



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

IN REPLY REFER TO:
NM 05791 et.al (wc)
3162.7-3
07100

April 30, 2002

Phoenix Hydrocarbons Operating Corp.
Attn: Phyllis Gunter
415 West Wall, Suite 703
Midland, TX 79701

3-27N-8W

Dear Ms. Gunter:

Reference is made to your applications for surface commingling of natural gas for the Federal M #1 and Federal M #3 wells and the Federal M #1A and Federal M #2 wells. After reviewing the applications, several deficiencies were identified which need attention before we can consider these applications complete for final action. Upon receipt of corrections of the following deficiencies, your applications will be reconsidered for approval:

- The allocation methodology must include a provision for any purging or venting of the pipeline and the surface commingling fuel lines.
- Fuel requirements for the compressors and separators for each surface commingled system must be submitted for review.
- The allocation methodology must also take into account the fuel usage for the compressors and separators used for each surface commingled system. This allocation for fuel usage must be calculated proportionally to the hydrocarbon allocation factors that are established.
- Allocation must be established for the producing Dakota formation in the Federal M #1 well.
- A gas analysis report will need to be submitted for each well in both of the surface commingled systems.
- The current BTU measurements, for each well in both of surface commingled systems, will also be required.
- The economic benefit of surface commingling must be identified.
- Demonstrate or provide evidence that each surface commingled system has sound mechanical integrity.
- Testing frequency of the surface commingled systems' mechanical integrity.
- Testing frequency of each well for accurate allocation verification.

Under the provisions of 43 CFR 3165.3, you may request an Administrative Review of any instructions, orders, or decisions issued by the Authorized Officer. Such a request, including all supporting documents, must be filed in writing within 20 business days of receipt of this notice and must be filed with the State Director, Bureau of Land Management, P.O. Box 27115, Santa Fe, New Mexico 87502-0115. Such a request will not result in a suspension of the instructions, orders or decision unless the reviewing official so determines. Procedures governing appeals from the instructions, orders, or decisions are contained in 43 CFR 3165.4 and 43 CFR 4.400 et seq.

If you have any questions regarding the above, contact Adrienne Garcia at (505) 599-6358 or Jim Lovato at (505)599-6367.

Sincerely,

/s/ Jim Lovato

Jim Lovato
Team Lead, Petroleum Management Team

cc: NMOCD, Santa Fe
NMOCD, Aztec

bcc: Well files (4)
DOMR
07100:AGarcia:4/30/02:x6358:Phoenix