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production from the 23 CC battery and 26 CC battery will take place is located on the pad site of the Todd "26B" Federal #4 well in the NE/4, Sec. 26, T23S, R31E, on lease No. NM0405444-A, Eddy county, New Mexico. BLM will be notified if there is any future change in the location of this facility.

Production Allocation: Details of the proposed method for allocating production to contributing sources is as follows:

A total flow meter will be set at the Todd 23 CC battery. A meter will also be set at the Todd 26 CC battery. The combined production from the Sand Dunes (Cherry Canyon) producers in section 23 will be read as a single volume from the total flow meter at the Todd 23 CC battery, and then allocated to individual wells based on well test data. This total will be subtracted from the gas volume shown at the meter on the Todd 26 CC battery, with the difference representing production from the section 26 Sand Dunes (Cherry Canyon) producers. This difference will then be allocated to individual Sand Dunes (Cherry Canyon) producers in section 26 based on well tests. The working interest owners have been notified of the proposal, and none have opposed it.

The proposed commingling of production is in the interest of conservation and will not result in reduced royalty or improper measurement of production. Furthermore, this action is an effort to respond to BLM issued Notice of Non-Compliance #NM-067-95-DW-1174. As noted above, the gas from the wells in section 26 is no longer vented in any case.

We understand that the requested approval will not constitute the granting of any right-of-way or construction rights not granted by the lease instrument. Further, we do not anticipate that any such rights will be needed beyond those already existing. We will submit within 30 days any applications for right-of-way approval to the BLM's Realty Section in your office if we determine that any are required.

Signed:

Name:

Gerald T. Pepper

Title:

District Engineer

Date:

February 13, 1996

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