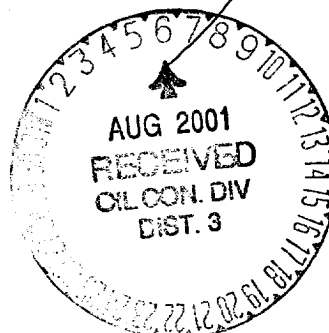


# MERRION


OIL & GAS

August 2, 2001

Mr. Frank Chavez  
New Mexico Oil Conservation Division  
1000 Rio Brazos Rd.  
Aztec, NM 87410



**RE: Administrative Order DHC – 2894  
Allocation of Production  
Katy Gem 1 - API 30-045-30084  
Basin Fruitland Coal & Aztec PC Pools  
Section 26, T30N, R12W  
San Juan County, New Mexico**

 Dear Mr. Chavez:

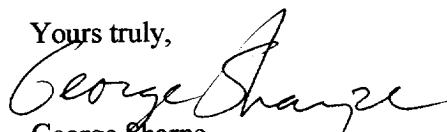
Pursuant to the subject order, I am requesting your approval of the allocation of production for the subject commingled well.

The well was initially completed in the Pictured Cliffs zone. In June of 2001, it was commingled with the Fruitland Coal interval. In the first 17 days of June, the well produced 523 MCF of gas and no water from the Pictured Cliffs for an average of 31 MCFD. Since commingling the well on June 29<sup>th</sup>, the well produced 6511 MCF over 35 days through August 2<sup>nd</sup>, averaging 186 MCFD from both intervals. Based on this data, the following allocation formula is recommended:

<u>Zone</u>	<u>Oil</u>	<u>Gas</u>	<u>Water</u>
Basin Fruitland Coal	0	83%	100%
Aztec Pictured Cliffs	<u>100%</u>	<u>17%</u>	<u>0%</u>
	100%	100%	100%

Please call me at 327-9801 ext. 114 if you have any questions.

Yours truly,

  
George Sharpe  
Manager, Oil & Gas Investments

xc:Well File  
Farmington BLM

File:s\invest\gfs\2001 corres\8-2-01 katy 1 allocation