dugan production corp.

Com #1 8-2-29N-14W
Com #3 8-2-29N-14W

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SEP - 8 1999
OIL CON. DIV.
DIST. 3

September 7, 1999

Ms. Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

Re: Amendment to Dugan Production's 9-1-99 application
To surface commingle produced gas
Dugan Production's Com No. 1, Com No. 3 & King Com No. 90
Plus the off-lease measurement and sale of produced gas from the King Com No. 90 - B-11-29N-14W
State Leases: LG-3736, NM B-11242-43, NM E-6714-4; Federal Lease: SF 078110;
Multiple Fee leases
Basin Fruitland Coal & Harper Hill Fruitland Sand PC Pools
San Juan County, New Mexico

Dear Ms. Wrotenbery,

We are writing to amend the allocation procedures proposed in the subject application. Based upon a phone conversation with Mr. Mark Ashley of your office, it is our understanding that due to the uncommon ownership in each of the three wells and the proposed commingling of production from two separate pools, Dugan's initial proposal to allocate production using periodic well tests is not administratively approvable.

Dugan Production herein amends our proposal regarding this gathering system and will install continuous recording, conventional dry flow meters (or an approved form of alternative measurement) on each well and will use these measurements to establish allocation factors. The gas charts for each allocation period (typically monthly) will be integrated by a commercial chart service and the meters will be calibrated and maintained by Dugan Production (consistent with BLM's Onshore Order No. 5). It is our understanding that this amendment will allow the NMOCD to consider administratively approving our application.

An amended Attachment No. 5 is attached which reflects the amended procedure for determining allocation factors. All parties receiving our initial application will be provided with a copy of this proposed amendment.

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

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

JDR/tmf

attachment

xc: BLM, NMSLO, NMOCD-Aztec, All interest owners

709 E. MURRAY DR. • P. O. BOX 420 • FARMINGTON, N.M. 87499-0420 • PHONE: (505) 325-1821 • FAX# (505) 327-4613

Attachment No. 5 (Amended 9-7-99)
Allocation Procedures
Dugan Production Corp.'s
Proposed Surface Commingling & Off-Lease Measurement
Com No. 1 CDP: J-2-29N-14W
San Juan County, New Mexico

Base Data:
U=Water volume (BWPD) from Periodic Well Test x days operated during allocation period
V=Water volume (bbl) at Central Battery during allocation period
W=Gas volume (MCFD) from commercial integrator during allocation period
X=Gas volume (MCF) from CDP Sales Meter during allocation period
Y=BTU's from CDP Sales Meter during allocation period
Z=Gas Revenue ($) from CDP Sales Meter during allocation period

Allocation Period is typically a calendar month and will be the same for all wells.

1. Individual Well Gas Production = A+B+C+D+E
   A = Allocated Sales Volume, MCF.
   = (W/SUM W) x X

   B = On lease fuel usage, MCF. Determined from equipment specifications and operating conditions.

   C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

   D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefiting from the equipment using allocation factors determined by W / Sum W for the wells involved.

   E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by W / Sum W.

2. Allocated Individual Well BTU's = ((W x Individual well BTU) / Sum (W x individual well BTU)) x Y.
   Individual well gas heating values to be determined in accordance with BLM's Onshore Order No. 5.

3. Allocated Individual Gas Revenues = (Allocated Individual well BTU's / Sum Allocated individual well BTU's) x Z

4. Individual Well Water Production = Allocated production volume, bbl=(U / Sum U) x V