The proposed operation is described in detail on the attached diagrams.

A map is enclosed showing the location of all the wells that will contribute production to the proposed commingling/common storage facility.

A schematic diagram is also attached which clearly identifies all equipment that will be utilized.

The storage and measuring facility is located at the NWNW of Section 9-T22S-R24E (NM-78214), Federal Lease Name Anemone ANE Federal #2 location. BLM will be notified if there is any future change in the facility location.

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

Oil will be transported off lease prior to measurement and will be measured by positive displacement, temperature compensated metering equipment. Gas will also be measured separately. Total sales volumes will be allocated back to individual wells based on daily well tests.

The working interest owners have been notified of the proposal.

The proposed commingling of production is in the best interest of conservation and will not result in reduced royalty or improper measurement of production.

The purpose of the surface commingling, lease commingling, off lease storage and measurement is to reduce operating costs for storage and treating, thereby extending the economic life of each well. Without approval for utilizing existing batteries on adjacent leases, it will become necessary to build separate facilities for each well. This will greatly increase costs and shorten the economic life of the wells.

The proposed commingling is necessary for economic operation of the above referenced leases.

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. And, we will submit within 30 days an application for right-of-way approval to the BLM's Realty Section in your office if we have not already done so.

Rusty Klein
Operations Technician

Aug. 30, 2001
Date