



# 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:  
3162.7-3  
Pete Gas Gathering System

April 25, 2002

Pendragon Energy Partners  
C/O Walsh Engineering & Production Corp.  
7415 East Main  
Farmington, NM 87402

Dear Mr. Thompson:

Reference is made to your application for surface commingling and off-lease measurement and sales of gas and associated liquid hydrocarbons from the hereafter designated Pete Gas Gathering System (PGGS). You propose to measure production at an El Paso Field Services meter at the following location:

**NESE section 35, T27N, R12W, San Juan County, New Mexico.**

Your application indicates that measurement at a central delivery point is necessary to effectively and economically operate these wells and extend the economic life of the properties. We have reviewed your application and concur with these findings. As such, you are hereby authorized to measure natural gas and associated liquid hydrocarbons in accordance with the procedure outlined in your application. The following are conditions of this approval:

- Allocation methodology must be made on an MMBTU basis.
- Operational requirements for Navajo allotted wells, found in attachment 1-3, must be adhered to.
- In order to prevent waste and conserve natural gas, periodic review of the gathering system's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1. In the event that line purging or venting becomes necessary, the purged fluids must be allocated proportionally to coincide with the established production allocations.
- Fuel use must be allocated proportionally to coincide with the established production allocations.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the central delivery point.

Failure to operate this facility in accordance with the conditions outlined above may subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that federal royalties would be reduced. Attached is a list of the wells recognized as contributing to PGGS.

If you have any questions regarding the above, contact Adrienne Garcia at (505) 559-6358 or Jim Lovato at (505) 599-6367.

Sincerely,

*/s/ Jim Lovato*

Jim Lovato  
Team Lead, Petroleum Management Team

2 Enclosure: List of contributing wells  
Attachment 1-3

cc: NMOCD, Santa Fe  
NMOCD, Aztec  
FIMO

**Joe Whitney Gas Gathering System Well List**

| <b><u>Well Name and No.</u></b> | <b><u>API No./Lease No.</u></b> | <b><u>Formation</u></b> | <b><u>Location</u></b> |
|---------------------------------|---------------------------------|-------------------------|------------------------|
| Joe Whitney #1                  | 3004527113/NM 7579              | Gallegos Fruitland PC   | sec 35, T27N, R12W     |
| Pete #1R                        | 3004525663/NOO-C-14-20-7471     | Basin Fruitland Coal    | sec 35, T27N, R12W     |
| Gallegos Fruitland #1           | 3004528232/NM 57579             | Basin Fruitland Coal    | sec 35, T27N, R12W     |

### Operational Requirements

After obtaining approval, the operator will meet the following requirements:

1. Gas analysis will be performed semiannually for all Navajo allotted wells
2. The gathering system will be tested once every two years with a 72-hour advance notice to the AO. The methods of testing will be at the discretion of the operator
3. All equipment used in selling, storing, and measuring combined production must as a minimum meet the Onshore Oil and Gas Orders No. 3, Site Security; No. 4, Oil Measurement; and No. 5, Gas Measurement.
4. When reporting under the Disposition Section of the Minerals Management Service Form 3160-6 the following formulas will be used for Navajo allotted wells producing:

#### Allotted Wells Less than 100 MCFD \*

|                |   |  |   |  |
|----------------|---|--|---|--|
| Produced       | = | Well meter volume                                      | + | Gas utilized between the wellhead and well meter |
| Sold           | = | Allocated sales volume from CDP                        |   |  |
| Used           | = | Gas used between wellhead and well meter               | + | Gas used between well meter and CDP Meter        |
| Vented /Flared | = | Any gas vented or flared                               |   |  |
| Other          | = | Any product reported in this column must be identified |   |  |
| Comments       | = | Any pertinent information                              |   |  |

#### Allotted Wells 100 MCFD or greater \*

|                |   |  |   |   |
|----------------|---|--|---|---|
| Produced       | = | Well meter volume                                      | + | Gas utilized between the wellhead and well meter  |
| Sold           | = | Produced volume  | - | gas used between well head and well meter + gas used between well meter and CDP meter + vented/flared |
| Used           | = | Gas used between wellhead and well meter               | + | Gas used between well meter and CDP Meter   |
| Vented /Flared | = | Any gas vented or flared                               |   |   |
| Other          | = | Any product reported in this column must be identified |   |   |
| Comments       | = | Any pertinent information                              |   |   |

\* Daily production equals Monthly production divided by number of days produced.