

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION OF)
KLT GAS INC. FOR AN ORDER VACATING)
ORDER NO. 506-1 ESTABLISHING 320-ACRE)
DRILLING AND SPACING UNITS FOR THE)
CAMEO COAL SEAMS, PINYON RIDGE)
AREA, RIO BLANCO AND MOFFAT)
COUNTIES, COLORADO)

CAUSE NO. 506
ORDER NO. 506 -

VERIFIED APPLICATION

COMES NOW the Applicant, KLT Gas Inc., by and through its attorneys, Davis Graham & Stubbs LLP, and makes application to the Oil and Gas Conservation Commission of the State of Colorado for an order vacating Order No. 506-1 establishing 320-acre drilling and spacing units for the Cameo Coal Seams underlying certain lands, and in support of its application states and alleges as follows:

1. The Applicant is a corporation duly authorized to conduct business in the State of Colorado.
2. The area which is encompassed within this Application is located in Rio Blanco and Moffat Counties, Colorado, and more particularly identified as follows:

Township 3 North, Range 96 West, 6th P.M.

Section 5: All
Section 6: All
Section 7: All
Section 8: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 29: All
Section 30: All
Section 31: All
Section 32: All

Township 3 North, Range 97 West, 6th P.M.

Section 1: All
Section 2: All
Section 3: All
Section 10: All
Section 11: All

Section 12:	All
Section 13:	All
Section 14:	All
Section 15:	All
Section 22:	All
Section 23:	All
Section 24:	All
Section 25:	All
Section 26:	All
Section 27:	All
Section 34:	All
Section 35:	All
Section 36:	All

3. Applicant is the owner of oil and gas leasehold interests within the area identified above.
4. In Cause No. 506, Order No. 506-1, the Commission established 320-acre drilling and spacing units for the production of methane gas and associated hydrocarbons from the Cameo Coal Seams in the Williams Fork member of the Mesaverde formation underlying the lands described above, in the Pinyon Ridge Area of Rio Blanco and Moffat Counties, Colorado. Particular reference is made to Order No. 506-1 dated March 15, 1993, which is the spacing order presently in effect covering the lands described above.
5. Geological, engineering, and production data obtained from the drilling and producing of wells within the area indicate that the wells are incapable of adequately and efficiently draining gas and associated hydrocarbons from under the 320-acre drilling and spacing units heretofore established. There is not sufficient drilling and production from the Cameo Coals in the Pinyon Ridge Area to establish appropriate spacing to govern development of the Cameo Coal Seams in the Pinyon Ridge Area.
6. Exhibit B to the Application sets forth the status and ownership of wells drilled to the Cameo Coal Seams in the spaced area. KLT Gas Inc. owns 100% of the cost-bearing interest in all Cameo Coal wells that are shut-in or capable of producing gas in the spaced area. All shut-in and producing Cameo Coal wells are located on federal lands. Exhibit C is a map of KLT's Pinyon Ridge Project. Exhibit D shows Pinyon Ridge and Piceance Basin stratigraphy.
7. Isolation of the upper coals in the Pinyon Ridge Cameo Coal wells results in gas production from wells previously producing only water, demonstrating that limiting the amount of pay

open to production increases the gas recoverable from the Cameo Coal Seams. Exhibit E shows the absence of gas production and high fluid levels in the Pinyon Ridge Federal D-1, E-1 and A-4 wells prior to the setting of bridge plugs to isolate the upper Cameo Coals. Exhibit F shows gas production and the drop in fluid levels in these wells subsequent to the setting of bridge plugs.

8. Cameo Coal Seam development in fields offsetting the Pinyon Ridge Area is occurring at well densities significantly greater than one well per 320 acres and such development results in greater cumulative production on a well-by-well basis. See Exhibits G and H.

9. In order to promote additional drilling and development, and determine the appropriate spacing to economically and efficiently drain the Cameo Coal Seams underlying the aforesaid lands, it is necessary to allow drilling under the general well location rules of this Commission. The granting of this Application will prevent waste and result in the recovery of additional gas that would not otherwise be recovered under the existing field rules, and will protect correlative rights.

Attached hereto on Exhibit "A" are the names and addresses of owners, as defined by the regulations and statutes, of oil and gas interests within the area which is the subject of this Application.

WHEREFORE, Applicant respectfully requests that this matter be set for hearing by the Commission; that notice be given as required by law; that upon such hearing this Commission enter its Order as follows:

1. To vacate Colorado Oil and Gas Conservation Commission Order No. 506-1 establishing 320-acre drilling and spacing units for the production of methane gas and associated hydrocarbons from the Cameo Coal Seams in the Williams Fork member of the Mesaverde formation underlying the following lands in the Pinyon Ridge Area of Rio Blanco and Moffat Counties, Colorado:

Township 3 North, Range 96 West, 6th P.M.

Section 5:	All
Section 6:	All
Section 7:	All
Section 8:	All
Section 17:	All

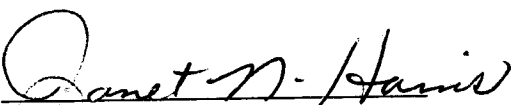
Section 18: All
Section 19: All
Section 20: All
Section 29: All
Section 30: All
Section 31: All
Section 32: All

Township 3 North, Range 97 West, 6th P.M.

Section 1: All
Section 2: All
Section 3: All
Section 10: All
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: All
Section 22: All
Section 23: All
Section 24: All
Section 25: All
Section 26: All
Section 27: All
Section 34: All
Section 35: All
Section 36: All

Respectfully submitted,

KLT GAS INC.

By: 

Janet N. Harris
Davis Graham & Stubbs LLP
Attorneys for Applicant
1550 17th Street, Suite 500
Denver, CO 80202
Telephone: (303) 892-7361

Applicant's Address:

KLT Gas Inc.
2202 Timberloch Place, Suite 222
The Woodlands, TX 77380

STATE OF COLORADO)
) ss.
CITY and COUNTY OF DENVER)

VERIFICATION

The undersigned, Lynn C. Meibos, being first duly sworn upon oath, states:

1. I am the Vice President – Geology of KLT Gas Inc. and am personally familiar with the matters set forth in the foregoing Verified Application.
2. I have read the Verified Application and the facts contained therein are true and correct to the best of my knowledge, information and belief.

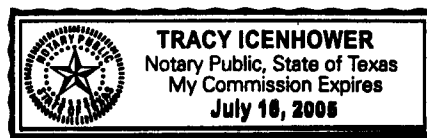
Lynn C. Meibos
Lynn C. Meibos

Subscribed and sworn to before me this 31 day of March, 2004, by Lynn C. Meibos.

Witness my hand and official seal.

Tracy Icenhower
Notary Public

My commission expires: July 16, 2005



INDEX TO EXHIBITS

- A. Oil and Gas Owners in Spaced Area
- B. List of Cameo Coal Wells in Spaced Area
- C. Map of KLT Pinyon Ridge Project – Piceance Basin
- D. Piceance Basin and Pinyon Ridge Stratigraphy
- E. Pinyon Ridge, All Coals Producing: Fluid Level and Gas Production
- F. Pinyon Ridge, Upper Coals Producing: Fluid Level and Gas Production
- G. Pinyon Ridge Spacing – Comparison to White River Dome
- H. Pinyon Ridge Field, Offset Fields and Cumulative Production, North Piceance Basin, Rio Blanco and Moffat Counties, Colorado

EXHIBIT A

To Verified Application of LKT Gas Inc.

Bank One, Trustee of
The Philip T. Sharples Trust
1660 Lincoln Street, Suite 3100
Denver, CO 80264

RETAMCO Operating, Inc.
3301 Stonewall Lane
Billings, MT 59102

RETAMCO Operating, Inc.
671 Garnet
Billings, MT 59105

EnCana Oil & Gas (USA), Inc.
950 17th Street, Suite 2600
Denver, CO 80202

United States of America
Department of Interior
Bureau of Land Management
2850 Youngfield Street
Lakewood, CO 80215

Edward G. Skeeters
10104 Ashglen Circle
Dallas, TX 75238

Elizabeth B. Carbello
c/o Vaughey & Vaughey
P.O. Box 14006
Jackson, MS 39236-4006

Eugenia Vaughey Farrington
c/o Collis Eugenia Farrington
418 Setter Trail
Winter Park, FL 32789

Mary Lawrence Farrington
1418 Woodland Street
Decatur, AL 35601

Sue Thurman Farrington
2021 Petit Bois
Jackson, MS 39211

Mary B. Greco
c/o Vaughey & Vaughey
P.O. Box 14006
Jackson, MS 39236-4006

Resource Management Company
4170 South 530 East, Suite 22-A
Salt Lake City, UT 84107

W. M. Vaughey
c/o Vaughey & Vaughey
P.O. Box 14006
Jackson, MS 39236-4006

Rex Ross Walker
3300 Airport Road
Boulder, CO 80301

Virginia Raye Blackburn
c/o Virginia Raye Smith
9650 S. Bellmore Lane
Highlands Ranch, CO 80126

C-WALL Investment Co., LC
685 West Escalante Drive
St. George, UT 84771-0039

Nava Dell Brixey
Revocable Trust
Route 3, Box 78
Hooker, OK 73945

Geniel L. Thatcher
c/o Mervyn L. Thatcher
2983 Banbury Road
Salt Lake City, UT 84121

Mary Preece
595 Ledford Street, #315
Craig, CO 81625

Vaughey & Vaughey
P.O. Box 14006
Jackson, MS 39236-4006

Carol Lee Preece Holly
1023 Hyperion Drive
Henderson, NV 89015

Ross Oil Company
1012 First Place
Tyler, TX 74702

Steven G. Shaddock
925 St. Andrews Lane
Louisville, CO 80027

McCulliss Resources Co., Inc.
P.O. Box 3248
Littleton, CO 80161

George G. Vaught, Jr.
P.O. Box 13557
Denver, CO 80201

Margaret Ayer Colvin
c/o Riley Colvin
4126 Central Sarasota Parkway
Sarasota, FL 34236

John H. Macdonald
c/o Janet Macdonald
P.O. Box 21630
Carson City, NV 89721-1630

Janet Macdonald
P.O. Box 21630
Carson City, NV 89721-1630

Peter Steven Macdonald
c/o Janet Macdonald
P.O. Box 21630
Carson City, NV 89721-1630

Michael A. Macdonald
c/o Janet Macdonald
P.O. Box 21630
Carson City, NV 89721-1630

Linda M. Kanan
2604 Cherry Creek South Drive
Denver, CO 80209-3235

Joseph L. Lilly
222 East South Fork Drive
Phoenix, AZ 85044-1886

The Skeeters Co.
10104 Ashglen Circle
Dallas, TX 75238

John R. Pierce, Jr., Trustee
of the John R. Pierce Revocable Trust
3178 Andre Lane
Turlock, CA 95382-1061

Claire Thiel
2211 Puma Drive
Bryan, TX 77807-2618

EXHIBIT B

To Verified Application of LKT Gas Inc.

Cameo Coal Wells Drilled in Pinyon Ridge Area

Wells Capable of Production

Pinyon Ridge Federal A-1
T. 3 N., R. 96 W., 6th P.M.
Section 30: W/2
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal A-2
T. 3 N., R. 96 W., 6th P.M.
Section 30: E/2
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal A-3
T. 3 N., R. 96 W., 6th P.M.
Section 19: E/2
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal A-4
T. 3 N., R. 97 W., 6th P.M.
Section 31: NW/4
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal D-1
T. 3 N., R. 97 W., 6th P.M.
Section 25: S/2
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal D-3
T. 3 N., R. 97 W., 6th P.M.
Section 25: NW/4 (shut-in)
KLT Gas Inc.: 100% working interest

Pinyon Ridge Federal E-1
T. 3 N., R. 97 W., 6th P.M.
Section 36: NW/4
KLT Gas Inc.: 100% working interest

Plugged and Abandoned Wells

Pinyon Ridge Federal B-1
T. 3 N., R. 97 W., 6th P.M.
Section 12: NW/4

Pinyon Ridge Federal B-4
T. 3 N., R. 97 W., 6th P.M.
Section 13: SE/4

Pinyon Ridge Federal D-2
T. 3 N., R. 97 W., 6th P.M.
Section 24: SE/4

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AREA, RIO BLANCO AND MOFFAT)	
COUNTIES, COLORADO)	

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 2nd day of April, 2004, a true and correct copy of the attached Application of KLT Gas Inc. for an order vacating Order No. 506-1 establishing 320-acre drilling and spacing units for the Cameo Coal Seams, Pinyon Ridge Area, Rio Blanco and Moffat Counties, Colorado, was served by depositing the same in the United States mail, first-class postage prepaid, addressed as follows:

Bank One, Trustee of
The Philip T. Sharples Trust
1660 Lincoln Street, Suite 3100
Denver, CO 80264

Eugenia Vaughey Farrington
c/o Collis Eugenia Farrington
418 Setter Trail
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3301 Stonewall Lane
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Littleton, CO 80161

George G. Vaught, Jr.
P.O. Box 13557
Denver, CO 80201

Dated this 2nd day of April, 2004.

Margaret Ayer Colvin
c/o Riley Colvin
4126 Central Sarasota Parkway
Sarasota, FL 34236

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c/o Janet Macdonald
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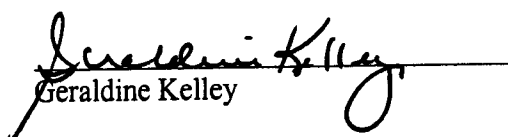
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Bryan, TX 77807-2618

By: 
Geraldine Kelley

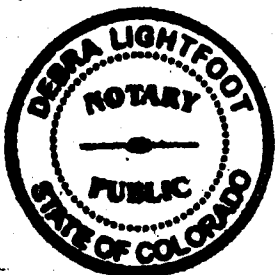
STATE OF COLORADO)
)
CITY AND COUNTY OF DENVER)

The foregoing instrument was acknowledged before me this 2nd day of April, 2004, by
Geraldine Kelley

Witness my hand and official seal.

My commission expires: 11/12/07

(SEAL)



My Commission Expires Nov. 12, 2007

Debra Lightfoot
Notary Public