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UNOCAL OIL & GAS DIVISION
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June 15, 1992

Farmington District

New Mexico Oil Conservation Division
310 Old Santa Fe Trail, Box 2088
Santa Fe, NM 87504-2088
Attn: David Catanach

SUBJECT:

Request for Expansion of
Rincon Unit Lateral #2
Adding Proposed Well No. 201-E
Sec 2, T-26-N, R-7-W
Rio Arriba County, New Mexico

Union Oil Company of California, dba Unocal, requests permission to add Rincon Unit, well No. 201-E to its Rincon Unit Lateral #2, Rio Arriba County, New Mexico. Authority to surface commingle produced gas in the Rincon Unit Lateral #2 was granted by the New Mexico Oil Conservation Division (OCD) on March 6, 1992 (Exhibit No. 1) and by State Land Office (SLO) on February 21, 1992 (Exhibit No. 2). The following describes and demonstrates how Unocal proposes to allocate gas production under the context of BLM Onshore Oil and Gas Order No. 5, Measurement of Gas for commingling, New Mexico Oil Conservation Commission Manual for the Installation and Operation of Commingling Facilities, and State Land Office Rules 1.053 and 1.054 Commingling and Off Lease Storage of Oil and Gas on State Trust Land, for the expanded Rincon Unit Lateral #2.

The Rincon Unit No. 201-E well is a development gas well scheduled to be drilled by Unocal. It is anticipated that the well will be completed as a dual Gallup and Dakota producer and will be ready for first pipeline deliveries August 1, 1992. In order to economically justify recovery of these undeveloped reserves, Unocal is proposing to gather this gas in it's Rincon Unit Lateral #2. Lateral #2 will provide compression, thereby increasing gas delivery, and making the well economical.

Unocal is proposing to set two allocation meters at the well site and measure gas from each stream separately.

Downstream of the allocation meters the gas will be surface commingled in Lateral #2 and transported to Unocal's central delivery point (CDP) #2 (Exhibit No. 3). Royalties will be paid based on the gas volume measured at the sales meter and allocated back to the individual wells.

The proposed location is within the existing Dakota participating area in the Rincon Unit. The location is also adjacent to the existing Gallup participating area which includes only one well (320 acres) (Exhibit No. 4). Upon completion of the Gallup formation in this well, Unocal will apply to the Bureau of Land Management (BLM) for expansion of the Gallup participating area (PA) to include this lease. The lease is a state lease, and is described in Exhibit No. 5. The royalty in the two formations is the same.

Unocal requests, from the New Mexico Oil Conservation Division, expansion of previous authority for surface commingling of the produced gas in Lateral #2, and approval for the expanded method for allocating production from the central sales meter at CDP #2 to the individual well-site meters. Unocal will calculate a monthly allocation factor, as shown in Exhibit No. 6, part 1. The allocation factor will then be used as illustrated in Exhibit No. 6, part 2, to determine individual allotted 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. (Note: Exhibit No. 6 is a revision of the approved allocation calculations for Unocal's Lateral #2, with the addition of the two zones from the proposed well.)

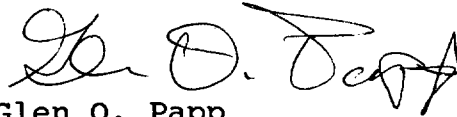
Unocal does not expect to recover marketable quantities of hydrocarbon liquids from the commingled gas at CDP #2, based on current liquid recoveries there. However, should the site begin to recover significant liquid volumes, Unocal will set a tank to collect these liquids and allocate the volumes as per Exhibit No. 7.

A Copy of this request is being forwarded to the BLM and the SLO for their approval. I will ask the SLO to forward a copy of their approval to you. I will also forward a copy of the BLM's approval to you as soon as it is received.

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

cc:NMOCD Aztec Office--Frank Chavez
BLM--Ken Townsend
CPL--Pete Martinez