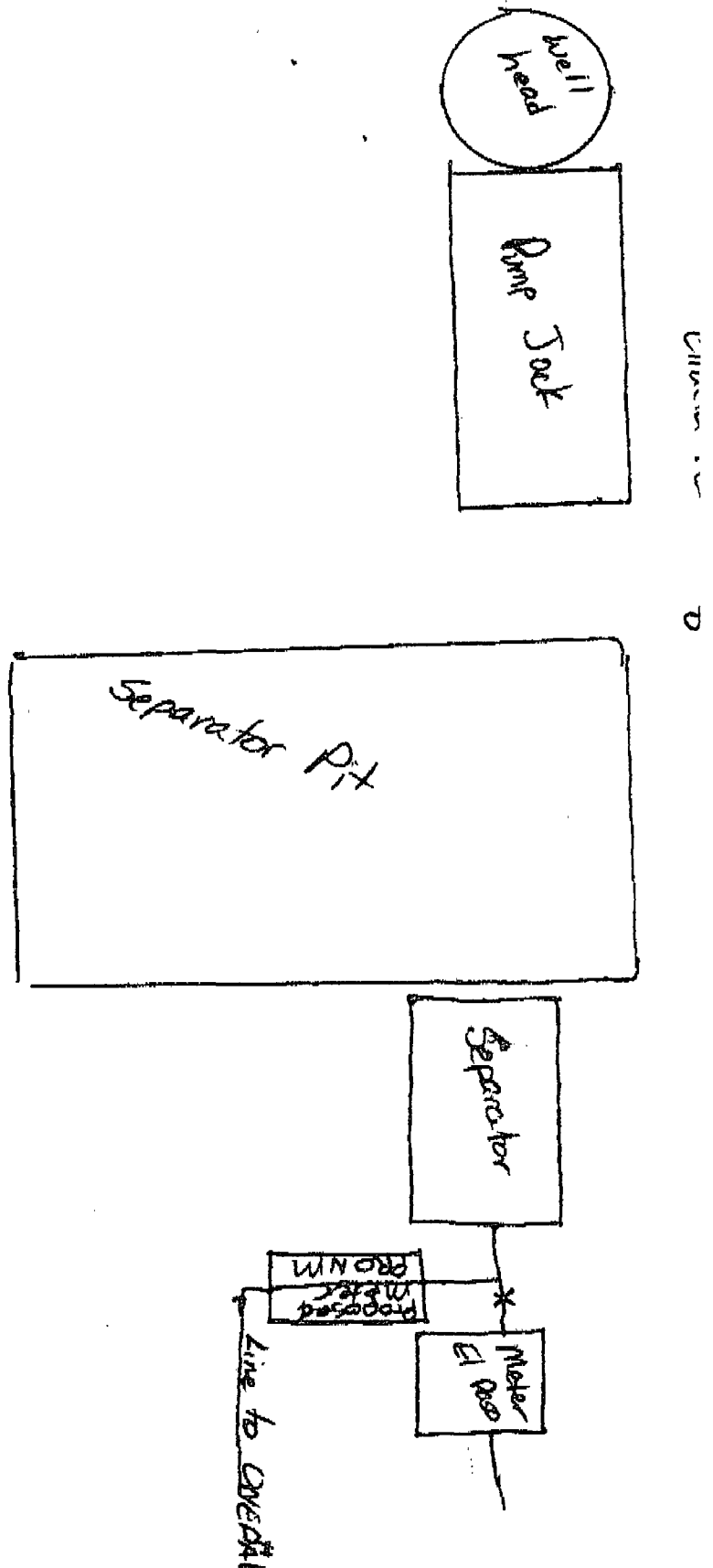
	Oneda No. 1	Gracia Fed 8-L No. 1
01/01	3,473	10,831
02/01	3,215	9,541
03/01	3,740	11,195
04/01	720	9,962
05/01	4,806	10,349
06/01	2,466	5,712
07/01	3,731	10,051

* Oneda No. 1 shut-in for 24 days to avoid continuous log-off due to EPFS high line pressure

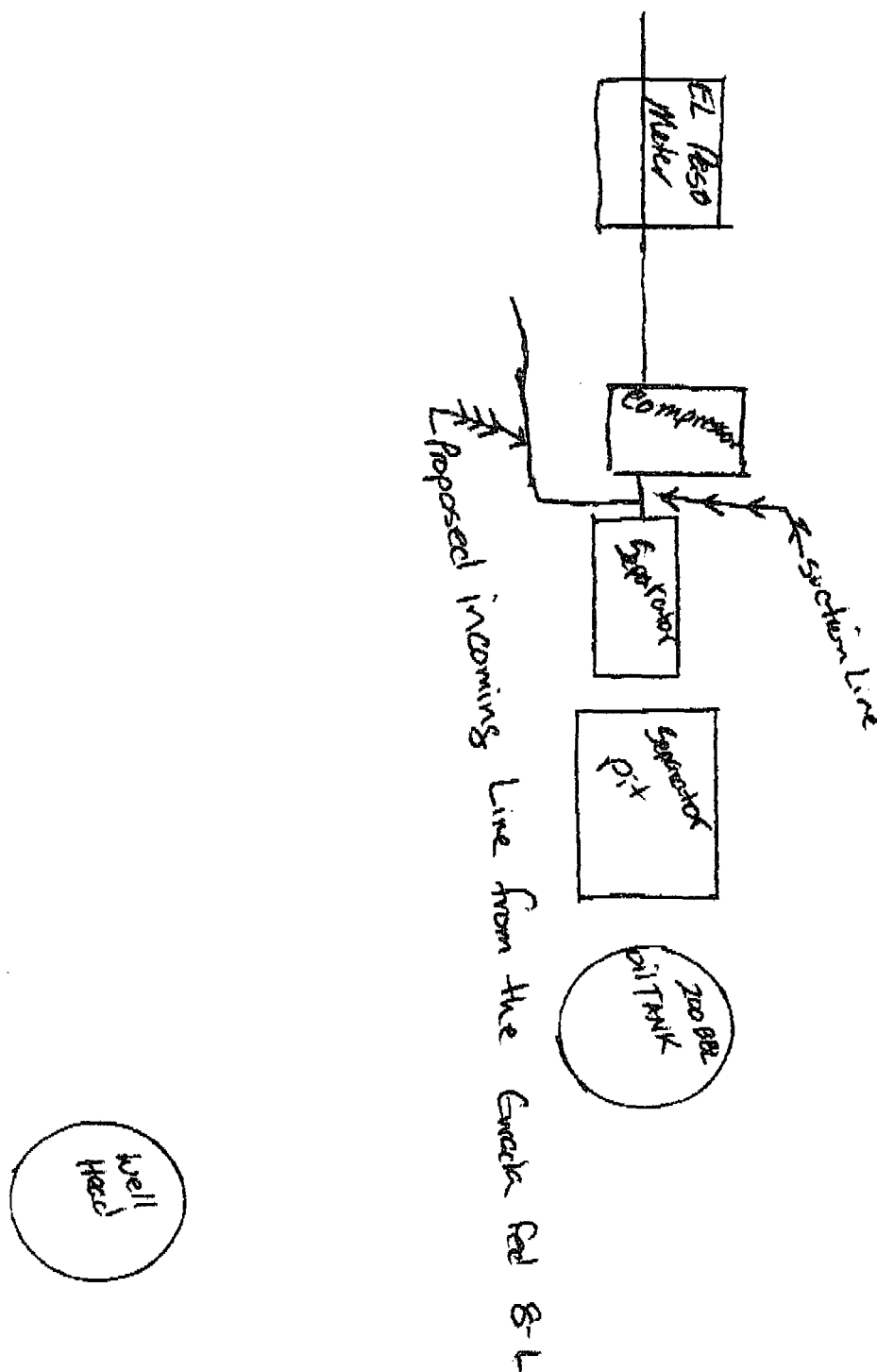
** Wellhead compression installed at Oneda No. 1

*** Both wells were shut in for approximately 10 days during the month due to EPFS facilities maintenance

Attention Jolema



Attention Irene



DATE 8/20/01	SUSPENSE 9/10/01	ENGINEER DC	LOGGED IN KN	TYPE PLC	APP NO. 123346852
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] **[NSP-Non-Standard Proration Unit]** **[SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] **[CTB-Lease Commingling]** **[PLC-Pool/Lease Commingling]**
[PC-Pool Commingling] **[OLS - Off-Lease Storage]** **[OLM-Off-Lease Measurement]**
[WFX-Waterflood Expansion] **[PMX-Pressure Maintenance Expansion]**
[SWD-Salt Water Disposal] **[IPI-Injection Pressure Increase]**
[EOR-Qualified Enhanced Oil Recovery Certification] **[PPR-Positive Production Response]**

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
- [A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD
- Check One Only for [B] or [C]
- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☒ PLC ☐ PC ☐ OLS ☐ OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or ☐ Does Not Apply
- [A] ☒ Working, Royalty or Overriding Royalty Interest Owners
- [B] ☐ Offset Operators, Leaseholders or Surface Owner
- [C] ☐ Application is One Which Requires Published Legal Notice
- [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] ☒ For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] ☐ Waivers are Attached
- [3] **INFORMATION / DATA SUBMITTED IS COMPLETE** - Certification

I hereby certify that I, or personnel under my supervision, have reviewed the applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common.

I understand that any omission of data (including API numbers, pool codes, etc.), pertinent information and any required notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Jolene Dicks	Jolene Dicks	Director of Operations	8/16/01
Print or Type Name	Signature	Title	Date
		pronmene@aol.com	
		e-mail Address	

OIL CONSERVATION DIV.
01 AUG 20 PM 3:39



PRO NM ENERGY INC.

OIL AND GAS PRODUCTION AND PROPERTIES

OIL CONSERVATION DIV.

01 AUG 20 PM 3:39

CERTIFIED – RETURN RECEIPT REQUESTED

August 16, 2001

David Catanach, Hearing Examiner
New Mexico Oil Conservation Division
P.O. Box 6429
1220 S. Saint Francis Drive
Santa Fe, NM 87504

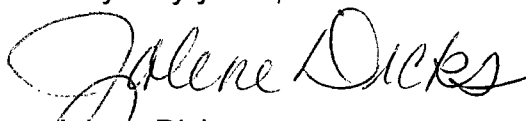
Re: Application for Administrative Approval
Surface Commingling and Method of Allocation of Production
Gracia Federal 8-L No. 1 and Oneda No. 1
W/2 Section 8, Township 26 North, Range 11 West
San Juan County, New Mexico

Dear Mr. Catanach:

Enclosed for your review and processing are the original and one copy of Pro NM Energy, Inc.'s Application for Administrative Approval of Surface Commingling and Method of Allocation of Production concerning the Gracia Federal 8-L No. 1 and Oneda No. 1 wells situated in the W/2 Section 8, Township 26 North, Range 11 West, San Juan County, New Mexico.

Please give me a call if you have any questions or need any further information.
Thank you.

Very truly yours,


Jolene Dicks
Director of Operations

Enclosures

AFFIDAVIT OF MAILING

STATE OF NEW MEXICO)
)ss.
COUNTY OF SANTA FE)

JOLENE DICKS, authorized representative of Pro NM Energy, Inc., being duly sworn and upon oath states as follows:

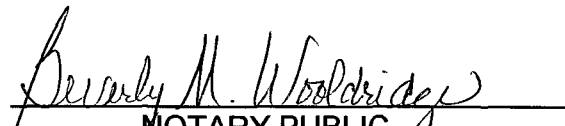
1. Pro NM Energy, Inc. is submitting an Application for Administrative Approval for Surface Commingling and Approval of Method of Allocation of Production concerning the Gracia Federal 8-L No. 1 (API No. 30-045-28809) and the Oneda No. 1 (API No. 30-045-20664) wells, in the W/2 of Section 8, Township 26 North, Range 11 West, San Juan County, New Mexico, to the New Mexico Oil Conservation Division.
2. The Application concerns the commingling of production from the Basin Fruitland Coal formation (Gracia Federal 8-L No. 1) and the Basin Dakota formation (Oneda No. 1) underlying two federal leases (SF-078899-0 and SF-078899-A).
3. The royalty ownership and the overriding royalty ownership in the two formations underlying the federal leases are identical. The working interest ownership differs as to the interests owned by Martin and Caroline Proyect and Pro NM Energy, Inc.
4. Pursuant to NMOCD Rule 309-B.A(4), notice of intent to commingle production is required to all interest owners in the subject leases and formations.

5. A list with the names and addresses of the royalty, overriding royalty and working interest owners, as well as the transporter (El Paso Field Services) are attached hereto as Exhibit "A".
6. On behalf of Pro NM Energy, Inc., I apprised each of the interest owners and the transporter of the Application for Administrative Approval for Surface Commingling and Approval of Method of Allocation of Production by memo to each on August 13 and 14, 2001, along with a copy of the Application, by certified mail, return receipt requested. A copy of the memo is attached hereto as Exhibit "B".



JOLENE DICKS

SUBSCRIBED AND SWORN to before me this 15th day of August, 2001.



NOTARY PUBLIC

My Commission Expires:

03.24.02

PRO NM ENERGY, INC.
ONEDA NO. 1/GRACIA FEDERAL 8-L
COMMINGLING APPLICATION

MAILING LIST
(ROYALTY, WORKING INTEREST AND OVERRIDING ROYALTY INTEREST
OWNERS)

UNITED STATES BUREAU OF LAND MANAGEMENT
ATTN: LEE OTNEY
1235 LA PLATA HWY, SUITE A
FARMINGTON, NM 87401

EL PASO FIELD SERVICES
614 REILLY AVENUE
FARMINGTON, NM 87401

MARATHON OIL COMPANY
P O BOX 2069
HOUSTON, TX 77252-2069

MARTIN AND CAROLINE PROYECT
411 TANO ROAD
SANTA FE, NM 87501

FONDREN OIL COMPANY
THREE RIVERWAY, SUITE 120
HOUSTON, TX 77056-1909

LAURENCE C. KELLY TRUST
GREGORY L. KELLY, TRUSTEE
c/o BITTICKS & COMPANY
3660 WILSHIRE BLVD., SUITE 944
LOS ANGELES, CA 90010

DRY CREEK RESERVE COMPANY
8013 SOUTH ADAMS WAY
LITTLETON, CO 80122

ESTATE OF PEARL NEUGENT NORDAN
112 E. PECAN, SUITE 500
SAN ANTONIO, TX 78205

THE NORDAN TRUST
112 E. PECAN, SUITE 500
SAN ANTONIO, TX 78205

LAURA ROBINSON GUGENHEIM LIVING TRUST
BANK OF AMERICA NT & SA, TRUSTEE
P O BOX 840738
DALLAS, TX 75284-0738

GRACE KELLER WARE
777 NORTH POST OAK ROAD #1804
HOUSTON, TX 77024-3826

DAVANT FAMILY TRUST "C"
NATIONSBANK, TRUST OIL & GAS
P O BOX 840738
DALLAS, TX 75284-0738

ELVA KALB DUMAS AND GEORGE P MORGAN
5555 DEL MONTE DRIVE, APT. 1203
HOUSTON, TX 77056

RAYBOURNE THOMPSON, JR.
6239 VALLEY FORGE
HOUSTON, TX 77002

ROBERT EDMUND BEAMON, III
2603 AUGUSTA, SUITE 1050
HOUSTON, TX 77057

STATEWIDE MINERALS CO.
P O BOX 10648
MIDLAND, TX 79702

ELVA K. DUMAS
1203 THE ST JAMES
5555 DEL MONTE DRIVE, APT 1203
HOUSTON, TX 77056

TOURMALINE EXPLORATION COMPANY
8493 SOUTH WOODY WAY
HIGHLANDS RANCH, CO 80126

STANLEY HARRIS, JR
180 E PEARSON ST APT 4704
CHICAGO, IL 60611

FRANK D GRAHAM
P O BOX 7085
DALLAS, TX 75209

NED SAYFORD THOMPSON
6022 CRAB ORCHARD
HOUSTON, TX 77057

WILLIE B DAVIS
622 S GILBERT STREET
P O BOX 131
EDNA, TX 77957-0131

EULA MAY JOHNSTON #661
NATIONSBANK
P O DRAWER 840738
DALLAS, TX 75284-0738

ROGERS-GIBBARD TRUST
C/O SUSAN ROGERS EVELAND
3630 RIVER OAKS COURT
TYLER, TX 75707-1658

V A JOHNSTON FAMILY TRUST
P O BOX 925
DALLAS, TX 75231

CAROLE ANNE WALKER COHEN
4929 BEAUCHAMP
SAN DIEGO, CA 92130

GLADYS WATFORD TRUST
5455 LA SIERRA DR., APT. 216
DALLAS, TX 75231

W. D. KENNEDY
SAN JUAN ROYALTY JV-90
550 W. TEXAS, SUITE 1225
MIDLAND, TX 79701

ALYSSA JANE WALKER
812 BIRCHWOOD DRIVE
LOS ANGELES, CA 90024

HARRY B BOTTIS
12426 KIMBERLEY LANE
HOUSTON, TX 77024

PATSY R MEHR
P O BOX 955
DRIPPING SPRINGS, TX 78620

LOUIS G MEHR
1907 TARPLEY COURT
KATY, TX 77493

LAURA LEE MATLOCK
4307 FAR HILL
AUSTIN, TX 78731

ARMENHAUS, INC.
10021 FRIENDSHIP CIRCLE
BURTON, TX 77835-5731

REBECCA ANN REESE WARD
280 W. RENNER #5011
RICHARDSON, TX 75080

DAVID ELBERT REESE
2203 N. BELMONT
RICHMOND, TX 77469

BARBARA REESE DINGES
6510 SHADOW CREST
HOUSTON, TX 77074

JAMES R. LEETON, JR
SAN JUAN ROYALTY JV-90
P O BOX 10561
MIDLAND, TX 79702

W. L. JENNINGS
SAN JUAN ROYALTY JV-90
P O BOX 117
ABILENE, TX 79604

GROVER BROS LTD PARTNERSHIP
SAN JUAN ROYALTY JV-90
P O BOX 3666
MIDLAND, TX 79702

A R GROVER
SAN JUAN ROYALTY JV-90
P O BOX 3666
MIDLAND, TX 79702

GEORGIA M SMITH
2339 SOUTHGATE
HOUSTON, TX 77030-1137

M E FAGAN
187 RIVER ROAD
VICTORIA, TX 77905-3729

FREDERKING TRUST
CHASE BANK OF TEXAS, N.A.
P O BOX 201884
HOUSTON, TX 77216-1884

JEREMY S DAVIS
7539 BROMPTON
HOUSTON, TX 77025

TEXAS COMMERCE BANK, NA
P O BOX 209871
HOUSTON, TX 77216-9871

DAVID A ROGERS
4855 N. MESA ST., SUITE 122
EL PASO, TX 79912

FRANCIS H. WEAVER
P O BOX 2102
EL PASO, TX 79951

JAMES L FASHING IRREVOCABLE TRUST
4855 N MESA ST., STE. 122
EL PASO, TX 79912

MICHELLE DIANA MINICA IRREVOCABLE TRUST
DAVID A ROGERS, TRUSTEE
4855 N MESA ST., STE. 122
EL PASO, TX 79912

D & S PARTNERSHIP
5728 NORTHBROOK DRIVE
PLANO, TX 75093

DALLAS COUNTY MEDICAL SOCIETY ALLIANCE
5500 SWISS AVENUE
DALLAS, TX 75214

DALLAS WOMEN'S CLUB FOUNDATION
7000 PARK LANE
DALLAS, TX 75225

KATHRYN BRAY
100 CENTER PLAZA #807-808
TULSA, OK 74119-1056

CATHERINE LOUISE COKE KNIGHT
P O BOX 260
WILSON, WY 83014

SALLY LYNNE WALKER ANDERSON
3710 RIVER FARM DRIVE
WEST LAKE VILLAGE, CA 91391

THE BRENNER REVOCABLE LIVING TRUST
RALPH AND DOROTHY BRENNER
124 WILDWOOD DRIVE
PRESCOTT, AZ 86301

DONALD MCCLURE WAITE
1476 GROVE TERRACE
WINTER PARK, FL 32780

LEWIS PAUL SAXER
1126 MERRIFIELD DRIVE
WEST CHESTER, PA 19380-6834

TOM E JOHNSON
P O BOX 1707
MIDLAND, TX 79702

BETTY T. JOHNSTON MARITAL TRUST
BETTY T. JOHNSTON, LYLE E. CARBAUGH & PAUL M. HARDWICK,
CO-TRUSTEES
2425 FOUNTAINVIEW #310
HOUSTON, TX 77057

JERRY J ANDREW
408 LONGWOODS
HOUSTON, TX 77024

WATERS S. DAVIS, III
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-01
PO BOX 201884
HOUSTON, TX 77216-1884

PAMELA GRAY BALDWIN
CHASE BANK OF TEXAS
PO BOX 201884
HOUSTON, TX 77216-1884

CAROLYN STACK
1406 BUTTONWOOD DRIVE
FORT COLLINS, CO 80525

THOMAS V. MCMAHAN
P O BOX 497
HOUSTON, TX 77001

GWINN M. LEWIS
10919 WICKWILD
HOUSTON, TX 77024

GUGENHEIM ASSET TRUST
EDWARD V. POLLACK, TRUSTEE
333 MARKET STREET, SUITE 2700
SAN FRANCISCO, CA 94105-2128
DAVID H GRAY
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-04
P O BOX 201884
HOUSTON, TX 77216-1884

JOHN L GRAY
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-04
P O BOX 201884
HOUSTON, TX 77216-1884

CYNTHIA GRAY MILANI
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-07
P O BOX 201884
HOUSTON, TX 77216-1884

CATHERINE GRAY REMENICK
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-07
P O BOX 201884
HOUSTON, TX 77216-1884

LINDA LUNDELL LINDSEY
P O BOX 6315965
NACAGDOCHES, TX 75963

CLAUDIA LUNDELL GILMER
30 GOLDEN PLACE
THE WOODLANDS, TX 77381

ROBERT WALTER LUNDELL
2450 FONDREN #304
HOUSTON, TX 77063

PURE RESOURCES, L.P.
P O BOX 910552
DALLAS, TX 75391-0552

BARBARA LEIGH FARAH
P O BOX 42177
HOUSTON, TX 77242-2177

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

DATE: August 13, 2001

TO: Royalty Interest Owner (U. S. Dept. of Interior – Bureau of Land
Management)
Working Interest Owners (Marathon Oil Company, Martin and Caroline
Project)
Overriding Royalty Interest Owners (attached list)
El Paso Field Services (transporter)

FROM: Jolene Dicks for Pro NM Energy, Inc.

RE: APPLICATION FOR SURFACE COMMINGLING AND
APPROVAL OF METHOD OF ALLOCATION OF PRODUCTION

W/2 Section 8, T26N, R11W, San Juan County, New Mexico
Federal Lease Nos. SF-078899-0 and SF-078899-A

Gracia Federal 8-L No. 1 (NW/SW Sec. 8, T26N, R11W) and the
Oneda Federal No. 1 (NE/NW Sec. 8, T26N, R11W)

San Juan County, New Mexico

Enclosed please find a copy of Pro NM Energy, Inc.'s application for surface
commingling of production from the above-referenced wells, and proposed allocation
calculations.

Please indicate your concurrence to the application and proposed method of
allocation by signing, dating and returning one copy of this memo to our office.
Pursuant to New Mexico Oil Conservation Division Rule 309-B.4, any objections to our
proposal should be made within twenty (20) days. We appreciate your prompt attention
to this matter. A self-addressed stamped envelope is enclosed for your convenience.

_____ concurs with the application and accepts the
allocation methods as described.

By: _____

Date: _____

EXHIBIT "B"

NEW MEXICO OIL CONSERVATION DIVISION

**PRO NM ENERGY, INC.'S
APPLICATION FOR ADMINISTRATIVE APPROVAL
FOR SURFACE COMMINGLING
GRACIA FEDERAL 8-L NO. 1 WELL (API No. 30-045-28809) and the
ONEDA NO. 1 WELL (API No. 30-045-20664)**

Pro NM Energy, Inc. (OGRID No. 018118) is in the process of obtaining the necessary approvals to install a gas gathering line from the Gracia Federal 8-L No. 1 well (8-L) in the NW/SW Sec. 8, T26N, R11W and terminating at a field compressor site and Central Delivery Point (CDP)) at the Oneda No. 1 located in Unit C of Sec. 8, T26N, R11W. The layout of the facilities and mineral ownership of the dedicated acreage is shown on the schematic attached as Exhibit "A". Due to the diversified mineral ownership and the fact that the 8-L is producing from the Basin Fruitland Coal (Pool No. 71629) while the Oneda No. 1 is producing from the Basin Dakota (Pool No. 71599), in accordance with New Mexico Oil Conservation Division Rule 309-B.4, we are submitting this 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, efforts are being made to utilize a single compressor for both wells. This effort will produce 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 Oneda No. 1 location and a standard orifice meter located on the 8-L location. The monthly calculations to be used for the volume allocation are shown on Exhibit "B" attached hereto.

For purposes of revenue settlement, additional calculations based on the heat content of the individual gas streams (MMBtu) will be performed in order to facilitate

proper credits being given the wells. A gas analysis will be obtained on a quarterly basis at approximately the same time as the transmission company samples the CDP. The monthly calculations to be used for revenue allocation are shown on Exhibit "C" attached to this application. The revenue allocation will affect only working interest owners Pro NM Energy, Inc. and Martin Project. The other working interest owner in the two wells, Marathon Oil Company, has identical interest in each of the wells, as do the royalty and overriding royalty interest owners.

The Bureau of Land Management, El Paso Natural Gas Company and all interest owners in the leases are being advised of this application. Pursuant to New Mexico Oil Conservation Division Rule 309-B.4, we are asking for their concurrence to the allocation methods proposed, and advising them that any objections to our proposal should be made within twenty (20) days.

Respectfully submitted by

PRO NM ENERGY, INC.


Jolene Dicks, Director of Operations

PRO NM ENERGY, INC.

Schematic of Facilities and Mineral leases
For Allocation of Production

T26N-R11W NMPM

W/2 Section 8

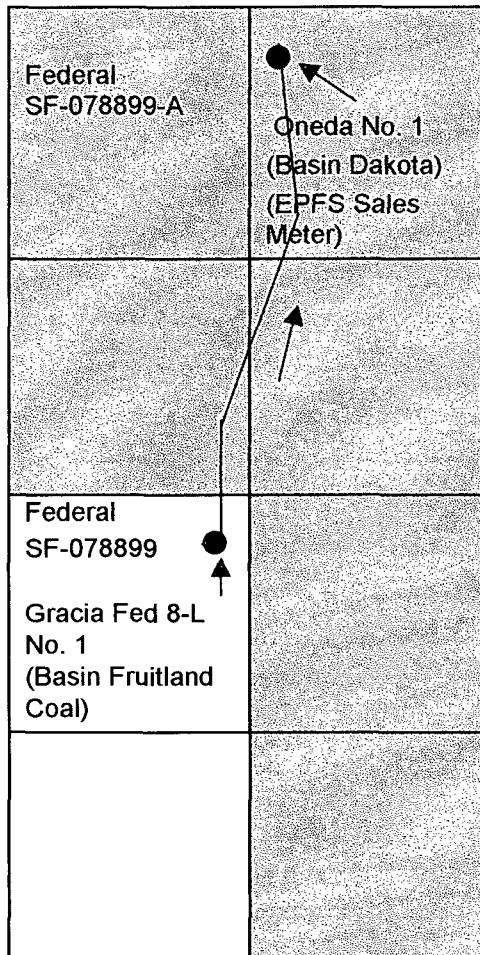


EXHIBIT "A"

PRO NM ENERGY, INC.'S
APPLICATION FOR ADMINISTRATIVE APPROVAL
FOR SURFACE COMMINGLING
GRACIA FEDERAL 8-L NO. 1 WELL (API No. 30-045-28809) and the
ONEDA NO. 1 WELL (API No. 30-045-20664)

VOLUME ALLOCATION CALCULATIONS

1. Obtain TOTAL MONTHLY GAS SALES from CDP in MCF from transporter.
2. Add TOTAL MONTHLY GAS SALES and TOTAL MONTHLY FUEL GAS USAGE to obtain a combined TOTAL MONTHLY PRODUCTION.
3. Obtain MONTHLY GAS VOLUME in MCF for Gracia Federal 8-L from independent chart integration company.
4. Subtract the MONTHLY GAS VOLUME for Gracia Federal 8-L from the TOTAL MONTHLY PRODUCTION to obtain the MONTHLY MCF PRODUCED by the Oneda No. 1
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.
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.
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 VOLUME CALCULATION

ASSUMPTIONS:	Total Monthly Sales at CDP:	20,000 MCF
	Monthly Gas Production from 8-L:	8,000 MCF
	Fuel Gas Usage for Month:	390 MCF

1. TOTAL MONTHLY GAS SALES at CDP = 20,000 MCF
2. TOTAL MONTHLY PRODUCTION = 20,000 MCF + 390 MCF
= 20,390 MCF
3. MONTHLY GAS VOLUME for 8-L = 12,000 MCF
4. MONTHLY MCF PRODUCED by Oneda = 20,390 - 12,000
= 8,390
5. MONTHLY FUEL GAS FACTOR for 8-L = $12,000/20,390 = .5885$
MONTHLY FUEL GAS FACTOR for Oneda = $8,390/20,390 = .4115$
6. MONTHLY FUEL GAS USAGE by 8-L = $390 * .5885 = 229.51$ MCF
MONTHLY FUEL GAS USAGE by Oneda = $390 * .4115 = 160.49$ MCF
7. MONTHLY SALES VOLUME by 8-L = $12,000 + 229.51 = 12,229.51$ MCF
MONTHLY SALES VOLUME by Oneda = $8,390 + 160.49 = 8,550.49$ MCF

Marie S. Dennis
Natural Gas Consultant

Date Began: 6/13/2001
Date last Updated: 6/16/2001

Address 2511 W. Broadway
Bloomfield, NM 87413
Telephone (505) 632-8027
Telefax (505) 632-7155

The routine allocates volumes (Mcf), heating value (Dth) and dollars.

The routine allocates the compressor usage volumes and heating value by the ratio of Mcf produced at each well.

The production, in Mcf, for the Oneda #1 is calculated by subtracting from the CDP volume, the volume estimated for the compressor usage and the total produced by the Gracia Fed. This gives the volume after separator use of the Oneda #1 in Mcf. This provides a ratio, Oneda Mcf/(Oneda Mcf + Gracia Mcf) to allocate the compressor fuel for the Oneda. This factor is multiplied by the compressor fuel Mcf to obtain the Oneda fuel usage. The remainder of the fuel (in Mcf) is allocated to the Gracia well.

The allocated Oneda Mcf is then multiplied times the Oneda Mbtu factor to obtain the Dth's allocated to compressor fuel. The allocated Gracia Mcf is multiplied times the Gracia Mbtu factor to obtain the Dth's allocated to compressor fuel for the Gracia well.

Separator fuel is estimated for each well by using the manufacturers estimated fuel consumption (normally in Btu/Day, hour or Dth per day). This factor should be input in Dth per day by the user of the routine. The routine then calculates the number of days in use, divides the Dth by the Mbtu factor to obtain the Mcf for Separator use.

Allocating the compressor fuel by Mcf may (and usually does) leave a difference in the allocated Dth upstream and the measured Dth at the CDP. This is because the ratio of Mcf to Mcf is not the same as the ration of Dth to Dth.

One well has a Btu/cf of 1245 while the other one has a Btu/cf of 1014. Therefor difference (Measured Dth - allocated Dth) is then allocated by the ratio of Dth allocated for each well to total allocated Dth. (The difference is allocated based on the production Dth for each well to the CDP Measured Dth.)

The routine next allocates Field Loss, Plant Fuel, Dehy costs, Plant Dehydration costs based on the ratio of Dth produced by each well at the CDP.

Liquid Gallons are allocated based on GPM per component per well. The GPM of each component is ratioed with the Total GPM of both wells by component to develop a factor to use to multiply times the gallons reported for the CDP.

Plant extraction, reported in Dth is allocated by calculating the Dth attributed to the allocated gallons for each component for each well. The Dth for each well is then used to ratio the Plant extracted Dth.

When the user has input the data and checked the red outlined area to be certain the allcated Data equals the measured data for the CDP, the user may click on the print buttons to initiate the printing of the two reports provided by the routine.

A sheet has been provided to enter the Btu analysis of the CDP. However, this material is not used by the routine. It would only be used to compare the liquids actually allocated to the theoretical liquids available at the CDP.

New Mexico Oil Conservation Division---Engineering Bureau
Administrative Application Process Documentation

Date Application Received:

8-20-01

Date of Preliminary Review:

(Note: Must be within 10-days of received date)

8-27-01

Results:

 Application Complete

 X

Application Incomplete

Date Incomplete Letter Sent:

8-27-01

Deadline to Submit Requested Information:

9-3-01 - Rec'd 8-31-01

Phone Call Date:

(Note: Only applies if requested data is not submitted within the 7-day deadline)

Phone Log Completed?

 Yes

 No

Date Application Processed:

Date Application Returned:

(Note: Only as a last resort & only after repeated attempts by the Division to obtain the necessary information to process the application)



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

August 27, 2001

PRO New Mexico Energy Inc.
460 St. Michael's Drive
Suite 300
Santa Fe, New Mexico 87505

Attention: Ms. Jolene Dicks

Re: Surface Commingling Application
Gracia Federal 8-L No. 1, Oneda No. 1
W/2 Section 8, T-26 North, R-11 West, NMPM
San Juan County, New Mexico

Dear Ms. Dicks:

This letter acknowledges the receipt of your administrative application dated August 16, 2001, to surface commingle the Dakota and Fruitland Coal formations in the Gracia Federal 8-L No. 1 and the Oneda No. 1 located in Section 8, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico. The Division received your application on August 20, 2001.

Our preliminary review indicates that the information provided in the application is not sufficient to process the administrative order. The following information is necessary:

- a) **Administrative Application Checklist (enclosed)**
- b) **Are both wells operated by PRO New Mexico Energy, Inc.?**
- c) **Are both wells dedicated to the W/2 of Section 8?**
- d) **Schematic of Commingling Facilities showing all equipment on each of the well sites, and at the CDP.**
- e) **Current producing rates for each well.**
- f) **Will any commingling of liquids occur?**

Since the submitted information is insufficient to review, the application was **Ruled Incomplete** on August 27, 2001. Please submit the above stated information by September 3, 2001.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the division will continue to process your application. The additional information can be faxed, or mailed to the Division. If the necessary information is not submitted, your application will be returned to you.

Administrative Application Letter
PRO New Mexico Energy, Inc.
August 27, 2001

If you have any questions, please contact me in Santa Fe, at (505) 476-3466.

Sincerely,

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

David Catanach
Petroleum Engineer