

not meet our expectations and the State Com No. 90R was drilled in an effort to obtain a well capable of producing higher volumes from the Fruitland Coal than was occurring in the No. 90 well. Based upon testing to date, the State Com No. 90R does appear to be a better well and the No. 90 will be permanently abandoned. In Dugan's application dated 3-5-02, we proposed adding the State Com No. 90R to the State Com No. 2 CDP. This application was approved by the State Land Office on 4-2-02 and the NMOCD on 3-28-02 (Commingling Order PLC-153-A). All three wells share a north half, 320 acre spacing unit.

We are proposing to consolidate these two gathering systems which will allow the use of one central compressor located at the State Com No. 1 CDP and will eliminate the current use of three compressors (one at the No. 1 CDP, and two at the No. 2 CDP).

Attachment No. 1 presents a map of the consolidated gathering systems, along with the leases within Section 16. All liquids (water and condensate) will be separated, stored, and sold or disposed of at each well. Only natural gas will be commingled after being measured with conventional, continuous recording allocation meters located at each well. The commingled gas stream will then be compressed and delivered to the CDP sales meter, which is operated and maintained by El Paso Field Services (El Paso Meter No. 87978) and is located at the No. 1 well. The State Com No. 2 CDP sales meter (El Paso Meter No. 89175) located at the No. 2 well will be disconnected and removed from service. It should be noted that the State Com No. 1 and 1A wells are currently authorized to share production facilities and the same allocation meter. Upon consolidation of the State Com No. 1 and 2 CDP's, we plan to install separate production facilities and allocation meters for each well which will result in the State Com No. 1 and 1A wells having the same equipment as all other wells (i.e., all condensate and water will be separated, stored and sold or disposed of at each well), and will have the same allocation procedure as used for the other wells.

Attachment No. 2 presents well information for the wells currently approved for each CDP. Attachment No. 3 presents ownership information for all wells. The three wells in the south half spacing unit have common ownership, however, the ownership in the Mesaverde and the Basin Fruitland Coal in the north half spacing unit is not common. Since there is a difference in working interest ownership, all gas production will be individually metered prior to commingling using allocation meters installed and maintained at each well by Dugan Production Corp. The allocation meters will be continuous recording dry flow chart recorders, and the monthly charts will be integrated using a contract service to determine volumes for allocating CDP sales volumes to the individual wells.

Attachment No. 4 presents a drawing of the consolidated gathering system, along with individual wells and facilities. Attachment No. 5 presents the allocation procedure currently being used for the State Com No. 2 CDP and to be used for the consolidated system. As noted above, the allocation procedure currently authorized for the State Com No. 1 CDP includes using a common allocation meter for the State Com No. 1 and 1A wells and allocating between the wells using well tests. Once the systems are consolidated, each well will have its own allocation meter.

The gas streams from these wells are believed to be compatible and to date we have not encountered any problems resulting from surface commingling. The integrity of the gathering