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|------------------------|----------|-------------------------|--------------------------|-----------------|-------------------------------|
| DATE IN <u>1/30/06</u> | SUSPENSE | ENGINEER <u>RICHARD</u> | LOGGED IN <u>1/30/06</u> | TYPE <u>NSL</u> | APP NO. <u>PTDS0603035146</u> |
|------------------------|----------|-------------------------|--------------------------|-----------------|-------------------------------|

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

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



53 29

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 _____

[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 - *None other than*

[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

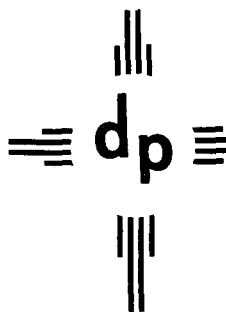
John D Roe
 Signature

Engr Mgr.
 Title

1/19/06
 Date

Johnroe@duganproduction.com
 e-mail Address

RECEIVED
 JAN 20 2006
 Oil Conservation Division
 1220 S. St. Francis Drive
 Santa Fe, NM 87505



dugan production corp.

January 19, 2006

FEDERAL EXPRESS

Mr. Mark Fesmire, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Application for non-standard location
Dugan Production Corp.'s Bitsili No. 1 (API No. 30-045-33186)
Unit G, Section 19, T-24N, R-9W
Bisti Lower Gallup oil pool (pool no. 5890)
San Juan County, New Mexico

Dear Director Fesmire,

Dugan Production Corp. respectfully requests your administrative approval for the captioned non-standard location in the Bisti Lower Gallup oil pool.

The Bitsili No. 1 was initially planned as a Basin Dakota development well at a location that is orthodox for the Basin Dakota gas pool. In addition, this location was chosen attempting to keep the Bitsili No. 1 clear of significant established ephemeral drainages to the west, northwest, north and east (highlighted on Attachment No. 2), plus maintain a reasonable distance from Dugan's Bitsili Com No. 90 Fruitland Coal completion located 436' to the southwest. It is Dugan Production's policy, if at all possible, to maintain at least 500' between wells to minimize wellbore interference during completion efforts.

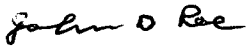
The Bitsili No. 1 was spudded on 12-9-05 and 4½" casing cemented at 6490'. The Dakota formation at this location was found to be poorly developed and a marginal completion is now anticipated. In order to salvage the economics of this wellbore, we are now proposing to also complete the Bisti-Lower Gallup and downhole commingle production from the Gallup and Dakota pools, both of which are included in the pools pre-approved for downhole commingling under Rule 303.C. The special pool rules for the Bisti-Lower Gallup oil pool require a 330' setback from any quarter-quarter section boundary of the proration unit. Attachment No. 1 is a copy of NMOCD form C-102 for the proposed Gallup completion and presents that the Bitsili No. 1 is only 150' south of the northern quarter-quarter section line for the SW/4 NE/4, and is the basis for this NSL application. The easterly distance to the quarter-quarter section line is 460' which is within the pool requirements.

Attachment No. 2 is a portion of the Goodtimes Gathering System Maps No. 1 & 2 and presents Dugan Production's leasehold interest adjacent to and in the general area of the Bitsili No. 1 well. In addition, the area adjacent to the Bitsili No. 1 and within a 2640' radius is also presented. Dugan Production holds a majority of the leasehold interest presented on Attachment No. 2 and is the only operator and leaseholder within a 2640' radius from the Bitsili No. 1 well. There are also no Gallup wells located within the 2640' radius from the Bitsili No. 1, the closest being Dugan Production's April Surprise No. 3 in the NWNW of Section 19 which is approximately 2800' to the northwest. The April Surprise No. 3 well is a good example of the Gallup potential in this area. This well was completed 8-19-82 and during the past 23 years of production, has produced 12,100 bbls of oil plus 62.8 mmcf of gas and currently averages 1.2 bopd and 8.5 mcf/d. Based upon our evaluation of the Gallup interval in the Bitsili No. 1, we are anticipating the Gallup to also be a marginal completion and plan to separately apply for permission to downhole complete production from the Gallup and Dakota completions.

Since Dugan Production is the only lease holder and operator within a ½ mile radius of the Bitsili No. 1, there are no offset operators that require notice. In addition, the lease within the S/2NE/4 80 acre spacing unit for the Gallup completion also comprises the N/2 of the northeast quarter which is the spacing unit that is being crowded by the 150' setback of the Bitsili No. 1. Dugan Production holds the leasehold interest for the subject lease, so drainage and correlative rights should not be an issue for this NSL request.

✓ In summary, Dugan Production is requesting administrative approval for a non-standard location of the Bisti-Lower Gallup completion proposed in our recently drilled Bitsili No. 1. The Gallup completion is being proposed to hopefully salvage development economics since the Dakota formation, which was the primary objective, was found to be poorly developed and the completion is anticipated to be marginally economic. Dugan Production holds all leasehold interest and is the only operator within a ½ mile radius of the subject well. In addition, the lease within the subject spacing unit also covers the adjacent spacing unit to which the Bitsili No. 1 is closer than the pool rules allow. Dugan Production is anxious to proceed with the proposed Gallup completion in order to establish production prior to a March 5, 2006 lease expiration date. Should you have questions or need additional information, please let me know.

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

Attachments

cc: NMOCD - Aztec

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

Attachment
No. 1

| | | |
|-----------------------------|-----------------------------------------|----------------------------------|
| 'API Number 30-045-33186 | 'Pool Code 5890 | 'Pool Name BISTI LOWER GALLUP |
| 'Property Code | 'Property Name BITSILI | 'Well Number 1 |
| 'OGRID No. 006515 | 'Operator Name DUGAN PRODUCTION CORP | 'Elevation 6882' |

10 Surface Location

| U. or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| G | 19 | 24N | 9W | | 1470 | NORTH | 1780 | EAST | SAN JUAN |

¹¹Bottom Hole Location If Different From Surface

| | | | | | | | | | |
|------------------------------------------------|---------|----------|-------|---------|-------------------------------|----------------------------------|----------------------------------------------------------|----------------|--------|
| U. or lot no. | Section | Township | Range | Lot 1st | Feet from the | North/South line | Feet from the | East/West line | County |
| ¹³ Dedicated Acres 80 (S/2 NE/4) | | | | | ¹⁴ Joint or Infill | ¹⁵ Consolidation Code | ¹⁶ Order No. Application for NSL submitted | | |

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

18

1310.10'

1316.70'

2633.40'

LOT 1

1470'

Dugan Prod.
NO-G-0103-1462

150'

1780'

140'

436'

Dugan Prod.
NO-G-0103-1462

LOT 2

5284.62'

19

5297.16'

LOT 3

LOT 4

1321.98'

1314.72'

2630.10'

17

OPERATOR CERTIFICATION

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

John D. Roe

Signature

John D. Roe

Printed Name

Engineering Manager

Title

01/13/06

Date


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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 of Survey: MAY 9, 2005

Signature and Seal of Professional Surveyor



JASON C. EDWARDS

Certificate Number 15269

Gulterra Field Services
Sales Meter - CDP #2

SOB Comp.

Sixteen G's 90

Sixteen G's 1

Sixteen G's 4

Pac Ten 1

Big Eight 1E

Ivy League 1

Wac 1

Energen

F 18 24 9 #2

Drip Tank 5

Energen

F 13 24 10 #1

MF 1

MF 2

September 15

April Surprise 3

April Surprise 90

April Surprise 4

Merry May 1

NM 25842

June Joy #90

NM 5991

NM 4958

NM 10755

NM 24661

Attachment No. 2

Portions of Maps No. 1 & 2
Dugan Production Corp.
Goodtimes Gathering System
Blanco Trading Post Topo Map

--- Ephemeral Drainage

| Code | Lease Name & Number |
|------|--------------------------|
| C | Big Eight NM-25440 |
| I | Harvey NM-10755 |
| M | Ivy League NM-45208 |
| S | MF NM-16760 |
| X | Pac Ten NM-45207 |
| AA | Sixteen G's NM-25433 |
| AD | Wac NM-36473 |
| AZ | September Com'd NM-62973 |
| BA | September NM-54983 |
| BI | Bitsili NOG-0103-1462 |

