



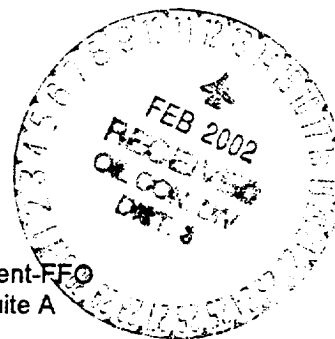
dugan production corp.

NA-010-12100

February 11, 2002

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

Mr. Steve Henke
Bureau of Land Management-FFO
1235 La Plata Highway, Suite A
Farmington, NM 87401



Re: Proposed surface commingling & off-lease measurement
Six wells operated by Dugan Production Corp.
Dugan Production's Proposed Leah Marie Gas Gathering System
San Juan County, New Mexico

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Dear Ms. Wrotenbery and Mr. Henke:

We are writing to request your approvals for the surface commingling and off-lease measurement of natural gas produced from six wells operated by Dugan Production Corp. Four of the wells are located on Federal Lease NM-55113, and since the proposed CDP sales meter will also be located on this lease, will not require off-lease measurement, but will require approvals for surface commingling. Two of the wells are located on Navajo Allotted Lease NOG-9909-1356 and will require approvals to surface commingle and for off-lease measurement.

Of the six wells, only one, Dugan's Leah Marie #1, has an established producing history. A second well, Dugan's Mitzi No. 1 has recently been completed, but has not been connected to a pipeline. Four of the wells have recently been drilled, but completions have been postponed until the subject gas gathering system is ready to deliver gas. The six wells are all located within Section 23, T-26N, R12W and include two Fruitland Coal completions (Pool No. 71629), plus four WAW Fruitland Sand-Pictured Cliffs completions (Pool No. 87190).

This new gathering system will be known as the Leah Marie Gas Gathering System and will deliver natural gas to a central delivery sales meter (CDP) to be installed, operated, and maintained by El Paso Field Services (EPFS) in the NWSW of Section 23, T-26N, R-12W at the Leah Marie No. 2 well site. Only natural gas will be surface commingled. All liquids will be separated, stored, and disposed of at each individual well. We do not anticipate any liquid hydrocarbon production. Dugan Production holds 100% of the working interest in all wells.

Attachment No. 1 was reproduced from the Carson Trading Post USGS Quadrangle topography map and presents Dugan's proposed Leah Marie Gas Gathering System along, with the six wells proposed to be connected to the system. In addition, Dugan Production's leasehold interest in this area is also presented. This gathering system will consist of approximately 10,200' of buried 2" to 8", 160# working pressure, new polyethylene pipe. To insure the initial system integrity, we will pressure test all lines to approximately 120 psi. To insure continued gathering system integrity, the entire gathering system will be periodically surveyed, using Dugan's portable gas detector. The frequency of our monitoring will primarily be dependent upon the indicated need, but will most likely be at least annually. We anticipate maintaining a system gathering pressure of ± 10 psi and will be using a single-stage compressor located at the CDP to deliver gas into El Paso's pipeline, which is currently averaging 50 to 75 psi. Each well will be equipped with continuous recording allocation meters (Barton dry-flow or similar), which will be maintained by Dugan Production in accordance with state and federal regulations (currently Onshore Order No. 5). The monthly charts from each allocation meter will be integrated by a commercial integration company and the volumes recorded will be used to determine factors for allocating sales volumes, BTU's and revenues from the CDP sales meter to each well.

Attachment No. 2 presents well and lease information for each of the six wells to be connected to the gathering system. Attachment No. 3 presents the C-102's for each of the wells along with the dedicated spacing units and associated leases. Attachment No. 4 presents the ownership for each of the six wells, and Attachment No. 5 presents the proposed allocation procedures.