

DATE IN 11/04/2013	SUSPENSE	ENGINEER <i>RE DB</i>	LOGGED IN 11/06/13	TYPE PLC	APP NO. PRG 1331041729
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



RECEIVED OOD

2013 NOV -4 P 2:16

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☒ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

[D] Other: Specify Amend PLC-365

Dugan Production Co.
 Adding:
 Lybrook ID2-2308*ZH
 30-045-35492
 [Encina well]

*PLC
 365-A*

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

[A] ☒ Working, Royalty or Overriding Royalty Interest Owners

[B] ☐ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☒ Notification and/or Concurrent Approval by BLM or SLO
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☒ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

John D. Roe
 Print or Type Name

John D. Roe
 Signature

Engineering Manager
 Title

10/30/13
 Date

johnroe@duganproduction.com
 e-mail Address

District I
1625 N. French Drive, Hobbs, NM 88240
District II
811 S. First St., Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
Revised August 1, 2011

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original
application to the Santa Fe
office with one copy to the
appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Dugan Production Corp.

OPERATOR ADDRESS: P O Box 420, Farmington, NM 87499-0420

APPLICATION TYPE:

☐ Pool Commingling ☐ Lease Commingling ☒ Pool and Lease Commingling ☐ Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: ☐ Fee ☒ State ☒ Federal

Is this an Amendment to existing Order? ☒ Yes ☐ No If "Yes", please include the appropriate Order No. PLC-365

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
☒ Yes ☐ No

(A) POOL COMMINGLING
Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production	Calculated Value of Commingled Production	Volumes
Basin Fruitland Coal (71629)	1050 btu	Only gas to be commingled Btu = 1050 to 1450	Only gas to be commingled	7 mcf/d
Nageezi Gallup (47540)	45° API/1450 btu		Commingled	5 to 350 mcf/d
Basin Mancos (97232)	1215 btu		Value = ±\$3.42/mmbtu	350 mcf/d

- (2) Are any wells producing at top allowables? ☐ Yes ☒ No - upon completion, one well may
(3) Has all interest owners been notified by certified mail of the proposed commingling? ☒ Yes ☐ No.
(4) Measurement type: ☒ Metering ☐ Other (Specify) - See Attachment No. 5
(5) Will commingling decrease the value of production? ☐ Yes ☒ No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING
Please attach sheets with the following information

- (1) Pool Name and Code.
(2) Is all production from same source of supply? ☐ Yes ☐ No
(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No
(4) Measurement type: ☐ Metering ☐ Other (Specify)

(C) POOL and LEASE COMMINGLING
Please attach sheets with the following information

- (1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT
Please attached sheets with the following information

- (1) Is all production from same source of supply? ☐ Yes ☐ No
(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)
Please attach sheets with the following information

- (1) A schematic diagram of facility, including legal location. See Attachment No. 2
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved. Attachment No. 2
(3) Lease Names, Lease and Well Numbers, and API Numbers. See Attachment No. 1

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

SIGNATURE: John D. Roe TITLE: Engineering Manager DATE: 10/30/13

TYPE OR PRINT NAME John D. Roe TELEPHONE NO.: 505-325-1821

E-MAIL ADDRESS: johnroe@duganproduction.com



dugan production corp.

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2013 OCT -4 P 2: 16

October 30, 2013

Ms. Jami Bailey, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Larry Roybal, Director
Oil, Gas & Minerals Division
New Mexico State Land Office
P O Box 1148
Santa Fe, NM 87504

Mr. Dave Evans, District Manager
Bureau of Land Management
6251 College Blvd., Suite A
Farmington, NM 87402

Re: Application to add one well to
Dugan Production's Jeffers Federal Gas Gathering System
NMOCD Administrative Order PLC-365
San Juan County, New Mexico

Dear Ms. Bailey, Mr. Evans & Mr. Roybal,

We are writing to request your administrative approvals to add Encana's proposed Lybrook 102-2308 No. 2H to Dugan Production's Jeffers Federal Gas Gathering System (JFGS). This will require the surface commingling of gas plus off-lease measurement and sale of produced natural gas. There will not be any commingling of oil or condensate. Each well producing oil or condensate will be equipped with separation equipment and all oil or condensate will be separated, stored, and sold at the well. There is no Indian acreage associated with any of the wells. Currently there are two wells authorized for the JFGS; Dugan's Jeffers Federal 2 well No. 23 (currently completed in the Basin Fruitland Coal Gas Pool and the Nageezi Gallup Oil Pool located upon Federal Lease NM-29560); plus Encana Oil & Gas (USA) Inc.'s Lybrook 102-2308 No. 1H (which is a horizontal well completed in the Nageezi Gallup Oil and Basin Mancos Gas pools drilled from a surface location upon State Lease V-7843). Encana has requested and Dugan Production has agreed to add their Lybrook 102-2308 No. 2H well to the JFGS. **Attachment No. 7** presents a copy of the Participation Statement by Encana Oil & Gas (USA) Inc. to include the gas production from their well in Dugan's JFGS. Gas produced from Encana's well will be treated the same as the gas produced from all other wells, i.e., it will be measured by Dugan Production for allocation purposes.

In addition to adding Encana's well; 1) we are amending the current allocation procedure to include gas lift and vapor recovery unit operations; 2) we are requesting that the NMOCD Order issued for this application also include a provision that for future additions, only the interest owners in the wells being added need to be notified; 3) we are requesting that fuel needed to operate equipment benefiting wells connected to the gathering system be considered as a "beneficial use" and allocated to the wells benefitting from the equipment and not subject to royalty.

Attachment No. 1 presents the well and lease information for each of the two wells (three completions) currently approved for the JFGS, plus the one well to be added. Dugan's Jeffers Federal 2 No. 23 is currently downhole commingled in the Nageezi Gallup and Basin Fruitland Coal pools (NMOCD Order DHC-4505-A). Note No. 2 for Attachment No. 1 provides a detailed description of each completion. The horizontal lateral for Encana's Lybrook 102-2308 No. 1H extends through and includes the Nageezi Gallup oil and the Basin Mancos gas pools which necessitated NMOCD downhole commingling order DHC-4614. Encana's proposed Lybrook 102-2308 No. 2H will have a surface location in Unit I of Section No. 2 on state lease V-7843 and will be located upon the existing well pad for Encana's Lybrook 102-2308 No. 1H well. However, the horizontal lateral will be in adjacent Section No. 1 and will be completed in the Basin Mancos gas pool on federal leases NMNM-

120374 and NMNM-118132 which will require Encana to separately obtain approvals for the "off-lease" operation of the surface production facilities for their proposed Lybrook I02-2308 No. 2H well.

Attachment No. 2 presents a map of the JFGS. In addition, leasehold interest for the subject wells is also presented. Dugan Production is the operator of the Jeffers Federal 2 No. 23 and Encana Oil & Gas (USA) Inc. will operate the Lybrook I02-2308 No. 1H and 2H wells. The CDP gas sales meter is in the NWSE of Section 3, T-23N, R-8W and is located on Elm Ridge Resource's system (Meter No. 31685). Elm Ridge operates and maintains the CDP sales meter. In addition, to facilitate Encana using gas lift to produce their wells, Elm Ridge Resources has also installed a second meter on their system adjacent to the CDP sales meter. This meter, (Buy Back Meter No. 31705) is used to deliver gas from Elm Ridge to Encana through the JFGS to supplement the gas volumes needed in excess of production to gas lift Encana's wells. Thus, the JFGS not only serves to move gas to Elm Ridge for sale at the CDP from the wells connected to it, but on occasion, as the need arises, also serves to move gas from Elm Ridge to Encana's gas lift compressor located on the well pad for the No 1 & 2 H wells. Each well connected to the JFGS will be equipped with a continuous recording meter to measure all gas volumes produced from each well and each well using gas lift for production operations will be equipped with a continuous recording meter to measure all gas volumes injected into each well. This will facilitate production and injection accountability as presented on the allocation procedure (**Attachment No. 6**). All meters will be operated and maintained by Dugan Production. The charts from each allocation meter will be integrated monthly by a commercial integration service.

Attachment No. 3 presents the "Economic & Environmental Considerations" associated with connecting the proposed well to the JFGS as opposed to obtaining a direct pipeline connection as advocated in BLM's Instructional Memorandum dated 7/3/13. To obtain a direct pipeline connection for the Lybrook I02-2308 No. 2H it will be necessary to install approximately 8,011' of 4" gas line essentially parallel to the existing line for the JFGS, and will also require a second road crossing for State Highway 44. The estimated resultant surface disturbance for a direct connection will be approximately 7.4 acres (assuming a 40' ROW) at a cost of approximately \$455,450. For comparison, this well could be connected to the JFGS by installing approximately 42' of line across the well pad which will not create any new surface disturbance and will reduce the connection cost to approximately \$6,600. Considering that the JFGS is in a general area of archaeological and paleontology significance plus is within the expanded habitat boundary for the Threatened & Endangered "Brack's Cactus" (see Attachment 3, Page 5), we believe that connection to the JFGS is the only logical option. We did evaluate the economics of direct connect versus connecting to the JFGS. The project rate of return for the direct connect is 45% (see Page 2 of Attachment 3) and does meet the 10% minimum presented in the IM however, we believe the direct costs of \$455,450 versus \$6,600 for connecting to the JFGS supports connecting this well to the JFGS. In addition, the archaeological, cultural, paleontology, plus the threatened, endangered, or sensitive species issues associated with this project also supports connecting the Lybrook I02-2308 No. 2H to the JFGS. An additional consideration in support of connecting Encana's Lybrook I02-2308 No. 2H to the JFGS is the fact that Encana is planning to locate the surface production facilities for this well on the existing well pad for their Lybrook I02-2308 No. 1H which will facilitate using one vapor recovery unit for the oil and water storage tanks on both wells plus they will be using one compressor to provide the lift gas needed at both wells. For production accountability emphasized in the BLM's IM, it is almost imperative that the 2H well be connected to the JFGS as opposed to being directly connected for gas sales. Encana's proposed production facility diagram for the Lybrook I02-2308 No. 1H & 2H wells is presented on Page No. 6 of Attachment No. 3.

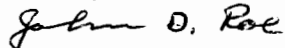
Attachment No. 4 presents a summary of the interest owners in the three wells connected or proposed for the JFGS. In addition to Dugan Production, Encana and Harvey Minerals are the only working interest owners. The royalty interest is federal and state. There is no Indian or fee royalty. In addition, there are five overriding royalty interest owners. As required by OCD rules, all interest owners have been given notice of this application. **Attachment No. 5** includes a copy of the notice sent to the interest owners. All notice letters have been sent by certified, return receipt mail and upon receiving the receipts, copies will be forwarded to the NMOCD. Also included in Attachment No. 5 is a copy of the legal notice which was published in The Farmington Daily Times on September 11th, 2013 to further provide notice to all interest owners, anticipating that there will invariably be some receipts not returned. As provided by Rule 19.15.12.10C(4)(g)(i&ii), Dugan Production is requesting that the NMOCD Order issued for this application also include a provision that for future additions to the gathering system, only the interest owners in the wells being added need to be notified, provided that in reasonable probability the proposed additions will not adversely affect the interest owners in the wells already approved for the system. Our letters to each of the interest owners did include a notice of this

request. This provision will be very helpful and will greatly reduce the effort necessary to add future wells to the JFGS.

In summary, Dugan Production Corp. is requesting approval to add one well to the Jeffers Federal Gas Gathering System, which will require surface commingling plus off-lease measurement and sale of produced gas. In addition, we are amending the existing allocation procedure to include gas lift and vapory recovery unit operations, we are requesting that the NMOCD include a provision in the order for notice requirements should additional wells be added in the future such that only the interest owners in the wells being added are required to receive notice of our application.

Should you need additional information or have questions regarding any of this information, please feel free to contact me at the letterhead address.

Sincerely,

A handwritten signature in black ink that reads "John D. Roe". The signature is written in a cursive, flowing style.

John D. Roe
Engineering Manager

JDR/tmf

attachments

xc: NMOCD – Aztec
Encana Oil & Gas (USA) Inc.
Harvey Mineral Partners, L.P.

ATTACHMENT NO. 1
DUGAN PRODUCTION CORP.
JEFFERS FEDERAL GAS GATHERING SYSTEM (10-30-13)
CENTRAL DELIVERY SALES METER (ELM RIDGE METER #31685) NWSE 3-T23N-R8W
SAN JUAN COUNTY, NEW MEXICO

WELL NAME	API No. 30-045-	Surface Location			CA#	Pool	Completion Date	Well Status	Current Production			Spacing Unit	Dates for SC, OLM & S ①			
		1/4 1/4-Sec-Twn-Rng	Lease No.	Lse Type					BOPD	MCFD	BWPD		Application	BLM Approval	NMSLO Approval	NMOCD Approval
WELLS APPROVED (2 WELLS, 3 COMPLETIONS)																
Jeffers Federal 2 #23 - Gallup	24439	NESW-2-23N-8W	NM29560	F	N/A	Nageezi Gallup	10/17/1980	Note 2	2.1	5	0.4	NE/4 SW/4 - 40A	10/29/2012	11/30/2012	11/19/2012	12/4/2012
Jeffers Federal 2 #23 - FR Coal	24439	NESW-2-23N-8W	NM29560	F	NMNM112659	Basin Fruitland Coal	9/1/2011	Note 2	0	7	3.0	S/2 - 320A	10/29/2012	11/30/2012	11/19/2012	12/4/2012
Encana's Lybrook I02-2308 #1H	35365	NESE-2-23N-8W	V7843	S	NMNM131072	Nageezi Gallup/Basin Mancos	7/5/2013	Note 3	Note 3			N/2 S/2 - 160A	10/29/2012	11/30/2012	11/19/2012	12/4/2012
WELLS TO BE ADDED (1 WELL)																
Encana's Lybrook I02-2308 #2H Note ⑤	35492	NESE-2-23N-8W	V7843	S	pending	Basin Mancos	LOC	Note 4	Note 4			S/2 - 320A	10/30/2013			

Notes:
N/A - Not applicable or not needed

Note 1 - Dates of application & approvals to use the Jeffers Federal Gathering System for the sale of produced natural gas(S) which typically requires surface commingling (SC), and off-lease measurement (OLM).

Note 2 - The **Nageezi Gallup completion** has produced for approximately 30 years and as of 7/1/13, has produced 24,466 bbl oil and 49,861 mcf of gas. Production comes from 24 fine grained, low permeability tight sandstone/siltstone reservoir intervals perforated between 4763' & 5349' (a 586' interval). Due to low permeability and large reservoir thickness, low production rates are anticipated to exist as long as operating economics warrant continued operations. An average production rate is very difficult to determine, but using a fairly stable five year period 2006 thru 2010, production did average 2.1 BOPD, 0.35 BWPD, and 5 mcf/d (of which 2.70 mcf/d was used to fuel the pumping unit engine and ±2.3 mcf/d was vented). The associated gas has an average heating value of 1450 btu/cf. The **Basin Fruitland Coal completion** is in a coal approximately 6' thick and has tested a rate of 7 mcf/d + 3 BWPD. The perforations have been broken down and acidized and having obtained a pipeline connection for gas sales, we plan to continue testing and evaluate the feasibility/need for additional stimulation. To date, we have not frac'd the Fruitland Coal. The Fruitland Coal in this general area has not been developed and within the eight adjacent sections, there is only one other Fruitland Coal completion which is the South Blanco Coal 36 well No. 1 (API No. 30-045-30516) operated by Elm Ridge Exploration in Unit L, Section 36, T24N, R8W, approximately 1¼ mile to the northeast. This well was completed 12/27/01 and to date has produced 63.2 mmcf gas with a peak gas of 42 mcf/d during May, 2004. Production during the first 5 months of 2013 averaged 13 mcf/d with no water. The Fruitland Coal gas in this area has a heating value of 1050 ctu/cf. The Jeffers Federal 2 No. 23 well has been approved for downhole commingling of the Basin Fruitland Coal gas and Nageezi Gallup oil (DHC-4505-A).

Note 3 - Encana's Lybrook I023-2308 #1H has been drilled as a horizontal well in the Nageezi Gallup oil & Basin Mancos gas pools (DHC-4614) extending from a surface location in Unit I to a bottom hole location in Unit L (NSL-6794 & NSP-1965). There are many variables influencing production which will only be known upon further testing. To date the Gallup/Mancos interval has been frac'd and production testing is in progress. The gas was connected to the Jeffers Federal Gathering System on 9-6-13, however due to high nitrogen content (from foam frac), Elm Ridge Resources is restricting gas deliveries into their system until nitrogen levels improve. We anticipate an initial gas production rate of 350 mcf/d with an average heating value of 950 btu/cf for the 1st 6 months, and then averaging 1215 btu/cf after nitrogen from frac cleans up.

Note 4 - Encana's Lybrook I02-2308 #2H is proposed as a horizontal well in the Basin Mancos gas pool. As presented above in Note No. 2, there are many variables that influence production. Encana anticipates initial gas production to average 350 mcf/d with an average heating value of 950 btu/cf for the 1st 6 months, and then averaging 1215 btu/cf after nitrogen from frac cleans up.

Note 5 - Well with surface location & completion interval/bottom hole location in different sections:

Well Name	Surface Location	Spacing Unit/Completion Interval
Lybrook I02-2308 #2H	1/4 1/4-Section-Twp-Rge-Lse NESE-2-23N-8W-V7843	Spacing Unit-Acres-Section-Twp-Rge-Lse S/2-320A-1-23N-8W-NMNM120374 & NM118132

Basin Mancos
47232

R-8W

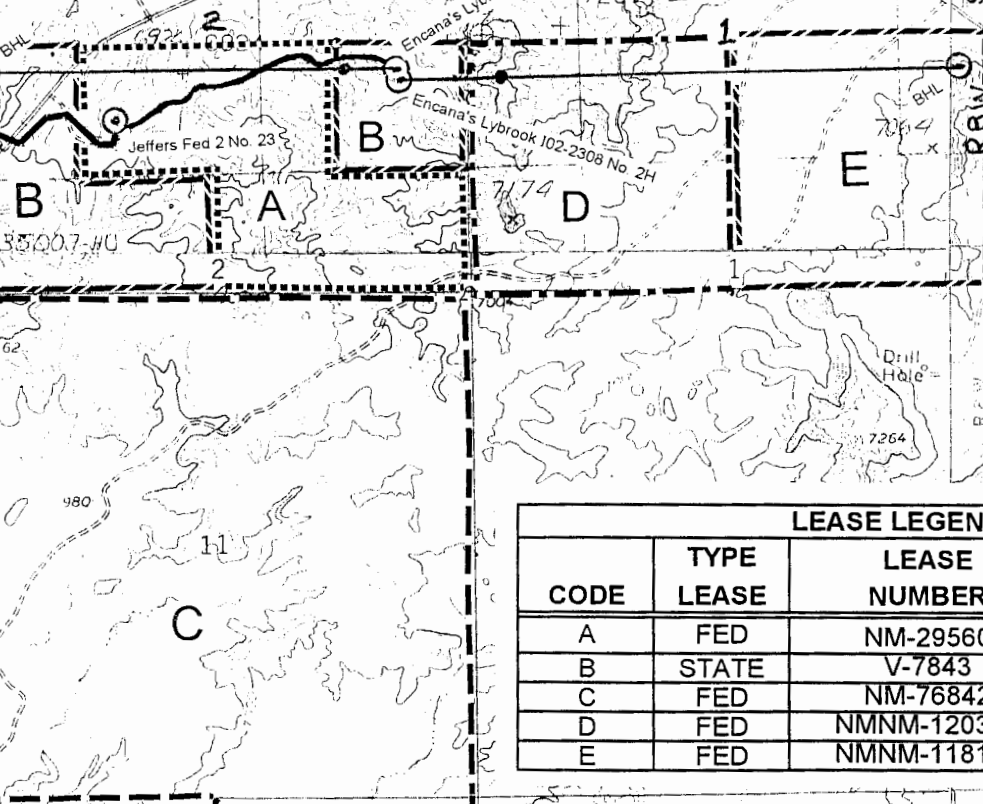
Attachment No. 2
 Dugan Production Corp.
 Jeffers Federal Gas Gathering System
 CDP Sales Meter: NWSE 3, T-23N, R-8W
 Elm Ridge Resources Meter No. 31685
 San Juan County, New Mexico
 Quadrangles: Crow Mesa West,
 Crow Mesa East, Lybrook & Lybrook NW
 Scale 1" = 2,000'

T-24N

T-23N

T24N
T23N

Buy Back Meter
 CDP Sales Meter
 J-3-23N-8W



LEASE LEGEND

CODE	TYPE LEASE	LEASE NUMBER	LEASE NAME
A	FED	NM-29560	Jeffers
B	STATE	V-7843	Jeffers
C	FED	NM-76842	Alamito ANR
D	FED	NMNM-120374	Encana's Lease
E	FED	NMNM-118132	Encana's Lease

ATTACHMENT 3
ECONOMIC & ENVIRONMENTAL CONSIDERATIONS
APPLICATION TO ADD 1 WELL TO JEFFERS FEDERAL GAS GATHERING SYSTEM (JFGGS)

	Direct Connect to PL	Connect to JFGGS
Wells to be added	1	1
Length of new pipeline needed	8011'	42'
Surface disturbance		
pipeline with 40' ROW	7.4 acres	0.04 acres ①
pipeline pigging facilities	10' x 20'	None
Approximate location of pipeline connection	NWSE Section 3, T23N, R8W near existing JFGGS CDP Sales Meter	NESE Section 2, T-23N, R8W Near JFGGS connection for Well No. 1H
Estimated connection costs		
4" pipeline installed @ \$37.88/ft	\$303,450	\$1,600
Road boring for Hwy 550 crossing	\$11,000	\$0
Pipeline connection & meter	\$131,000	\$5,000
Pipeline pigging facilities	\$10,000	\$0
Total	\$455,450	\$6,600
Project Economics (pages No. 2, 3 & 4)		
Initial Gas Production	350 mcf/d	350 mcf/d
Lease Fuel	20 mcf/d	20 mcf/d
Gas Heating Value	1215 btu/SCF	1215 btu/scf
Gas Price - \$	\$3.42/MMBTU	\$3.42/MMBTU
Interest: WI/NI - %	100/87.5	100/87.5
Net Gas Production	1,171.6 mmcf	1,171.6 mmcf
Net Undiscounted Profit	\$2,616,502	\$3,065,352
Project Rate of Return	45.3%	100%

Other Considerations

-**Archaeological** - general area of significance.

-**Cultural** - there are four "Traditional Cultural Properties" in the general area; Turtle Mountain, Grey Hill, Knife Mesa, and Knife Mesa Spring. In addition, there is an early Anasazi Sheep Corral Site in the immediate area (BLM Report No. 2011 (IV)055F).

-**Paleontology** - Sections 1, 2 & 3 of T-23N, R-8W are adjacent to the northern boundary of the Lybrook Fossil Area.

-**Threatened, Endangered or Sensitive Species** - the Brack's Cactus/Aztec Gilia is present in the general area and with BLM's recently released Instruction Memorandum effective 9/13/13, the BLM has expanded the habitat boundary to include the Jeffers Federal Gathering System and wells. The revised map is presented on Page No. 5 of Attachment No. 3.

Notes:

① - Since the line connecting the No. 2 H well to the gathering system will likely be across surface already disturbed for the well site location for the No. 1 H & 2H wells, there will likely be no new surface disturbance.

Annual CashFlow Report*

Project: C:\Users\areena\Documents\IHS\PowerTools\Projects v9.2\Jefferes Fed Gathering.mdb

Lease Name: Lybrook I 02-2308 2H ()

Operator: Encana Oil and gas

County, ST: , NM

Field Name:

Location: 23N-8W-2

Reserve Type/Class: Proved/Developed, Producing

Attachment
No. 3
Pg 2 of 6

Date	Well Count	Gross Production		Net Production		Average Prices		Sales Total (\$)
		Oil - (X) (Bbl)	Gas (Mcf)	Oil - (X) (Bbl)	Gas (Mcf)	Oil - (X) (\$/Bbl)	Gas (\$/Mcf)	
12/2014	1	0	53,754	0	47,035	0.00	4.16	195,443
12/2015	1	0	78,120	0	68,355	0.00	4.16	284,036
12/2016	1	0	70,200	0	61,425	0.00	4.16	255,239
12/2017	1	0	63,000	0	55,125	0.00	4.16	229,061
12/2018	1	0	57,672	0	50,463	0.00	4.16	209,689
12/2019	1	0	51,828	0	45,350	0.00	4.16	188,441
12/2020	1	0	48,900	0	42,788	0.00	4.16	177,795
12/2021	1	0	45,624	0	39,921	0.00	4.16	165,884
12/2022	1	0	43,068	0	37,685	0.00	4.16	156,590
12/2023	1	0	40,512	0	35,448	0.00	4.16	147,297
12/2024	1	0	37,956	0	33,212	0.00	4.16	138,004
12/2025	1	0	35,760	0	31,290	0.00	4.16	130,019
12/2026	1	0	34,308	0	30,020	0.00	4.16	124,740
12/2027	1	0	32,856	0	28,749	0.00	4.16	119,461
12/2028	1	0	31,752	0	27,783	0.00	4.16	115,447
Remainder:		0	613,676	0	536,967	0.00	4.16	2,231,258
Grand Total:		0	1,338,986	0	1,171,613	0.00	4.16	4,868,404

Date	Operating Expenses (\$)	Taxes (\$)	Operating Income (\$)	Other Costs (\$)	Periodic Cash Flow (\$)	Cumulative Cash Flow (\$)	10% Cash Flow (\$)
12/2014	27,600	15,518	152,325	455,450	-303,125	-303,125	-314,807
12/2015	27,600	22,552	233,883	0	233,883	-69,242	201,999
12/2016	27,600	20,266	207,373	0	207,373	138,132	162,821
12/2017	27,600	18,187	183,273	0	183,273	321,405	130,817
12/2018	27,600	16,649	165,440	0	165,440	486,845	107,352
12/2019	27,600	14,962	145,879	0	145,879	632,723	86,054
12/2020	27,600	14,117	136,078	0	136,078	768,801	72,975
12/2021	27,600	13,171	125,113	0	125,113	893,914	60,995
12/2022	27,600	12,433	116,557	0	116,557	1,010,471	51,658
12/2023	27,600	11,695	108,002	0	108,002	1,118,473	43,515
12/2024	27,600	10,957	99,446	0	99,446	1,217,919	36,425
12/2025	27,600	10,324	92,096	0	92,096	1,310,015	30,666
12/2026	27,600	9,904	87,236	0	87,236	1,397,250	26,407
12/2027	27,600	9,485	82,376	0	82,376	1,479,626	22,669
12/2028	27,600	9,166	78,680	0	78,680	1,558,306	19,684
Remainder:	995,900	177,162	1,058,196	0	1,058,196	2,616,502	116,554
Grand Total:	1,409,900	386,551	3,071,952	455,450	2,616,502	2,616,502	855,784

Discount Present Worth:

0.00 %	2,616,502
10.00 %	855,784
20.00 %	388,726
30.00 %	173,092
40.00 %	47,417
50.00 %	-35,411
60.00 %	-94,316
70.00 %	-138,443
80.00 %	-172,778
90.00 %	-200,278
100.00 %	-222,813

Economic Dates:

Effective Date	01/2014
Calculated Limit	01/2065
Economic Life	613 Months
	51 Years 1 Month

Economics Information:

Net Payout Date:	05/2016
Rate of Return:	45.27 %
Return on Investment:	6.74
Disc Return on Invest:	2.88
Initial Division of Interest:	

Economics Summary:

	Bbl Oil	Mcf Gas
Ultimate Gross	0	1,339,316
Historic Gross	0	725,640
Gross at Eff Date	0	330
Remaining Gross	0	1,338,986
Remaining Net	0	1,171,613

BTU Content:	1.215 mmbtu/mcf
Gravity:	Oil: 35.00 Gas: 0.800
	NRI
Oil:	87.500000
Gas:	87.500000

ORI
0.000000
0.000000

* - To assess the merits of establishing gas sales by directly connecting to the pipeline versus using the existing gathering system, only gas sales are presented. The economics of oil production are not relevant to this issue and were not included.

Annual CashFlow Report - (X)

Project: C:\Users\areena\Documents\IHS\PowerTools\Projects v9.2\Jefferes Fed Gathering.mdb

Lease Name: Lybrook I 02-2308 2H (COPY) ()

Operator: Encana Oil and gas

County, ST: , NM

Field Name:

Location: 23N-8W-2

Reserve Type/Class: Proved/Developed, Producing

After hours
No.3
Pg 3 of 6

Date	Well Count	Gross Production		Net Production		Average Prices		Sales Total (\$)
		Oil - (X) (Bbl)	Gas (Mcf)	Oil - (X) (Bbl)	Gas (Mcf)	Oil - (X) (\$/Bbl)	Gas (\$/Mcf)	
12/2014	1	0	53,754	0	47,035	0.00	4.16	195,443
12/2015	1	0	78,120	0	68,355	0.00	4.16	284,036
12/2016	1	0	70,200	0	61,425	0.00	4.16	255,239
12/2017	1	0	63,000	0	55,125	0.00	4.16	229,061
12/2018	1	0	57,672	0	50,463	0.00	4.16	209,689
12/2019	1	0	51,828	0	45,350	0.00	4.16	188,441
12/2020	1	0	48,900	0	42,788	0.00	4.16	177,795
12/2021	1	0	45,624	0	39,921	0.00	4.16	165,884
12/2022	1	0	43,068	0	37,685	0.00	4.16	156,590
12/2023	1	0	40,512	0	35,448	0.00	4.16	147,297
12/2024	1	0	37,956	0	33,212	0.00	4.16	138,004
12/2025	1	0	35,760	0	31,290	0.00	4.16	130,019
12/2026	1	0	34,308	0	30,020	0.00	4.16	124,740
12/2027	1	0	32,856	0	28,749	0.00	4.16	119,461
12/2028	1	0	31,752	0	27,783	0.00	4.16	115,447
Remainder:		0	613,676	0	536,967	0.00	4.16	2,231,258
Grand Total:		0	1,338,986	0	1,171,613	0.00	4.16	4,868,404

Date	Operating Expenses (\$)	Taxes (\$)	Operating Income (\$)	Other Costs (\$)	Periodic Cash Flow (\$)	Cumulative Cash Flow (\$)	10% Cash Flow (\$)
12/2014	27,600	15,518	152,325	6,600	145,725	145,725	134,043
12/2015	27,600	22,552	233,883	0	233,883	379,608	201,999
12/2016	27,600	20,266	207,373	0	207,373	586,982	162,821
12/2017	27,600	18,187	183,273	0	183,273	770,255	130,817
12/2018	27,600	16,649	165,440	0	165,440	935,695	107,352
12/2019	27,600	14,962	145,879	0	145,879	1,081,573	86,054
12/2020	27,600	14,117	136,078	0	136,078	1,217,651	72,975
12/2021	27,600	13,171	125,113	0	125,113	1,342,764	60,995
12/2022	27,600	12,433	116,557	0	116,557	1,459,321	51,658
12/2023	27,600	11,695	108,002	0	108,002	1,567,323	43,515
12/2024	27,600	10,957	99,446	0	99,446	1,666,769	36,425
12/2025	27,600	10,324	92,096	0	92,096	1,758,865	30,666
12/2026	27,600	9,904	87,236	0	87,236	1,846,100	26,407
12/2027	27,600	9,485	82,376	0	82,376	1,928,476	22,669
12/2028	27,600	9,166	78,680	0	78,680	2,007,156	19,684
Remainder:	995,900	177,162	1,058,196	0	1,058,196	3,065,352	116,554
Grand Total:	1,409,900	386,551	3,071,952	6,600	3,065,352	3,065,352	1,304,634

Discount Present Worth:

0.00 %	3,065,352
10.00 %	1,304,634
20.00 %	837,576
30.00 %	621,942
40.00 %	496,267
50.00 %	413,439
60.00 %	354,534
70.00 %	310,407
80.00 %	276,072
90.00 %	248,572
100.00 %	226,037

Economic Dates:

Effective Date	01/2014
Calculated Limit	01/2065
Economic Life	613 Months
	51 Years 1 Month

Economics Information:

Net Payout Date:	07/2014
Rate of Return:	>100 %
Return on Investment:	465.45
Disc Return on Invest:	198.67
Initial Division of Interest:	

Economics Summary:

	Bbl Oil	Mcf Gas
Ultimate Gross	0	1,339,316
Historic Gross	0	725,640
Gross at Eff Date	0	330
Remaining Gross	0	1,338,986
Remaining Net	0	1,171,613

BTU Content: 1.215 mmbtu/mcf
Gravity: Oil: 35.00 Gas: 0.800

NRI

ORI

Oil: 87.500000 0.000000
Gas: 87.500000 0.000000

WI: 100.000000

* - To assess the merits of establishing gas sales by directly connecting to the pipeline versus using the existing gathering system, only gas sales are presented. The economics of oil production are not relevant to this issue and were not included.

Rate/Time Graph

Project: C:\Users\areena\Documents\IHS\PowerTools\Projects v9.2\Jefferes Fed Gathering.mdb

Date: 10/7/2013

Time: 11:10 AM

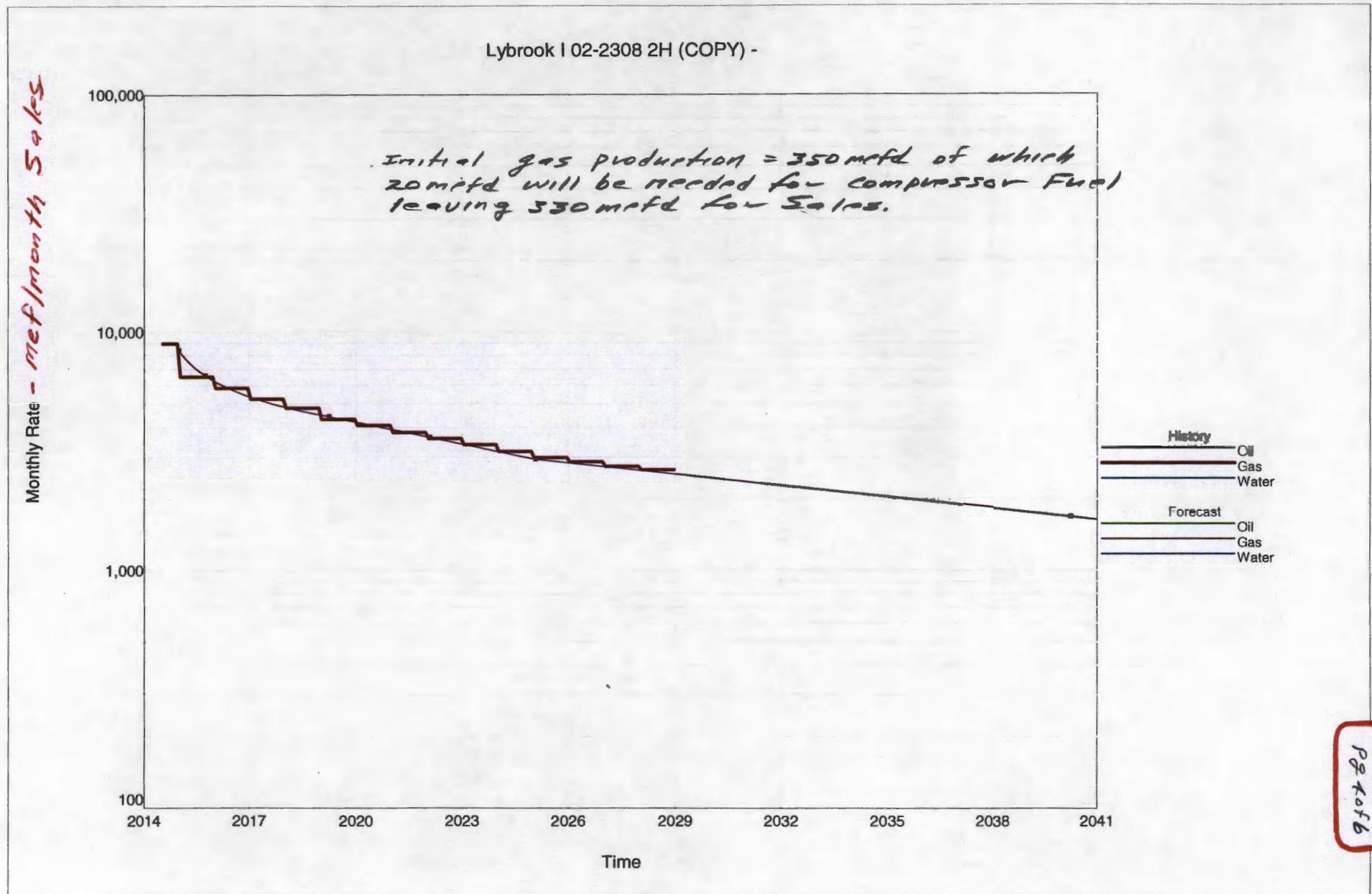
Lease Name: Lybrook I 02-2308 2H (COPY) ()

Operator: Encana Oil and gas

County, ST: , NM

Field Name:

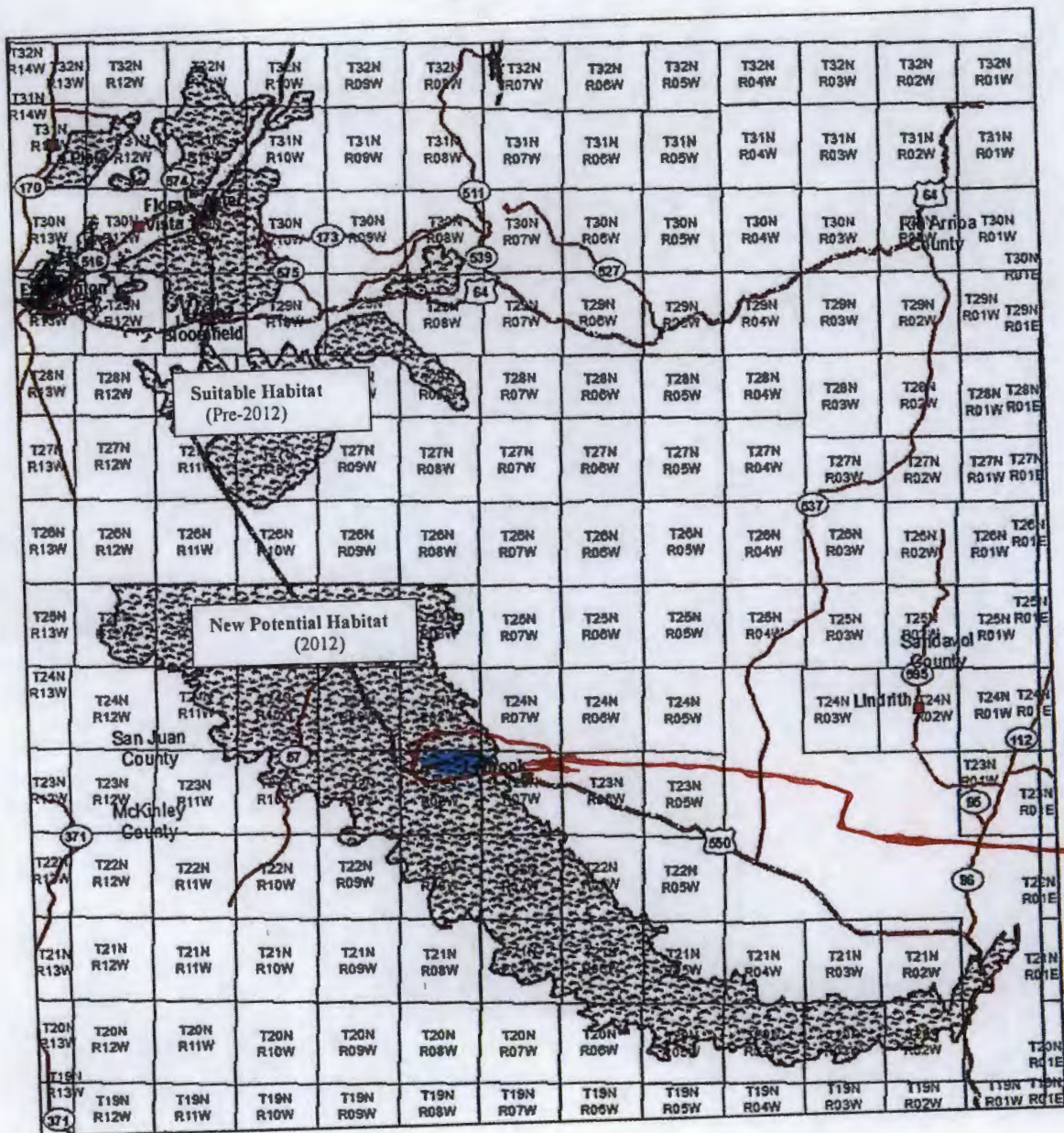
Location: 23N-8W-2




Attachment
No. 3
pg 4 of 6

Attachment
No. 3
pg 5 of 6

Brack's Cactus/Aztec Gilia Habitat Nacimiento Formation



 Brack's cactus/Aztec gilia habitat

UNITED STATES DEPARTMENT OF INTERIOR
BUREAU OF LAND MANAGEMENT
FARMINGTON FIELD OFFICE
FARMINGTON, NM

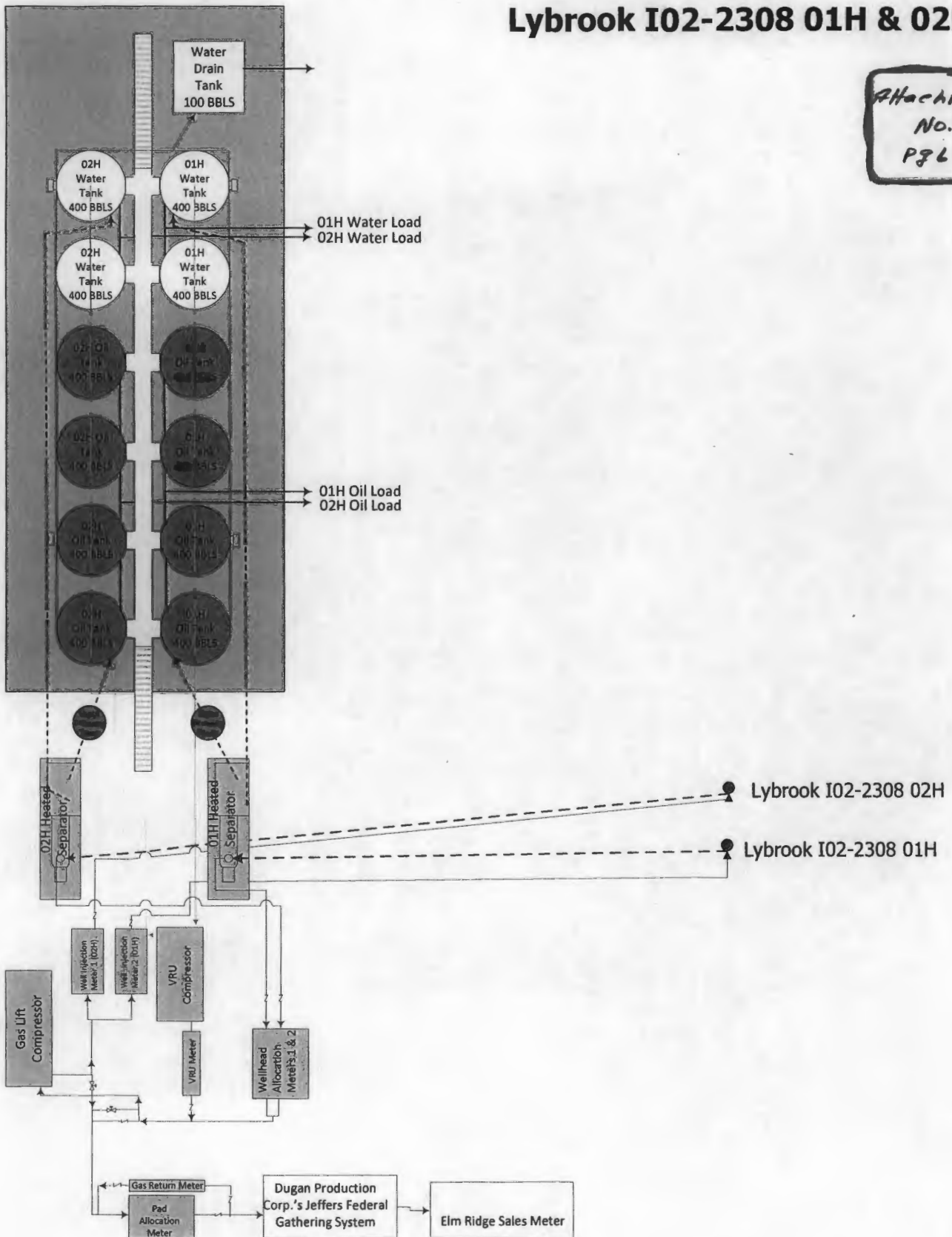
No warranty is made by the Bureau of Land Management as to the accuracy, reliability, or completeness of these data for individual use or aggregate use with other data, or for purposes not intended by BLM. Spatial information may not meet National Map Accuracy Standards. This information may be updated without notification. Map created by the BLM Farmington Field Office GIS

MAP 1: Brack's Cactus and Aztec Gilia Suitable Habitat.

From BLM's IM Effective 9/13/13

Lybrook I02-2308 01H & 02H

Attachment
No. 3
Pg 6 of 6



Encana's proposed
Production Facilities

FILENAME
Lybrook I02-2308 01H & 02H

NOT TO SCALE

DATE
09/17/13

ATTACHMENT NO. 4
Interest Ownership
San Juan County, New Mexico

<u>INTEREST OWNER</u>	Jeffers Federal 2 #23 Unit K, Section 2, T23N, R8W				Lybrook I02-2308 #1H Unit I, Section 2, T23N, R8W Nageezi Gallup/Basin Mancos 160A Spacing Unit – N/2 S/2		Lybrook I02-2308 #2H Unit I, Section 2, T23N, R8W (surface) Basin Mancos 320A Spacing Unit-S/2 Sec 1, T23N, R8W	
	Basin Fruitland Coal 320A Spacing Unit – S/2		Nageezi Gallup 40A Spacing Unit – NESW					
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u> Dugan Production Corp.	100.00	82.397617	100.00	81.461900	50.00	41.198809	-0-	-0-
Encana Oil & Gas (USA) Inc. 370 17 th Street, Suite 1700 Denver, CO 80202	-0-	-0-	-0-	-0-	50.00	41.198809	90.00	78.750000
Harvey Mineral Partners, L.P. 3811 Turtle Creek Blvd., Suite 2150 Dallas, TX 75219	-0-	-0-	-0-	-0-	-0-	-0-	10.00	8.750000
<u>Royalty Interest</u> State of New Mexico P. O. Box 1148 Santa Fe, NM 87504-1148	-0-	8.333333	-0-	-0-	-0-	8.333333	-0-	-0-
USA – c/o BLM 6251 College Blvd., Suite A Farmington, NM 87402	-0-	6.250000	-0-	12.500000	-0-	6.250000	-0-	12.500000
<u>Overriding Royalty Interest</u> Ruth Ann Jeffers Calvert P O Box 65 Artesia, NM 88211-0065	-0-	1.750000	-0-	3.500000	-0-	1.750000	-0-	-0-
Georgie E. Johnson P O Box 1473 Artesia, NM 88211-1473	-0-	0.750000	-0-	1.500000	-0-	0.750000	-0-	-0-
Mazzola & Company 14624 Fenton Street Broomfield, CO 80020-6116	-0-	0.375000	-0-	0.750000	-0-	0.375000	-0-	-0-
Prudential Bache Energy Production P O Box 62731* New Orleans, LA 70162	-0-	0.072025	-0-	0.144050	-0-	0.072025	-0-	-0-
Prudential Insurance Capital Marketing One Seaport Plaza 199 Water Street New York, NY 10292	-0-	0.072025	-0-	0.144050	-0-	0.072024	-0-	-0-
<u>TOTAL WELL</u>	<u>100.00</u>	<u>100.000000</u>	<u>100.00</u>	<u>100.000000</u>	<u>100.00</u>	<u>100.000000</u>	<u>100.00</u>	<u>100.000000</u>

*Last known address (P O Box 62731, New Orleans, LA 70162) is not current.

Attachment No. 5
Interest Ownership Notification
Dugan Production Corp.'s Application dated 10/30/13
Adding 1 Well to the Jeffers Federal
Gathering System

As evidence that all interest ownership in the subject well to be added (Encana's Lybrook I02-2308 No. 2H) plus the two wells currently approved for the Jeffers Federal Gathering System (Dugan's Jeffers Federal 2 No. 23 & Encana's Lybrook I02-2308 No. 1H) have been given notice of Dugan's application, attached is:

1. A copy of Dugan's transmittal letter dated 10/30/13 used to send copies of the subject application to Encana Oil & Gas (USA) Inc. & Harvey Mineral Partners, L.P. which are the only working interest owner in addition to Dugan Production. The letter was sent by certified mail with a return receipt requested. Upon receiving the receipt, a copy will be sent to the NMOCD.
2. Since all royalty interest is either federal or State of New Mexico, and since the BLM (for federal leases), and New Mexico State Land Office (for state leases) are receiving this application requesting their respective approvals, a separate notice letter was not sent to the royalty interest owners. Applications to the BLM & NMSLO were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD
3. Copy of Dugan's letter dated 10/30/13 used to send notice and a detailed description of the subject application to the 5 overriding royalty interest owners (ORRI). Complete copies of the application were offered to any of the ORRI owners desiring to receive a copy. All letters were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD.
4. Copy of the legal ad published in the 9/11/13 issue of the Farmington Daily Times regarding the subject application. This publication was made in anticipation that of the notices mailed to interest owners, there will be at least one either returned for some reason or the return receipt will be lost in the mail.

Note: A tabulation presenting the interest ownership for all wells is presented on Attachment No. 4.



dugan production corp.

Attachment
No. 5
Pg 2 of 5



October 30, 2013

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Encana Oil & Gas (USA) Inc.
Attn: Brenda Linster
370 17th Street, Suite 1700
Denver, CO 80202

Harvey Mineral Partners, L.P.
3811 Turtle Creek Blvd., Suite 2150
Dallas, TX 75219

Re: Dugan Production's application to add
Encana's Lybrook I02-2308 No. 2H
To Dugan's Jeffers Federal Gas Gathering System
San Juan County, New Mexico

Dear Working Interest Owner,

Attached for your information, review and file is a complete copy of Dugan's application to the New Mexico Oil Conservation Division (NMOCD), Bureau of Land Management (BLM), and New Mexico State Land Office (NMSLO), requesting their approvals to add Encana's proposed Lybrook I02-2308 No. 2H to Dugan Production's Jeffers Federal Gas Gathering System (JFGS). This will require surface commingling of gas production from the subject well, plus the off-lease measurement and sale of gas at a central delivery sales meter (CDP) operated by Elm Ridge Resources. Dugan Production will obtain the necessary rights-of-way and will install, operate and maintain the gathering system. Currently, Dugan Production's Jeffers Federal 2 well No. 23 and Encana's Lybrook I02-2308 No. 1H are approved for and connected to the JFGS.

All wells will be equipped with individual gas measurement equipment for allocation purposes. This method of operation will help to keep our operating expenses as low as possible, which will allow all interest owners to recover more of the gas reserves from each well.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners (those in the existing system and those being added) receive notice of proposed future additions to gathering systems. Included in Dugan's application is a request that for future additions to the gathering system, only the interest owners in the wells to be added will require notification provided that the proposed additions will not adversely affect the existing wells. This will greatly simplify adding wells to the gathering system and should not affect the interests previously authorized to operate on the gathering system. Should you have any questions, need additional information, or have any concern as to our application, please let me know. Should you have an objection to our application, please let me know and you should contact the New Mexico Oil Conservation Division directly within 20 days from the date the NMOCD receives our application, which will be approximately 11/1/13. The mailing address for the NMOCD is 1220 South St. Francis Drive in Santa Fe, New Mexico 87505. We would appreciate receiving a copy of your objection.

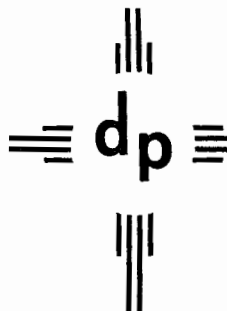
Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

attachments

xc: New Mexico Oil Conservation Division-Aztec, Bureau of Land Management, State Land Office



dugan production corp.

Attachment
No. 5
pg 3 of 5

October 30, 2013

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Overriding Royalty Interest Owners
Wells Connected or to be connected to
Dugan Production's proposed Jeffers Federal Gas Gathering System
(Address List Attached)

Re: Dugan Production's Application to Add
Encana's Lybrook I02-2308 No. 2H to
Dugan's Jeffers Federal Gas Gathering System

Dear Interest Owner,

According to our records, you have an overriding royalty interest in the two wells that are currently connected to Dugan's Jeffers Federal Gas Gathering System (JFGS). The wells and interest owners are listed on the attached address list. Dugan Production is applying to the New Mexico Oil Conservation Division (NMOCD), Bureau of Land Management (BLM) and the State Land Office (SLO), requesting their approvals to add Encana's proposed Lybrook I02-2308 No. 2H to the JFGS. It is our understanding you have no interest in the well to be added. This will require surface commingling of gas production from the subject wells, plus the sale of gas at an off-lease central delivery sales meter (CDP). Dugan Production will install all equipment and will operate and maintain the gathering system. Since your interest in these wells is an overriding royalty, there are no costs chargeable to you. This proposal will allow for optimum operations on all wells. This method of operation will help to keep our operating expenses as low as possible, and will allow for the recovery of more of the gas reserves from each well.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners (those in the existing system and those being added) receive notice of proposed future additions to gathering systems. Included in Dugan's application is a request that for future additions to the gathering system, only the interest owners in the wells to be added will require notification, provided the proposed additions will not adversely affect the existing wells. This will greatly simplify adding wells to the gathering system and should not affect the interests previously authorized to operate on the gathering system. Should you have any questions, need additional information, desire to receive a complete copy of our application, or have any concern as to our proposal, please let me know. Should you have an objection to our proposal, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 1220 South St. Francis Drive, Santa Fe, NM 87505, and we would appreciate receiving a copy of your objection. Objections should be filed within 20 days after the NMOCD receives our application which will be approximately 11-1-13.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

Attachments

xc: New Mexico Oil Conservation Division, Bureau of Land Management, State Land Office

Jeffers Gas Gathering System Interest Owners Address List

(wells with ownership interest in parentheses)

A = Jeffers Federal 2 #23; **B** = Encana's Lybrook I02-2308 #1H **C** = Encana's Lybrook I02-2308 #2H

Working Interest Owners

Dugan Production Corp. (A & B)
P O Box 420
Farmington, NM 87499-0420

Encana Oil & Gas (USA), Inc. (B & C)
Attn: Brenda Linster
370 17th Street, Suite 1700
Denver, CO 80202

Harvey Mineral Partners, LP (C)
3811 Turtle Creek Blvd., Suite 2150
Dallas, TX 75219

Royalty Interest Owners

Bureau of Land Management (A, B, C)
6251 College Blvd, Suite A
Farmington, NM 87402

NM State Land Office (A & B)
P. O. Box 1149
Santa Fe, NM 87504

Overriding Royalty Owners

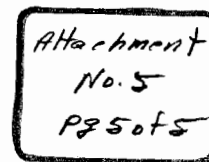
Ruth Ann Jeffers Calvert (A & B)
P O Box 65
Artesia, NM 88211-0065

Georgie E. Johnson (A & B)
P O Box 1473
Artesia, NM 88211-1473

Mazzola & Company (A & B)
14624 Fenton Street
Broomfield, CO 80020-6116

Prudential Bache Energy Production (A & B)
BAD ADDRESS
P O Box 62731
New Orleans, LA 70162

Prudential Insurance Capital Marketing (A & B)
One Seaport Plaza
199 Water Street
New York, NY 10292



Please place in the legal ads for the Wednesday, September 11th publication of the Farmington Daily Times. Once the ad has been run, please send Affidavit of Publication to Dugan Production Corp., Attn: John Roe, P. O. Box 420, Farmington, NM 87499-0420.

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to add one well to Dugan Production's Jeffers Federal Gas Gathering System. This will require the surface commingling of produced natural gas plus the off-lease measurement and sale of natural gas. There will not be any commingling of oil or condensate. Dugan Production is also requesting that wells connected to the gathering system also be approved for providing produced natural gas as a "beneficial use" to fuel equipment necessary to operate the gathering system. The well to be added to the gathering system is Encana's Lybrook I02-2308 well No. 2H, located in the NESE of Section 2, T-23N, R-8W and to be drilled horizontally in the Basin Mancos gas pool (#97232) to develop a 320A spacing unit comprising the south half of Section 1, T-23N, R-8W, and Federal leases NMNM118132 plus NMNM120374. The central delivery gas sales meter (CDP) is located in the NWSE of Section 3, T-23N, R-8W and delivers gas to Elm Ridge Resources Meter No. 31685. There are two wells currently authorized for this gathering system, the Jeffers Federal 2 No. 23 operated by Dugan Production completed in the Nageezi Gallup oil pool (#47540), and the Basin Fruitland Coal gas pool (#71629) plus the Lybrook I02-2308 well No. 1H, operated by Encana Oil & Gas (USA) Inc. and completed in the Nageezi Gallup oil pool (#47540), and the Basin Mancos gas pool (#97232). The well to be added and the existing gathering system are located within Sections 1, 2 & 3 of T-23N, R-8W located in San Juan County and include Federal leases NM-29560, NMNM-118132, and NMNM120374, plus State lease V-7843. There is no Indian acreage on the gathering system. Dugan Production is also requesting that the NMOCD approval include notice provisions that will allow future additions to the gathering system following notice only to the interest owners being added, provided it is reasonably certain that the proposed additions will not affect the wells previously authorized for the gathering system. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection, Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

ATTACHMENT NO. 6
Allocation Procedures (Amended 10/30/13 to include gas lift & vapor recovery unit operations)
Dugan Production Corp.'s
Jeffers Federal Gas Gathering System
CDP Gas Sales Meter: NWSE 3-23N-8W (Elm Ridge Resources Meter No. 31685)
CDP Gas Buy Back Meter: NWSE 3-23N-8W (Elm Ridge Resources Meter No. 31705)
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 (MCF) from allocation meters at individual wells and central battery separator during allocation period.

X = Gas Volume (MCF) from CDP Sales Meter during allocation period.

Y = BTU's from CDP Sales Meter during allocation period.

H = Gas Volume injected for gas lifting (mcf) – from injection meter @ individual well.

I = Gas Volume purchased from Elm Ridge (mcf) to supplement gas volumes needed for gas lifting – from Elm Ridge buy back meter No. 31705.

J = BTU's from CDP Buy Back 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 + F + G

A = Allocated Sales Volume, MCF = $((W+G-H) / \text{Sum}(W+G-H)) \times (X-I)$

B = On lease fuel usage, MCF. Determined from equipment specification 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 $((W+G-H) / \text{Sum}(W+G-H))$ 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 $((W+G-H) / \text{Sum}(W+G-H))$.

F = Allocated gas volume (MCF) associated with water production = (A) in mcf for the central battery separator multiplied by a factor of $(U/\text{SUM } U)$ for wells delivering gas and water to the central battery separator.

G = Allocated gas recovered from oil & water storage tank vapor recovery unit – total gas volumes recovered to be allocated to individual wells delivering gas to the VRU using factors determined from individual well oil production during allocation periods, i.e. $(\text{individual bbl oil})/(\text{sum of oil production from all wells})$.

2. Allocated Individual Well BTU's = $((W+G-H) \times \text{Individual well BTU}) / \text{Sum} ((W+G-H) \times \text{individual well BTU}) \times (Y-J)$.
Individual well gas heating values to be determined in accordance with BLM regulations (currently Onshore Order No. 5).

3. Allocated gas bought back for meeting gas lift requirements = $(H/\text{Sum } H) \times I$ for days during which gas was received from Elm Ridge for supplementing gas needed for gas lift operations.

4. Individual Well Water Production = Allocated production volume, bbl = $(U/\text{Sum } U) \times V$.

ATTACHMENT NO. 7

Participation Statement of Encana Oil & Gas (USA) Inc.
Dugan Production's Jeffers Federal Gas Gathering System
San Juan County, New Mexico

Encana Oil & Gas (USA) Inc. is the operator of one well to be drilled in the vicinity of Dugan Production's Jeffers Federal Gas Gathering System and desires to use this gas gathering system to transport natural gas produced from our well to a central delivery sales meter for the gathering system.

We have reviewed Dugan's proposed allocation procedures and believe the described operation and allocation procedures are consistent with standard industry practices, will provide the necessary production accountability, and are acceptable to Encana Oil & Gas (USA) Inc.

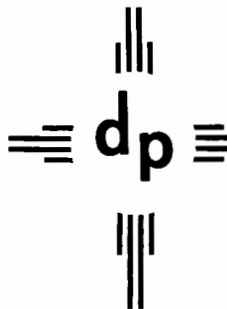
To date, Encana has one well approved for operation on Dugan Production's Jeffers Federal Gas Gathering System and we request that the following well operated by Encana Oil & Gas (USA) Inc. also be approved for operation on the Jeffers Federal Gas Gathering System which includes the associated surface commingling, off-lease measurement and sale of produced natural gas, plus the beneficial gas use necessary to operate gathering system facilities:

<u>Well</u>	<u>Location</u>	<u>API No.</u>	<u>Type Lease & No</u>	<u>Pool</u>
Lybrook 102-2308 No. 02H	NESE 2, T23N, R8W	Pending	V-7843- State of NM	Basin Mancos Gas (97232)

Signed by: 
for Encana Oil & Gas (USA) Inc.

Title: Attorney-in-Fact

Date: 09.16.13



dugan production corp.

REC-110-1000
2013 DEC -4 P 3:29

December 2, 2013

Ms. Jami Bailey, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Dugan Production's Application dated 10/30/13
Proposed addition of one well to
Dugan Production's Jeffers Federal Gas Gathering System
NMOCD Administrative Order PLC-365
San Juan County, New Mexico

Dear Ms. Bailey,

Attached for your consideration of the captioned application are copies of the certified mail return receipts for our notice given to interest owners in the one well to be added plus the two wells currently approved for the captioned gas gathering system. We have received receipts from all working, and royalty interest plus three of the five overriding royalty interest owners. The two overriding royalty interest owners with no return receipts, Prudential Bach Energy Production, and Prudential Insurance Capital Marketing hold a combined interest of 0.144% to 0.288% in the two wells currently approved for the gathering system (Dugan's Jeffers Federal 2 No. 23 and Encana's Lybrook I02-2308 No. 1H). Neither party has an interest in the well to be added (Encana's Lybrook I02-2308 No. 2H). Had the initial order included our requested notice provision, interest owner notice would not be an issue for this application and thus we are stressing the importance of the NMOCD including a provision that for future additions to the gathering system, only the interest owners in the wells being added need to be notified, provided that in reasonable probability the proposed additions will not adversely affect the interest owners in the wells already approved for the system as was requested in our 10/30/13 application. Our notices to both parties have been returned by the US Postal Service as "not being deliverable as addressed and unable to forward". The mailing addresses used are the best currently available. In addition, also attached is the "Affidavit of Publication" for our legal advertisement presented in the Wednesday, 9/11/13 publication of the Farmington Daily Times.

To date, we have not had any comment or objection from any interest owner.

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

Sincerely,

John D. Roe
John D. Roe
Engineering Manager

JDR/tmf

attachments

Deliver CDP Addition 10/30/13

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 Encarnalil + Son (USA) Inc.
 Attn: Brenda Kinster
 370 17th St., Suite 1700
 Denver, CO 80202

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 X *[Signature]* ☐ Agent ☐ Addressee

B. Received by (Printed Name) C. Date of Delivery
 11-24-13

D. Is delivery address different from item 1? ☐ Yes
 If YES, enter delivery address below: ☒ No

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number
 (Transfer from service label) 7011 2970 0003 7599 1056

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

Deliver Incl CDP Add. 10/30/13

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. HARV811 752192019-1313 11/09/13
 NOTIFY SENDER OF NEW ADDRESS
 : HARVEY MINERAL PARTNERS LP
 1875 LAWS ST
 DALLAS TX 75202-1700

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 X *[Signature]* ☐ Agent ☐ Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
 : ☐ No

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number
 (Transfer from service label) 7011 2970 0003 7599 1063

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

*NM State Land Office
P.O. Box 1148
Santa Fe, NM 87504*

2. Article Number

(Transfer from service label)

7011 2970 0003 7599 0851

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☒ No

NOV - 4 2013

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

*Bureau of Land Mgmt
6251 College Blvd Suite A
Farmington, NM 87402*

2. Article Number

(Transfer from service label)

7011 2970 0003 7599 0844

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☒ No

NOV 1 2013

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ruth Ann Jeffers Calvert
P.O. Box 65
Artesia, NM 88211-0065

2. Article Number

(Transfer from service label)

7011 2970 0003 7599 1070

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *Ruth Ann Jeffers Calvert*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

Ruth Ann Jeffers Calvert

C. Date of Delivery

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☒ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Georgie E. Johnson
P.O. Box 1473
Artesia, NM 88211-1473

2. Article Number

(Transfer from service label)

7011 2970 0003 7599 1087

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *Georgie E. Johnson*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☒ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mazzepla + Company
14624 Denton Street
Broomfield, NM 80020-6116

2. Article Number

7011 2970 0003 7599 1094

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *Ruth Ann Jeffers Calvert*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☒ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

AFFIDAVIT OF PUBLICATION

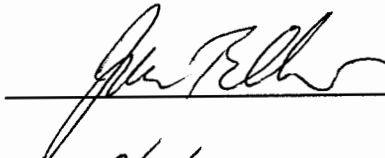
Ad No. 69464

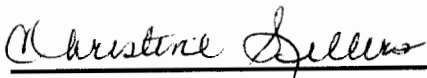
STATE OF NEW MEXICO County of San Juan:

JOHN ELCHERT, being duly sworn says:
That HE is the PUBLISHER of THE DAILY TIMES, a daily newspaper of general circulation published in English at Farmington, said county and state, and that the hereto attached Legal Notice was published in a regular and entire issue of the said DAILY TIMES, a daily newspaper duly qualified for the purpose within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico for publication and appeared in the Internet at The Daily Times web site on the following day(s):

Wednesday, September 11, 2013

And the cost of the publication is \$127.48


ON 9/13/13 JOHN ELCHERT
appeared before me, whom I know personally
to be the person who signed the above
document.



Christine Sellers



COPY OF PUBLICATION

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to add one well to Dugan Production's Jeffers Federal Gas Gathering System. This will require the surface commingling of produced natural gas plus the off-lease measurement and sale of natural gas. There will not be any commingling of oil or condensate. Dugan Production is also requesting that wells connected to the gathering system also be approved for providing produced natural gas as a "beneficial use" to fuel equipment necessary to operate the gathering system. The well to be added to the gathering system is Encana's Lybrook 102-2308 well No. 2H, located in the NESE of Section 2, T-23N, R-8W and to be drilled horizontally in the Basin Mancos gas pool (#97232) to develop a 320A spacing unit comprising the south half of Section 1, T-23N, R-8W, and Federal leases NMNM118132 plus NMNM120374. The central delivery gas sales meter (CDP) is located in the NWSE of Section 3, T-23N, R-8W and delivers gas to Elm Ridge Resources Meter No. 31685. There are two wells currently authorized for this gathering system, the Jeffers Federal 2 No. 23 operated by Dugan Production completed in the Nageezi Gallup oil pool (#47540), and the Basin Fruitland Coal gas pool (#71629) plus the Lybrook 102-2308 well No. 1H, operated by Encana Oil & Gas (USA) Inc. and completed in the Nageezi Gallup oil pool (#47540), and the Basin Mancos gas pool (#97232). The well to be added and the existing gathering system are located within Sections 1, 2 & 3 of T-23N, R-8W located in San Juan County and include Federal leases NM-29560, NMNM-118132, and NMNM120374, plus State lease V-7843. There is no Indian acreage on the gathering system. Dugan Production is also requesting that the NMOCD approval include notice provisions that will allow future additions to the gathering system following notice only to the interest owners being added, provided it is reasonably certain that the proposed additions will not affect the wells previously authorized for the gathering system. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection, Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

Legal No. 69464 published in The Daily Times
on September 11, 2013.