

dugan production corp.

Attachment  
No. 7  
pg 1 of 1

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

September 1, 1999

Mr. Lee Atchison  
P. O. Box 15069  
Farmington, NM 87499-5069

Re: Application for surface commingling & off-lease measurement of produced gas  
Dugan Production's King Com No. 90  
Basin Fruitland Coal Pool  
Unit B, Section 11, T-29N, R-14W  
San Juan County, New Mexico

Dear Mr. Atchison,

Attached for your review, information and file is a complete copy of the captioned application to surface commingle production from our jointly owned King Com No. 90 with production from the Com No. 1 and Com No. 3 wells also operated by Dugan Production Corp. Our records indicate that you have a 0.11714% working interest in the King Com No. 90.

The proposal will allow Dugan Production to utilize existing production and compression equipment to place the King Com No. 90 into production and will eliminate the expenditures necessary to install individual separation, metering and compression equipment on the King Com No. 90. As a result the completion costs will be reduced and hopefully gas revenues using shared facilities will be increased.

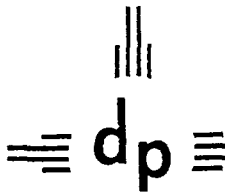
Should you have questions regarding this proposal, please feel free to contact me at the letterhead address or phone. Should you have concerns or objections to our application, you should direct them to the NMOCD Director, Ms. Lori Wrotenbery at 2040 South Pacheco Street, Santa Fe, NM 87505, or call her at (505)827-7132 within 20 days of this letter date. Should you do so, we would appreciate you also letting us know of your concerns or objections.

Sincerely,

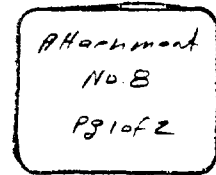
John D. Roe  
Engineering Manager

JDR/tmf

attachment



dugan production corp.



CERTIFIED MAIL - RETURN RECEIPT REQUESTED

September 1, 1999

To: Royalty Interest Owners (address list attached)  
Dugan Production Corp.'s  
Com No. 1 (J-2-29N-14W)  
Com No. 3 (J-2-29N-14W)  
King Com No. 90 (B-11-29N-14W)  
San Juan County, New Mexico

Gentlemen:

Dugan Production Corp. has filed an application with the New Mexico Oil Conservation Division (NMOCD), the New Mexico State Land Office and the Bureau of Land Management requesting their approvals to surface commingle natural gas produced from the captioned three wells. This will allow us to more efficiently produce all three wells and should increase your royalty revenues.

A complete copy of our application is attached for your information and review. Should you have any questions regarding this proposal please feel free to contact me at the letterhead address or phone. Should you have concerns or objections to our application, you should direct them to the NMOCD Director, Ms. Lori Wrotenbery, at 2040 South Pacheco Street, Santa Fe, NM 87505, or call her at (505) 827-7132, within 20 days of this letter date. Should you do so, we would appreciate you also letting us know of your concerns or objections.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachment

**Interest Owner Address List**  
(a = Com No. 1, b = Com No. 3, c = King Com No. 90)

Attachment  
No. 8  
pg 2 of 2

**Royalty Interest Owners**

Betty Jane Akins (c)  
6515 Tevis Drive  
Alamogordo, NM 88310

Motor Property Partners (c)  
1309 Dewey Lane  
Bakersfield, CA 93309

Larry Dimmick (c)  
650 W. Main, Suite C  
Farmington, NM 87401

Randall E. Presley (c)  
P. O. Box 2200  
Bakersfield, CA 92663

Joseph E. & Twila M. Goodding Living Trust (c)  
c/o Twila M. Goodding, Trustee  
1009 Crestview Circle  
Farmington, NM 87401

LaRue Schenck (c)  
3016 Crestridge  
Farmington, NM 87401

Bill Jensen (c)  
613 Merino Kraal  
Farmington, NM 87401

State Highway Department (c)  
P. O. Box 1149  
Santa Fe, NM 87504-1149

Robert F. Johnson & Janice A. Johnston (c)  
605 Parkland Drive  
Aztec, NM 87410

State of New Mexico (a & b)  
State Land Office  
Attn: Pete Martinez  
P. O. Box 1148  
Santa Fe, NM 87504-1148

Rilla E. King (a, b, c)  
P. O. Box 186  
Dolores, CO 81325

Geraldine Sterling (c)  
Box 74  
Farmington, NM 87499-0074

Colleen McSparron (c)  
810 Stratford  
Pismo Beach, CA 93449

USA-Bureau of Land Management (a,b,c)  
1235 La Plata Highway  
Farmington, NM 87401

---

**Overriding Royalty Interest Owners**

Conoco, Inc. (a)  
10 Conoco Plaza, 10 Desta Drive  
Midland, TX 79705

Russell Stewart Henderson, Jr. (a)  
5028 River Road  
Bethesda, MD 20016

Marcia M. Daniels (a)  
c/o Clotilda M. Pope  
5480 Wisconsin Ave., Suite 814  
Chevy Chase, MD 20015

Charles Alan McDougal (a)  
7928 Rooksley Ct.  
Raleigh, NC 27615

Louise Adair McDougal Hadley (a)  
2 Bluff Road  
Swansboro, NC 28584

Robert Bruce McDougal (a)  
6608 Penny Lane  
Bartlesville, OK 74006

Anne S. Henderson (a)  
2969 Upton St., NW, Apt. 3  
Washington, DC 20008

Clotilda M. Pope (a)  
5480 Wisconsin Ave., Suite 814  
Chevy Chase, MD 20015

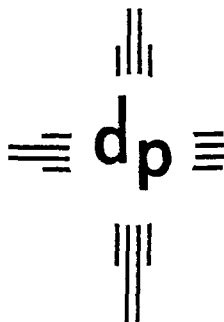
Robin Thomas Henderson (a)  
5028 River Road  
Bethesda, MD 20016

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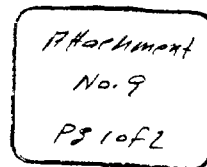
**Working Interest Owners**

Lee Atchison (c)  
P. O. Box 15069  
Farmington, NM 87499-5069

Dugan Production Corp. (a,b,c)  
P. O. Box 420  
Farmington, NM 87499-0420



dugan production corp.



CERTIFIED MAIL - RETURN RECEIPT REQUESTED

September 1, 1999

To: Overriding Royalty Interest Owners (address list attached)  
Dugan Production Corp.'s  
Com No. 1 (J-2-29N-14W)  
San Juan County, New Mexico

Gentlemen:

Dugan Production Corp. has filed an application with the New Mexico Oil Conservation Division (NMOCD), the New Mexico State Land Office and the Bureau of Land Management requesting their approvals to surface commingle natural gas produced from the captioned well with the gas from two other wells also operated by Dugan Production. This will allow us to more efficiently produce all three wells and should increase your gas revenues from the Com No. 1.

A complete copy of our application is attached for your information and review. Should you have any questions regarding this proposal please feel free to contact me at the letterhead address or phone. Should you have concerns or objections to our application, you should direct them to the NMOCD Director, Ms. Lori Wrotenbery, at 2040 South Pacheco Street, Santa Fe, NM 87505, or call her at (505) 827-7132, within 20 days of this letter date. Should you do so, we would appreciate you also letting us know of your concerns or objections.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachment

**Interest Owner Address List**  
(a = Com No. 1, b = Com No. 3, c = King Com No. 90)

*Attachment  
No. 9  
Pg 2 of 2*

**Royalty Interest Owners**

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6515 Tevis Drive  
Alamogordo, NM 88310

Larry Dimmick (c)  
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Farmington, NM 87401

Joseph E. & Twila M. Goodding Living Trust (c)  
c/o Twila M. Goodding, Trustee  
1009 Crestview Circle  
Farmington, NM 87401

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613 Merino Kraal  
Farmington, NM 87401

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Randall E. Presley (c)  
P. O. Box 2200  
Bakersfield, CA 92663

LaRue Schenck (c)  
3016 Crestridge  
Farmington, NM 87401

State Highway Department (c)  
P. O. Box 1149  
Santa Fe, NM 87504-1149

State of New Mexico (a & b)  
State Land Office  
Attn: Pete Martinez  
P. O. Box 1148  
Santa Fe, NM 87504-1148

Geraldine Sterling (c)  
Box 74  
Farmington, NM 87499-0074

USA-Bureau of Land Management (a,b,c)  
1235 La Plata Highway  
Farmington, NM 87401

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5028 River Road  
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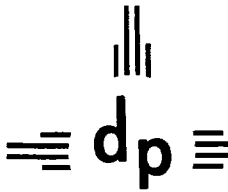
Clotilda M. Pope (a)  
5480 Wisconsin Ave., Suite 814  
Chevy Chase, MD 20015

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**Working Interest Owners**

Lee Atchison (c)  
P. O. Box 15069  
Farmington, NM 87499-5069

Dugan Production Corp. (a,b,c)  
P. O. Box 420  
Farmington, NM 87499-0420



dugan production corp.



September 7, 1999

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

SEP 9 1999

SF 9 1999

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  
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  
Engineering Manager

JDR/tmf

attachment

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

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.

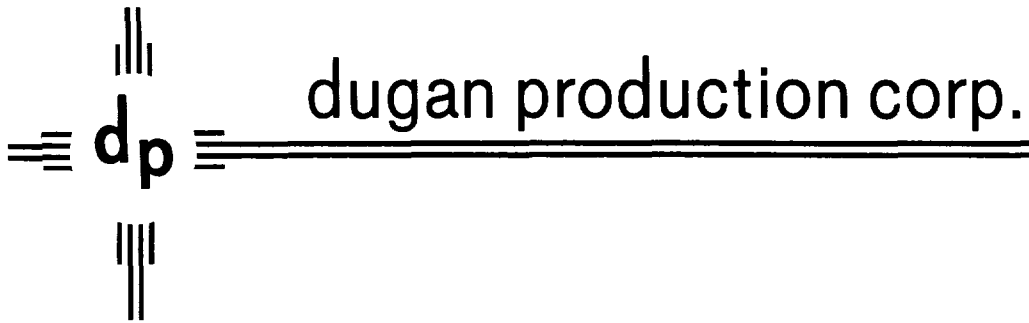
E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering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



October 8, 1999

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

Re: Commingling Order PLC-157  
Dugan Production Corp.'s Com No. 1 CDP  
Unit J, Section 2, T-29N, R-14W  
San Juan County, New Mexico

Dear Ms. Wrotenbery,

The captioned commingling order was approved subject to Dugan Production also receiving approvals from the New Mexico State Land Office and the U.S. Bureau of Land Management. We received these approvals on 9-9-99 and 10-1-99 respectively and copies are attached for your reference and file.

Please let me know if you have questions or need additional information.

Sincerely,

John D. Roe  
Engineering Manager

JDR/tmf

attachments



COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5853

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

Phone (505) 827-5765

Fax (505) 827-5766



**New Mexico State Land Office  
Commissioner of Public Lands  
Ray Powell, M.S., D.V.M.**

COMMERCIAL RESOURCES

Phone (505) 827-5724

Fax (505) 827-6157

MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

September 9, 1999

Dugan Production Corporation  
P.O. Box 420  
Farmington, New Mexico 87499-0420

Attn: Mr. John D. Roe

Re: Surface Commingling Application of Produced Gas  
Dugan Production's Com Wells Nos. 1 and 3  
Unit Letter J, Section 2-29N-14W  
Unit Letter B, King Com Well No. 90  
Sections 11-29N-14W  
Basin Fruitland Coal and Harper Hill Fruitland Sand PC Pools  
San Juan County, New Mexico

Dear Mr. Roe:

We have received your letter of September 2, 1999, wherein you requested our approval for surface commingling of production from the above-captioned wells.

We understand that you will convert the Com Well No. 1 gas sales meter to a central delivery gas sales meter for the Com Well No. 1, Com Well No. 3 and King Com Well No. 90 plus use the separator and gas compressor currently on the Com Well No. 1 for all three wells.

Since it appears that there will be no loss of revenue to the State of New Mexico's beneficiaries as a result of your proposed operation, your request is hereby approved. Our approval is given with the understanding that the Commissioner of Public Lands reserves the right to amend or withdraw his approval, should this operation prove to be unprofitable to the state at any time in the future. Also, our approval is subject to like approval by the New Mexico Oil Conservation Division and the Bureau of Land Management.

Your \$30.00 filing fee has been received.

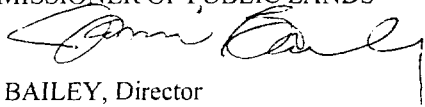
Please notify Ms. Debbie Padilla of our Right-of-Way Section at 827-5729 regarding a right-of-way in Section 2-29N-14W. Our approval will be contingent upon Dugan Production Corporation securing the appropriate right-of-way.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS

BY:

  
JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744  
RP/JB/cpm

xc: Reader File

OCD--Mr. David Catanach, Mr. Ben Stone

BLM

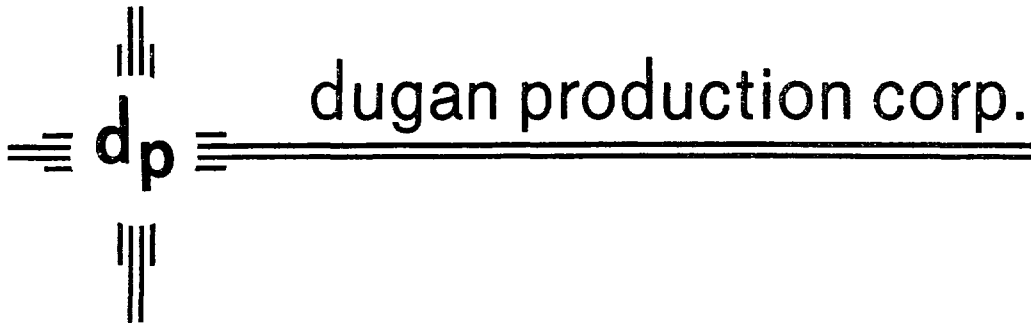
Debbie Padilla

*"WE WORK FOR EDUCATION"*

310 Old Santa Fe Trail, P. O. Box 1148 Santa Fe, New Mexico 87504-1148

*com #1 COP file  
- copy circulated*





September 1, 1999

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

Re: Application for surface commingling of produced gas  
Dugan Production's Com wells No. 1, No. 3 and King Com No. 90  
Basin Fruitland Coal & Harper Hill Fruitland Sand PC Pools  
Section's 2 & 11, T-29N, R-14W  
San Juan County, New Mexico

Dear Mr. Powell,

Attached is the captioned application along with our check for the \$30.00 SLO surface commingling application fee. Our records indicate that the E/2 spacing unit for Dugan Production's Com No. 1 includes State leases LG-3736, E-6714-4 and B-11242-43 and that the SE/4 spacing unit for Dugan's Com No. 3 includes portions of these same leases, which result in the State of New Mexico having a royalty interest in both wells. Other than the State Highway Department, the State has no interest in the King Com No. 90.

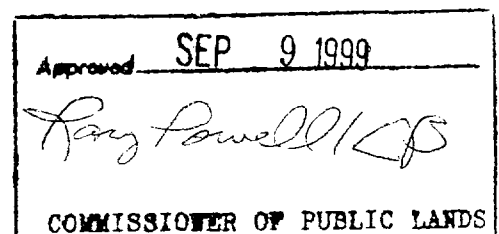
Should you have any questions regarding this proposal please feel free to contact me at the letterhead address or phone. Should you have concerns or objections to our application, you should direct them to the NMCOD Director, Ms. Lori Wrotenbery, at 2040 South Pacheco Street, Santa Fe, NM 87505, or call her at (505) 827-7132, within 20 days of this letter date. Should you do so, we would appreciate you also letting us know of your concerns or objections.

Sincerely,

John D. Roe  
Engineering Manager

JDR/tmf

attachments



COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5853

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

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Fax (505) 827-5766



**New Mexico State Land Office  
Commissioner of Public Lands  
Ray Powell, M.S., D.V.M.**

COMMERCIAL RESOURCES

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MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

September 14, 1999

Dugan Production Corporation  
P.O. Box 420  
Farmington, New Mexico 87499-0420

Attn: Mr. John D. Roe

Re: Amendment to Dugan Production's 9-1-99 Application to  
Surface Commingle Produced Gas  
Dugan Production's Com Well No. 1, Com Well No. 3  
and King Com Well No. 90  
Plus the Off-lease Measurement and Sale of Produced Gas From  
the King Com Well No. 90  
State Leases: LG-3736, B-11242, E-6714-4; Federal Lease: SF 078110  
Multiple Leases  
Basin Fruitland Coal & Harper Hill Fruitland Sand PC Pools  
San Juan County, New Mexico

Dear Mr. Roe:

We are in receipt of your letter of September 7, 1999, regarding the above-captioned application.

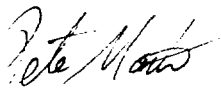
It is our understanding that for this gathering system, you will install continuous recording, conventional dry flow meters on each well and will use these measurements to establish allocation factors.

Your correspondence and documentation have been filed in our commingling files.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS

BY:   
PETE MARTINEZ  
Oil/Gas and Minerals Division  
(505) 827-5791

RP/PM/cpm  
xc: Reader File



*"WE WORK FOR EDUCATION"*

310 Old Santa Fe Trail, P. O. Box 1148 Santa Fe, New Mexico 87504-1148



# United States Department of the Interior

PLC 157

## BUREAU OF LAND MANAGEMENT

Farmington Field Office  
1235 La Plata Highway, Suite A  
Farmington, New Mexico 87401

IN REPLY REFER TO:

3162.7-3

NMNM91272

NMNM76020

OCT 1 1999

Dugan Production Company  
Attn.: John Roe  
P.O. Box 420  
Farmington, New Mexico 87499-0420

Dear Mr. Roe:

Reference is made to your application dated September 1, 1999 and the amendment dated September 7, 1999, for off-lease measurement and surface commingling of natural gas from the following wells administered under Federal Communitization Agreement Nos. NMNM91272 and NMNM76020:

- 1) Com #1, located 1750' FSL and 1820' FEL in section 2, T. 29N., R. 14W., (fee).
- 2) Com #3, located 1850' FSL and 1450' FEL section 2, T. 29N., R. 14W., (fee).
- 3) King Com #90, located 1128' FNL and 1511' FEL section 11, T. 29N., R. 14W., (fee).

The referenced wells are located in the Basin Fruitland Coal, Harper Hill Fruitland Sand/Pictured Cliffs, and the Basin Fruitland Coal pools respectively.

Your application indicates that measurement at a common facility is necessary to economically operate these wells and extend the economic life of the properties. We have reviewed your application and concur with your findings. As such, you are hereby authorized to measure commingled gas production at the Central Delivery Point (CDP) located at the Com # 1 well site and allocate production back to each well based on measurement from individual well site meters.

The following are conditions of this approval:

- If alternative measurement procedures are necessary, approval will be required prior to commencing that method of measurement.
- Measurement of gas at the CDP must be conducted in accordance with the requirements outlined in Onshore Orders No. 3 Site Security, No. 4 Oil Measurement, and No. 5 Gas Measurement. Once the well site meters are installed, file your calibration schedule accordingly.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Allocated sales must be made on an MMBTU adjusted basis using weight averaging to account for any differences in gas quality.
- This office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that the federal royalties would be reduced.

If you have any questions regarding the above, contact Jim Lovato at (505) 599-6367.

Sincerely,

Wayne Townsend  
Acting Team Leader, Petroleum Management Team

cc:  
NMOCD (Aztec & Santa Fe)