

dugan production corp.

CERTIFIED RETURN RECEIPT

February 28, 2001

Bureau of Land Management  
1235 La Plata Hwy.  
Farmington, NM 87401  
Attn: Mr. Jim Lovato

New Mexico State Land Office  
P.O. Box 1148  
Santa Fe, Nm 87504-1148  
Attn: Mr. Pete Martinez

Offset Interest Owners (Address List Attached)

Re: Notice of Application to Form  
160 Acre Non-standard spacing unit  
Basin Fruitland Coal Pool  
Dugan's phillip No. 1  
H. SENE Section 5, T-24N, R-9W  
San Juan County, New Mexico

30-043-26803



Attached for your information and review is a copy of our application to the New Mexico Oil Conservation Division requesting approval for a ±160.76 acre non-standard spacing unit comprising the NE/4 of Section 5, T-24N, R-9W for the Basin Fruitland Coal completion in Dugan Production's Phillips No. 1 well.

Our records indicate that you have leasehold interest offsetting the north half of Section 5, T-24N, R-9W, and as such are entitled to receive notice of our application. Attachment No. 2 in our application provides our offset leasehold information.

Should you have questions, need additional information or have any concern as to our application, please let me know. Should you have an objection to our application, you should so advise the New Mexico Oil Conservation Division at 1220 South St. Francis Drive in Santa Fe, New Mexico, 87505 and we would appreciate receiving a copy of your objection.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager  
xc: NMOCD - Santa Fe

***OPERATORS/OWNERS OF UNDRILLED TRACTS  
ACREAGE OFFSETTING THE N/2 SECTION 5, T-24N, R-9W  
SAN JUAN COUNTY, NEW MEXICO***

Bureau of Land Management - 1235 La Plata Highway, Farmington, NM 87401

Cross Timbers - 2700 Farmington Ave., Building K, Suite 1, Farmington, NM 87401

James B. Fullerton - 1645 Court Place, Suite 406, Denver, CO 80208-4508

Koch Exploration Co. - P. O. Box 2256, Wichita, KS 67201

Merrion Oil & Gas - 610 Reilly Ave., Farmington, NM 87401

Merrion Oil & Gas, et al

Michael A. Barnes - 304 Gladeview, Farmington, NM 87401

William W. Bayne - 202 W. 38<sup>th</sup> Street, Farmington, NM 87401

Scott Bird - P. O. Box 4540, Farmington, NM 87499-4540

M.J. Brannon - 2240A Forest Park Blvd., Fort Worth, TX 76110

Chateau Oil & Gas - 2515 McKinney Ave., Dallas, TX 75201

Cross Timbers Oil Co. - 810 Houston Suite #2000, Fort Worth, TX 76102

Cross Timbers Oil Co. - 2700 Farmington Ave., Building K, Suite 1, Farmington, NM 87401

Steven S. Dunn - 3100 Western Ave., Farmington, NM 87401

Greystone Energy Inc. - 1801 Broadway #630, Denver, CO 80202

Paul Long - 2101 Municipal Drive, Farmington, NM 87401

Craig C. Merilatt - 2213 Western St., Farmington, NM 87401

Greg T. Merrion - 504 McDonald Road, Farmington, NM 87401

Michael K. Merrion - 3002 Crescent Ave., Farmington, NM 87401

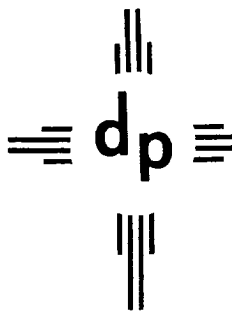
Merrion Oil & Gas Corp. - 610 Reilly Ave., Farmington, NM 87401

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George F. Sharpe - 2400 N. Wagner, Farmington, NM 87401

New Mexico State Land Office - P. O. Box 1148, Santa Fe, NM 87504-1148

W. R. Speer - P. O. Box 266, Roswell, NM 88202-0266



# dugan production corp.

February 28, 2001

Ms. Lori Wrotenbery  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Re: Application for 160 acre non-standard spacing unit  
Basin Fruitland Coal Pool  
Dugan Production Corp.'s Phillips No. 1 (API No. 30-045-26803)  
SENE Section 5, T-24N, R-9W  
San Juan County, New Mexico

Dear Ms. Wrotenbery,

We are writing to request your administrative approval for a ±160.76 acre non-standard spacing unit comprising the NE/4 of Section 5, T-24N, R-9W for the existing Basin Fruitland Coal completion in Dugan Production's Phillips No. 1 well.

The Phillips No. 1 was completed on 10-1-87 testing a rate of 61 mcf/d @ 3 psig from perforations 1704'-1713' in a Wildcat-Fruitland pool and perforations 1714'-1717' in a Wildcat-Pictured Cliffs pool. The spacing unit for both completions was the NE/4 with Dugan Production holding 100% of the working interest. Since the Phillips No. 1 had tested a fairly marginal producing rate, was not close to a gas pipeline and was in a sparsely developed area, it was shut in until there was sufficient development in the area to warrant the construction of a pipeline.

Upon adoption of pool rules for the Basin Fruitland Coal (effective 11-1-88) we inadvertently did not include the Phillips No. 1 in our efforts to bring Dugan's existing coal completions into compliance with the newly adopted pool rules, i.e., we did not obtain NMOCD approval for a non-standard unit for the Fruitland coal completion. The Phillips No. 1 remained shut in until 10-2-00 at which time it was connected to Dugan's Goodtimes Gas Gathering System which had been extended to include the Phillips No. 1. Upon reviewing well records, it was discovered that the Phillips No. 1 was considered to be a shut in Fruitland Sand (plus Pictured Cliffs) completion.

In an effort to correct the well completion records to reflect perforations 1704'-1713' as being in the Fruitland Coal rather than a Fruitland Sand, we need to either establish a north half, ±320 acre spacing unit or secure a ±160 acre NSPU. Since all activity on this well to date has been based upon a 160 acre spacing unit consisting of the NE/4, we are proposing to maintain a 160 acre spacing unit. All expenditures to drill, complete, test and connect the well to Dugan's Goodtimes Gas Gathering System have been based upon a NE/4 spacing unit held 100% by Dugan Production Corp. In addition, the NE/4 has been communitized for production from the Fruitland and Pictured Cliffs (CA No. NM015P35-87C-337) and the Fruitland/Pictured Cliffs have been approved for downhole commingling (DHC-580 dated 11-13-87).

Based upon production testing to date, we do not anticipate the Phillips No. 1 will produce significant volumes of gas (production during January, 2001 averaged 5.0 mcf/d plus 10.3 bwpd). Commingled production data for the Fruitland Coal and Pictured Cliffs is summarized as follows:

<u>Month</u>	<u>Gas-mcf</u>	<u>Water-bbl</u>	<u>Days On</u>
10/00	2	0	2
11/00	0	0	0
12/00	197	240	28
<u>01/01</u>	<u>155</u>	<u>320</u>	<u>31</u>
<u>Total</u>	<u>354</u>	<u>560</u>	<u>61</u>

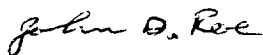
Should production volumes increase such that correlative rights of the owners in the NW/4 are at risk, we will take steps to protect the interests in the NW/4 of this section, which consists of federal lease NM-97108 and is held jointly by Dugan Production Corp. (99.5%) and James B. Fullerton (0.5%). We have discussed this proposal with Mr. Fullerton and he has no objection to producing the Phillips No. 1 with a NE/4, non-standard spacing unit. Attachment No. 1 is a copy of a waiver signed by Mr. Fullerton. All leasehold interest in the N/2 of Section 5 consists only of federal leases and thus there should not be any issue of correlative rights for the mineral interest owner as a result of forming a 160 acre NSPU for the Phillips No. 1. Attachment No. 2 presents the leasehold ownership of all lands offsetting the N/2 of Section 5. All offset interest owners are being provided a copy of this application and Attachment No. 3 is a copy of the transmittal letter which was sent by certified mail with return receipt requested. Upon receiving all return receipts, we will forward copies to the NMOCD as proof of notification to offsetting interest owners.

The Phillips No. 1 is located on the southern edge of the Basin Fruitland Coal pool and is in an area that has had little development to date in the Fruitland Coal. The only other Fruitland Coal wells in this area were also completed by Dugan Production. The Mo Valley No. 90, located in the SW/4SW/4 of Section 5 (T24N-R9W) was completed on 4-15-98 and has been producing since 1/00. Production during 1/01 averaged 30 MCFD plus 9.7 BWPD. Attachment No. 4 presents the production history for the Mo Valley #90. The Sanchez O'Brien No. 90 is located in the SW/4SW/4 of Section 6 (T24N, R9W) and was completed on 10-26-98. This well has been producing since 2/00 with production during 1/01 averaging 9.8 MCFD plus 11.3 BWPD. Attachment No. 5 presents the production history for the Sanchez O'Brien No. 90.

Based upon the production to date from all 3 wells, we are fairly confident that production from the Phillips No. 1 well will not create a drainage concern for leases in the NW/4 of Section 5. Thus, as provided for in Rule No. 6 of the subject pool rules, we respectfully request your administrative approval for a 160.76 acre NSPU comprising the NE/4 of Section 5, T24N, R9W. This will allow Dugan Production to produce a fairly low volume well which we completed in Wildcat Fruitland and Pictured Cliffs pools prior to the establishment of pool rules for the Basin Fruitland Coal. To date, all activity on this well has been based upon a NE/4 spacing unit. The south half of this section is dedicated to Dugan's Mo Valley #90 and the NW/4 is jointly owned by Dugan Production plus one other interest owner which has signed a waiver indicating he has no objection to the Phillips No. 1 being produced on a 160 acre NSPU for the Fruitland Coal. All offsetting interest owners of the undeveloped acreage have received a copy of this application and since the Phillips No. 1 is fairly remote with respect to the established Fruitland Coal development we anticipate there will be no objection from offset interest owners.

Should you have questions or need additional information please, let me know.

Sincerely,



John D. Roe  
Engineering Manager

JDR/tmf

enclosures

xc: NMOCD - Aztec, NM  
BLM  
NMSLO  
Offset Interest Owners

Attachment  
No. 1  
pg 1 of 1

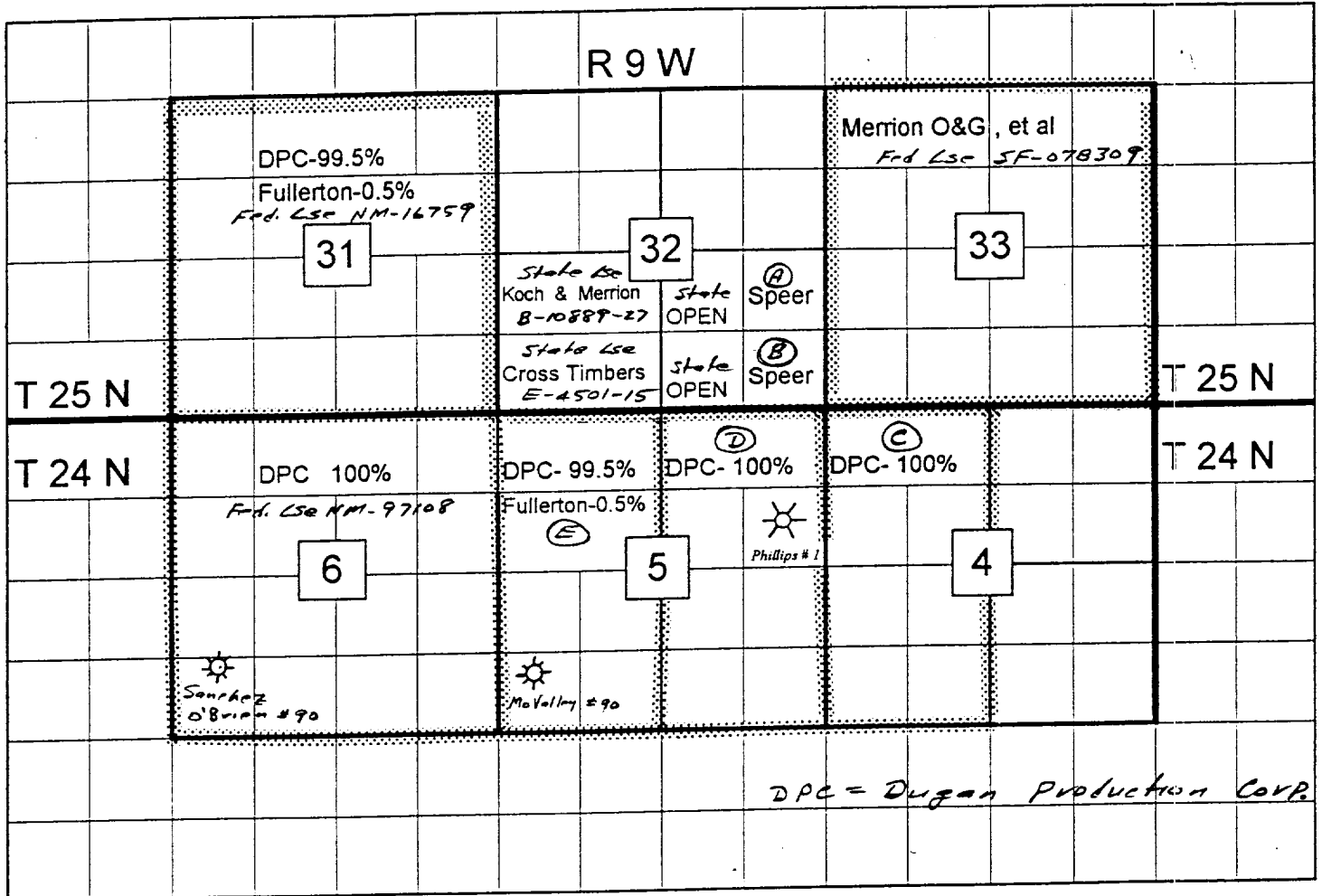
**WAIVER OF OBJECTION**

I, James B. Fullerton, as an owner of Fruitland Coal leasehold interests in the NW/4 of Section 5, T-24N, R-9W, hereby waive objection to the establishment of a ±160A non-standard spacing unit comprising the NE/4 of Section 5, T-24N, R-9W in San Juan County of New Mexico to be dedicated to the Fruitland Coal completion in Dugan Production Corp.'s Phillips No. 1 (API No. 30-045-26803).

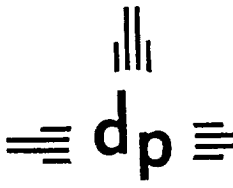
Signed by James B. Fullerton

Date Signed 2-26-2001

**ATTACHMENT NO. 2**  
**OPERATORS/OWNERS OF UNDRILLED TRACTS**  
**ACREAGE OFFSETTING THE N/2 OF SECTION 5, T-24N, R-9W**  
**SAN JUAN COUNTY, NEW MEXICO**



- A. NE/4 SE/4 32-25N-9W: W.R. Speer - State Lease E-3148-10
- B. SE/4 SE/4 32-25N-9W: W.R. Speer - State Lease E-6633-2
- C. W/2 4-24N-9W: Dugan Production Corp.  
Federal Lease NM-97108: NW/4, N/2 SW/4, SE/4 SW/4  
Federal Lease NM-30854: SW/4 SW/4
- D. E/2 5-24N-9W: Dugan Production Corp.  
Federal Lease NM-63319: W/2 E/2, NE/4 NE/4  
Federal Lease NM-30854: SE/4 NE/4, E/2 SE/4
- E. W/2 5-24N-9W: Dugan Production Corp. 99.5%  
James B. Fullerton 0.5%  
Federal Lease NM-16759: NW/4, N/2 SW/4  
Federal Lease NM-23742: S/2 SW/4



dugan production corp.



February 28, 2001

CERTIFIED RETURN RECEIPT

Attachment  
No. 3  
ps 1 of 2

Bureau of Land Management  
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Engineering Manager  
xc: NMOCD - Santa Fe

**ATTACHMENT NO. 3**  
**OPERATORS/OWNERS OF UNDRILLED TRACTS**  
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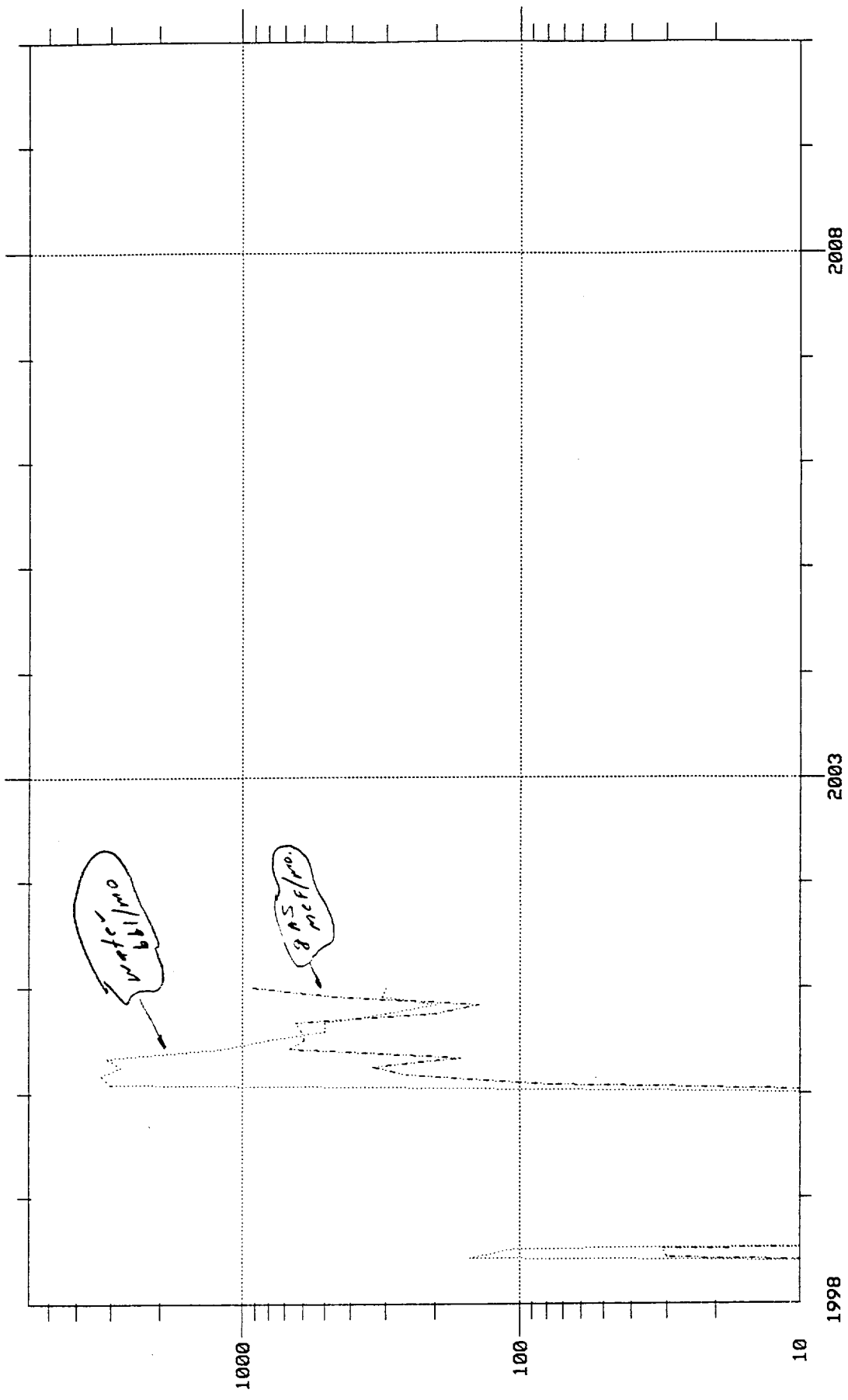
W. R. Speer - P. O. Box 266, Roswell, NM 88202-0266



Production  
 Oil ———  
 Gas - - - -  
 Water ·····

Attachment  
 No. 4  
 pg 1 of 1

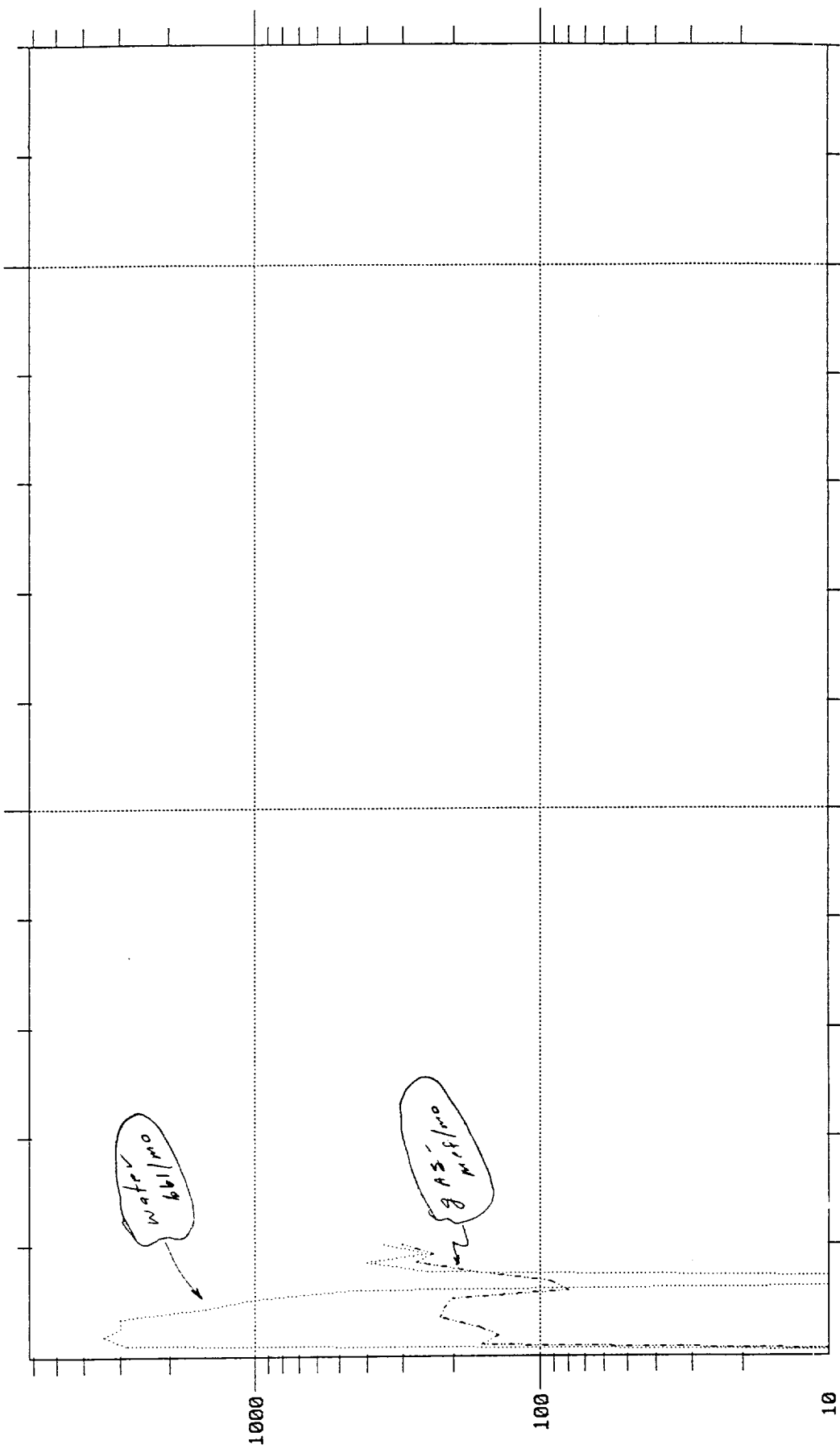
DUGAN PRODUCTION CORP  
 Production Rate vs Time  
 Bbl/Mo or Mcf/Mo vs Months  
 MO VALLEY NO. 90  
 BASIN FRUITLAND COAL (M-5-24N-9W)



DUGAN PRODUCTION CORP.  
 Production Rate vs Time  
 Bbl/Mo or Mcf/Mo vs Months  
 SANCHEZ O'BRIAN NO. 90  
 BASIN FRUITLAND COAL (M-6-24N-9W)

Production  
 Oil \_\_\_\_\_  
 Gas \_\_\_\_\_  
 Water \_\_\_\_\_

*Attachment  
 No. 5  
 PG 1 of 1*



2010

2005

2000

Reported Oil Production = 0 Bbls as of 2-1-01  
 Reported Gas Production = 2249 Mcf "  
 Reported Water Production = 16470 Bbls "