

David Catanach
June 25, 1992
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The gas that will flow on the proposed system will be from the following conventional San Juan Basin Pools; Blanco-Mesa Verde, South Blanco-Pictured Cliffs, and the Basin-Dakota. Gas production is prorated from all of these pools.

All but one of the wells to be connected to the proposed system are within established participating areas (PA) in the Rincon Unit. The proration unit for this proposed well, the 126-M, is inside the Dakota PA boundary, and is adjacent to the existing Mesa Verde PA on two sides. (See Exhibit #3.) After completion of the Mesa Verde formation and upon establishment of commercial production, Unocal will apply to the Bureau of Land Management (BLM) for expansion of the Mesa Verde PA to include this lay-down 320 acre proration unit. The Rincon Unit is a fixed interest Federal Unit comprised of individual Federal and State leases. The four federal leases that encompass the 29 Rincon Unit wells to be included in this system, are described in Exhibit #4. The royalty ownership in all formations within a given tract is identical.

Unocal will employ existing well-site facilities to remove liquids and dehydrate this gas. New meter runs will be installed to measure the volume of gas produced from each of the 37 completions. At the CDP site, an inlet separator will be set in front of the compressor to ensure that only single phase flow exists. Pulsation dampening equipment at the compressor discharge will ensure steady flow rates. The gas will then flow a sufficient distance to a dehydrator which will further dampen pulsation caused by the compressor's reciprocating motion. From the outlet of the dehydrator the gas will flow a significant distance to the sales meter further ensuring the accuracy of meter measurement.

Unocal is requesting from the New Mexico Oil and Gas Division approval to surface commingle gas production and approval of the following method for allocating the production from the central meter to the individual wells. Unocal will calculate a monthly allocation factor, as shown in Exhibit #5, part 1. The allocation factor, will then be used as illustrated in Exhibit #5, part 2, to determine individual meter volumes. To ensure the accuracy of the individual meters, Unocal will continue to calibrate, perform orifice plate inspections, and settlement tests as described in BLM Onshore Oil and Gas Order No. 5, Measurement of Gas.

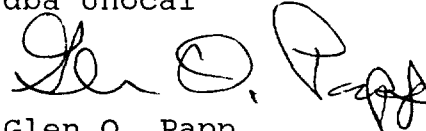
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Unocal has notified the other working interest owners in the Rincon Unit of this proposal. Variations of this letter are being sent to the agency administering the federal royalty interests, the Mineral Management Service (MMS). In addition, surface commingling approval is being applied for from the BLM. Exhibit #6 shows the names and addresses of these agencies.

Should you have any questions or need any additional information to process this request, please feel free to contact me at the above letterhead address or phone.

Very truly yours,

Union Oil Company of California
dba Unocal

A handwritten signature in black ink, appearing to read 'Glen O. Papp', with a stylized flourish at the end.

Glen O. Papp
District Production Engineer

pmh:lat1

Attachment

cc: BLM, Ken Townsend
MMS, James W. Shaw

37 COMPLETIONS TOTAL
9 PROPOSED

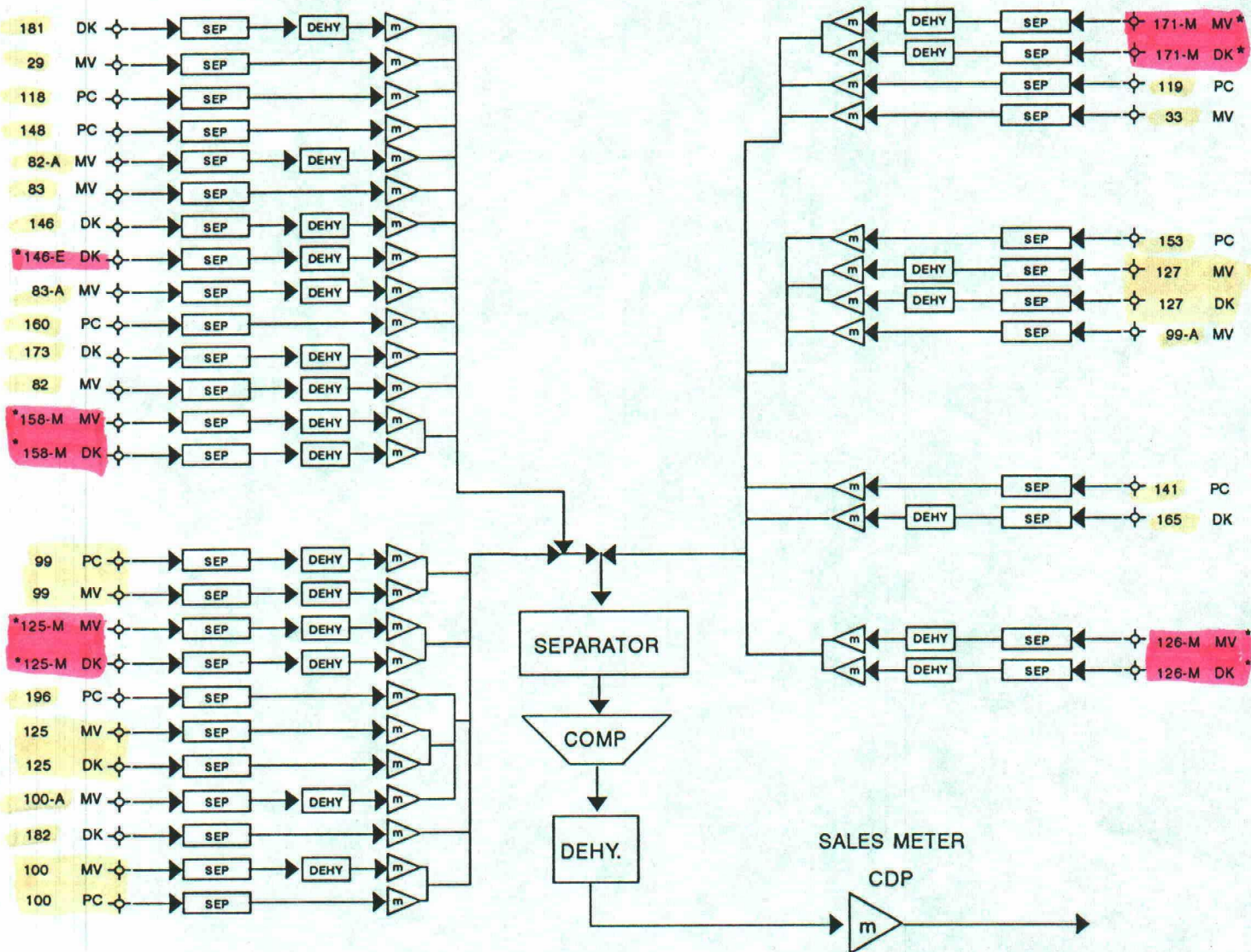
5 PROP. WELLS - 4 DUAL
4 EXIST. DUAL COMP.

29 TOTAL WELLS

EXHIBIT No. 2

RINCON UNIT LATERAL # 1

GAS ACCOUNTING SCHEMATIC



* Proposed Well