

District I
1625 N French Dr., Hobbs, NM 88240
Phone (575) 393-6161 Fax (575) 393-0720
District II
811 S First St., Artesia, NM 88210
Phone (575) 748-1283 Fax (575) 748-9720
District III
1000 Rio Brazos Road, Aztec, NM 87410
Phone (505) 334-6178 Fax (505) 334-6170
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone (505) 476-3460 Fax (505) 476-3462

State of New Mexico
Energy Minerals and Natural Resources
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-101
Revised July 18, 2013

☐ AMENDED REPORT

OIL CONS. DIV DIST. 3

OCT 16 2017

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Dugan Production Corp. 709 East Murray Drive Farmington, New Mexico 87401		OGRID Number 006515
Property Code 317435		API Number 30-045-35854
Property Name PGA Unit 2		Well No #3

7. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet from	N/S Line	Feet From	E/W Line	County
L	2	23N	11W		1800	South	1197	West	San Juan

* Proposed Bottom Hole Location

UL - Lot	Section	Township	Range	Lot Idn	Feet from	N/S Line	Feet From	E/W Line	County
L	2	23N	11W		1800	South	1197	West	San Juan

9. Pool Information

Pool Name	Pool Code
Basin Fruitland Coal	

Additional Well Information

11. Work Type N	12. Well Type G	13. Cable/Rotary R	14. Lease Type S	15. Ground Level Elevation 6447'
16. Multiple N	17. Proposed Depth 1,050'-ft	18. Formation BPC Pictured Cliffs	19. Contractor TBD	20. Spud Date ASAP
Depth to Ground water >100'		Distance from nearest fresh water well >500'		Distance to nearest surface water >1-mile

☒ We will be using a closed-loop system in lieu of lined pits

21. Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surface Csg	12-1/4"	8-5/8"	24# J-55 STC	120-ft.	99-cf	Surface
Production Csg	7-7/8"	5-1/2"	14# J-55 STC	1,050-ft.	330-cf	Surface

Casing/Cement Program: Additional Comments

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22. Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
Double Ram	2,000 psi	Low Press 250 psig High Press 2,000 psig	Schafer 9" 2000 Series

23. I hereby certify that the information given above is true and complete to the best of my knowledge and belief

I further certify that I have complied with 19.15.14.9 (A) NMAC ☐ and/or 19.15.14.9 (B) NMAC ☐ if applicable.

Signature: *Kurt Fagrelus*

Printed name: Kurt Fagrelus

Title: Vice President Land & Exploration

E-mail Address: kfagrelus@duganproduction.com

Date: October 13, 2017

Phone: 505-325-1821

OIL CONSERVATION DIVISION

Approved By: *Charles Lee* 10-25-2017

Title

Approved Date 10-25-17

Expiration Date 10-25-19

Conditions of Approval Attached

SEE ATTACHED NMOCD
CONDITIONS OF APPROVAL

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State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised August 1, 2011

Submit one copy to
Appropriate District Office

OIL CONSERVATION DIVISION

1220 South St. Francis Drive
Santa Fe, NM 87505

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30.045.35854	*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 317435	*Property Name PGA UNIT 2	*Well Number 3
*GRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION	*Elevation 6447'

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot 10	Feet from the	North/South line	1669	East/West line	County
L	2	23N	11W		1800	SOUTH	1197	WEST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

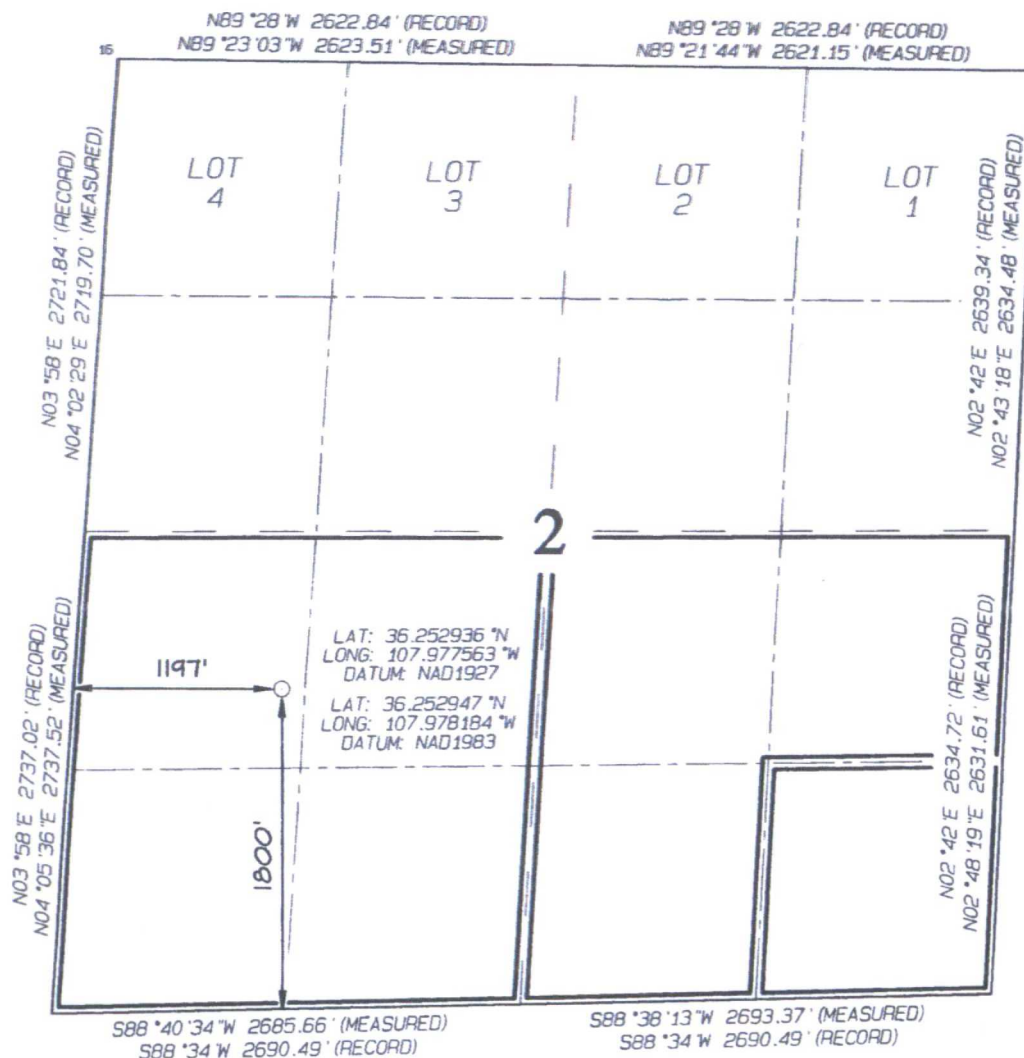
UL or lot no.	Section	Township	Range	Lot 10	Feet from the	North/South line	Feet from the	East/West line	County

*Dedicated Acres 320.0 Acres - S/2	*Joint or Infill	*Consolidation Code	*Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE
BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION.

OILCONS DIV DIST. 3

OCT 25 2017



¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom-hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the Division.

Signature *Kurt Fagrellius* Date *10/13/17*

Printed Name *Kurt Fagrellius*

E-mail Address *kfagrellius@duganproductionco.*

¹⁸ SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date Revised: OCTOBER 11, 2017
Date of Survey: OCTOBER 2, 2017

Signature and Seal of Professional Surveyor

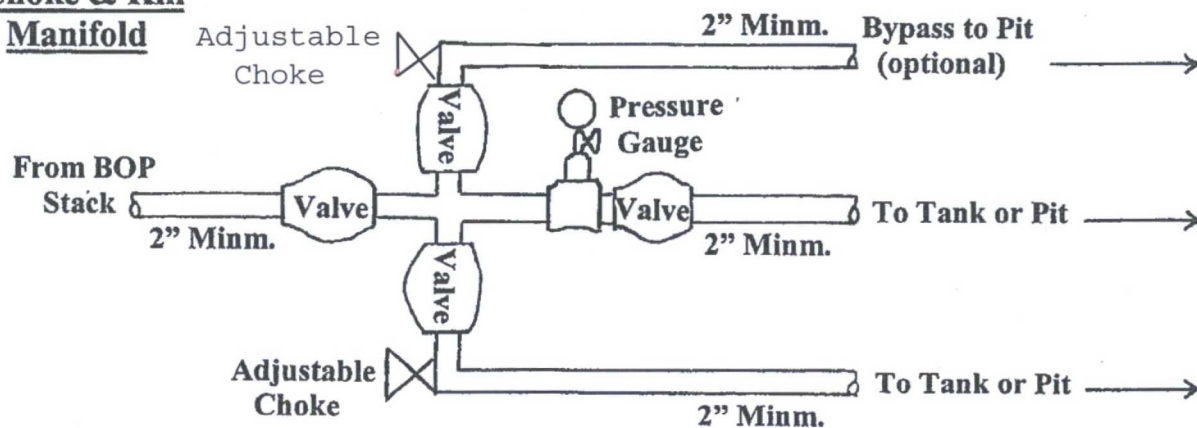
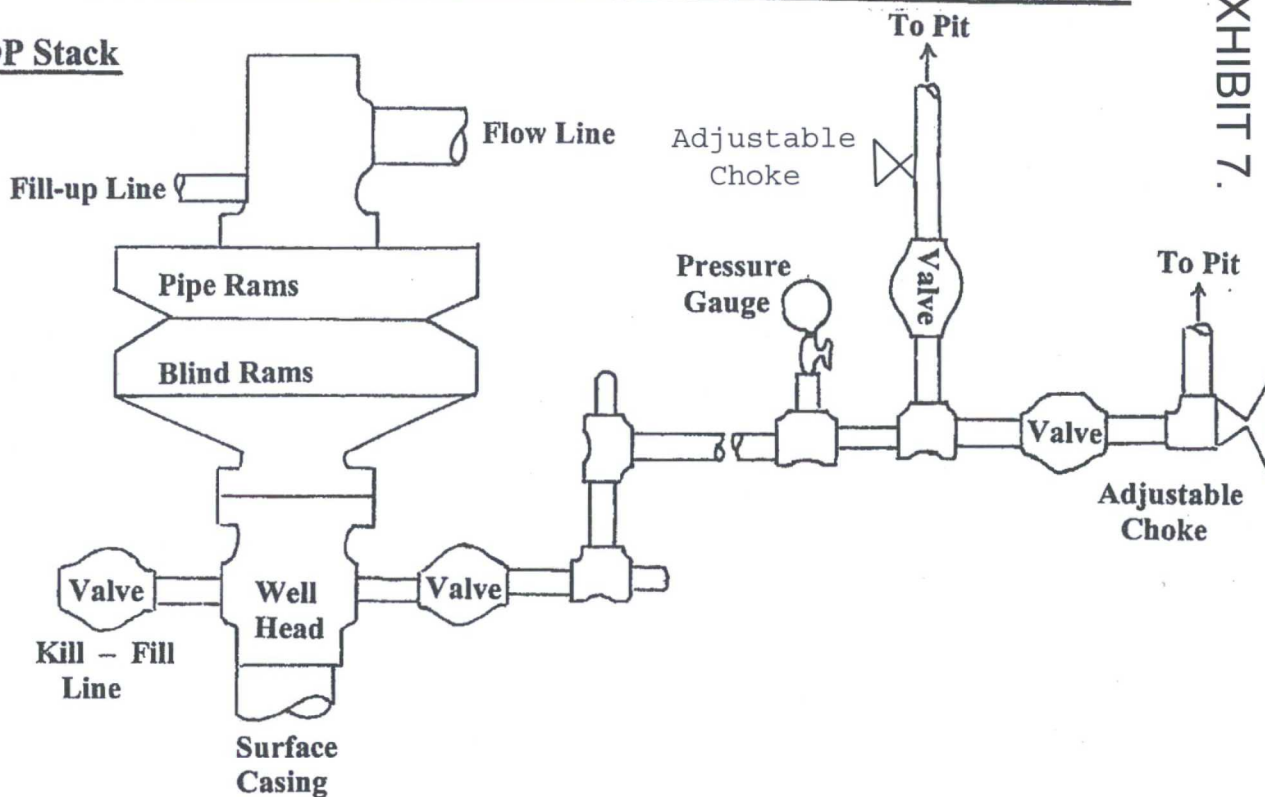


JASON C. EDWARDS

Certificate Number 15269

Federal Surface

EXHIBIT 7.



Working Pressure for all equipment is 2,000 psi or greater

DUGAN PRODUCTION CORP.
PGA 2 #3

Directions from the Intersection of US Hwy 550 & US Hwy 64

in Bloomfield, NM to Dugan Production Corporation PGA Unit 2 #3

1800' FSL & 1197' FWL, Section 2, T23N, R11W, N.M.P.M., San Juan County, NM

Latitude: 36.252947°N Longitude: 107.978184°W Datum: NAD1983

From the intersection of US Hwy 550 & US Hwy 64 in Bloomfield, NM, travel Southerly on US Hwy 550 for 27.9 miles to State Hwy #57 @ Mile Marker 123.4;

Go Right (South-westerly) on State Hwy #57 for 3.2 miles to fork in roadway;

Go Left (South-westerly) remaining on State Hwy #57 for 2.6 miles to fork in roadway;

Go Right (Westerly) exiting State Hwy #57 onto County Road #7635 for 0.9 miles to fork in roadway;

Go Left (Southerly) remaining on County Road #7635 for 1.4 miles to fork in roadway;

Go Right (Westerly) exiting County Road #7635 onto County Road #7515 for 0.7 miles to fork in roadway;

Go Left (South-westerly) exiting County Road #7515 onto existing roadway for 1.4 miles to fork in roadway;

Go Right (Westerly) for 2.0 miles to fork in roadway;

Go Left (Westerly) which is straight for 0.2 miles to fork in roadway;

Go Right (Westerly) which is straight for 1.4 miles to begin proposed access on left-hand side of roadway on existing Dugan PGA Unit 2 #2 location, which continues for 2750.1' to staked Dugan PGA Unit 2 #3 location.

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Ken McQueen
Cabinet Secretary

Matthias Sayer
Deputy Cabinet Secretary

David R. Catanach, Division Director
Oil Conservation Division



New Mexico Oil Conservation Division Conditions of Approval
C-101 Application for Permit to Drill

Operator Signature Date: 10.13.17

Well information;

Operator Dugan, Well Name and Number PGA Unit 2 #3

API# 30.045.35854, Section 2, Township 23D N/S, Range 11 E/W

Conditions of Approval: (See the below checked and handwritten conditions)

- ☒ Notify Aztec OCD 24hrs prior to casing & cement.
- ☐ Hold C-104 for directional survey & "As Drilled" Plat
- ☐ Hold C-104 for NSL, NSP, DHC
- ☐ Spacing rule violation. Operator must follow up with change of status notification on other well to be shut in or abandoned
- ☐ Regarding the use of a pit, closed loop system or below grade tank, the operator must comply with the following as applicable:
 - A pit requires a complete C-144 be submitted and approved prior to the construction or use of the pit, pursuant to 19.15.17.8.A
 - A closed loop system requires notification prior to use, pursuant to 19.15.17.9.A
 - A below grade tank requires a registration be filed prior to the construction or use of the below grade tank, pursuant to 19.15.17.8.C
- ☒ Once the well is spud, to prevent ground water contamination through whole or partial conduits from the surface, the operator shall drill without interruption through the fresh water zone or zones and shall immediately set in cement the water protection string
- ☐ Submit Gas Capture Plan form prior to spudding or initiating recompletion operations
- ☒ Regarding Hydraulic Fracturing, review EPA Underground Injection Control Guidance 84
- ☒ Oil base muds are not to be used until fresh water zones are cased and cemented providing isolation from the oil or diesel. This includes synthetic oils. Oil based mud, drilling fluids and solids must be contained in a steel closed loop system.
- ☒ Well-bore communication is regulated under 19.15.29 NMAC. This requires well-bore Communication to be reported in accordance with 19.15.29.8.

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Submit Original
to Appropriate
District Office

GAS CAPTURE PLAN

Date: 10/13/17

☒ Original Operator & OGRID No.: Dugan Production Corp. (006515)
☐ Amended - Reason for Amendment:

This Gas Capture Plan outlines actions to be taken by the Operator to reduce well/production facility flaring/venting for new completion (new drill, recomple to new zone, re-frac) activity.

Note: Form C-129 must be submitted and approved prior to exceeding 60 days allowed by Rule (Subsection A of 19.15.18.12 NMAC).

Well(s)/Production Facility – Name of facility

OIL CONS. DIV DIST. 3

The well(s) that will be located at the production facility are shown in the table below.

OCT 16 2017

Well Name	API	Well Location (ULSTR)	Footages	Expected MCF/D	Flared or Vented	Comments
PGA 2 #3 PGA Unit 2 #3	30-045- 35854	L-2-23N-11W	1800' FSL & 1197' FWL	0	0	No gas will be flared or vented; will be pipelined to the Sesamee Street CDP

Gathering System and Pipeline Notification

Well(s) will be connected to a production facility after flowback operations are complete and will be tied into a gas pipeline (once completed) that connects to Enterprise Field Services. The gas produced from production facility is dedicated to Enterprise Field Services, LLC (Enterprise) and will be connected to Enterprise's low/high pressure gathering system located in San Juan County, New Mexico. It will require 2750.1 of new pipeline to connect the facility to low/high pressure Sesamee Street Gathering System (CTB-560-D). Dugan provides (periodically) to Enterprise a drilling, completion and estimated first production date for wells that are scheduled to be drilled in the foreseeable future. In addition, Dugan and Enterprise have periodic conference calls to discuss changes to drilling and completion schedules. Gas from this well will be processed at Chaco Processing Plant located in Sec. 16, Twn. 26N, Rng. 12W, San Juan County, New Mexico. The actual flow of the gas will be based on compression operating parameters and gathering system pressures.

Flowback Strategy

After the fracture treatment/completion operations, well(s) will be produced to temporary production tanks and gas will be flared or vented. During flowback, the fluids and sand content will be monitored. When the produced fluids contain minimal sand, the wells will be turned to production facilities. Gas sales should start as soon as the wells start flowing through the production facilities, unless there are operational issues on Enterprise's system at that time. Based on current information, it is Dugan's belief the system can take this gas upon completion of the well(s).

Safety requirements during cleanout operations from the use of underbalanced air cleanout systems may necessitate that sand and non-pipeline quality gas be vented and/or flared rather than sold on a temporary basis.

Alternatives to Reduce Flaring

Below are alternatives considered from a conceptual standpoint to reduce the amount of gas flared.

- Power Generation – On lease
 - Only a portion of gas is consumed operating the generator, remainder of gas will be flared
- Compressed Natural Gas – On lease
 - Gas flared would be minimal, but might be uneconomical to operate when gas volume declines
- NGL Removal – On lease
 - Plants are expensive, residue gas is still flared, and uneconomical to operate when gas volume declines