

October 7, 2002

FEDERAL EXPRESS

Mr. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: NMOCD Case No. 12936 Scheduled for 10-10-02
Dugan's Application to Add Two Wells to
Questar's South Lybrook Gas Gathering System
San Juan County, New Mexico

Dear Ms. Davidson,

Attached for the NMOCD's consideration in the captioned case is the following:

1. copy of Dugan Production's pre-hearing statement, which I mailed and faxed earlier, but wanted to be sure you had a good copy for the examiner's consideration at the hearing;
2. copy of a letter dated 09/30/02 from Questar E&P Company, in which they recommend that the subject application be approved. Questar advises they mailed directly to the NMOCD, but I wanted to be sure it is available for the hearing;
3. copy of a fax I received from the BLM on 10/04/02, which reflects BLM approval of the subject application;
4. copy of a fax I received from the New Mexico State Land Office on 10/07/02, which reflects SLO approval of the subject application.

Thanks for your efforts in this matter.

Sincerely,

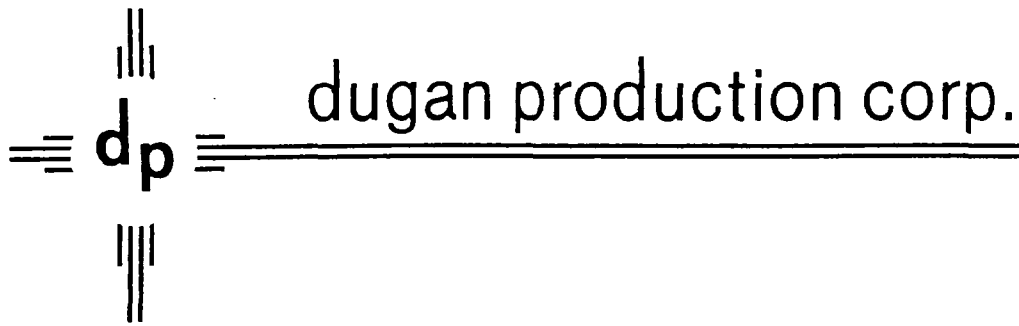
A handwritten signature in cursive script that reads 'John D. Roe'.

John D. Roe
Engineering Manager

JDR:sh

Attachments

cc: William F. Carr – Holland & Hart, LLC
John Dean – Curtis & Dean Law Firm
Gary Ohlman – Questar E&P Company



September 30, 2002

Mr. David Catanach
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: NMOCD Docket No. 31-02
NMOCD Case No. 12936
Amend Division Order No. R-11185
Application of Dugan Production Corp.
Surface Commingling & Off-Lease Measurement for Two Dugan Wells
Questar E&P Company's South Lybrook Gas Gathering System

Dear Mr. Catanach:

Attached is Dugan Production's pre-hearing statement for the captioned case, which is scheduled for the October 10th docket.

All interest owners have received a copy of Dugan's application and have been given timely notice of this hearing. We have not received, and do not anticipate receiving, any objections. If no objection occurs, Mr. William F. Carr of the Holland & Hart Law Firm will represent Dugan Production Corp. at the hearing. Should an objection occur, I and John Dean of the Curtis & Dean Law Firm will represent Dugan Production Corp. at the hearing.

Please let me know if you have any questions regarding this matter, and thanks for the option to "take under advisement".

Sincerely,

John D. Roe
Engineering Manager

JDR:sh

Attachments

cc: John Dean, Curtis & Dean
William F. Carr, Holland & Hart
Gary Ohlman, Questar E&P

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 12936

APPLICATION OF: Dugan Production Corp. (DPC) for an exception to Division Rule 303.A and 309-A by amending Division Order No. R-11185, which allows for the surface commingling and off-lease measurement of natural gas production from the Alamito-Gallup and the Lybrook-Gallup Oil Pools in the South Lybrook Gas Gathering System operated by Questar E & P Company, to include Rusty Chacra Gas Pool production from Dugan Production Corp.'s Little b Well No. 2, located in Unit G, Section 36, Township 23 North, Range 8 West, San Juan County, New Mexico, and South Seas Well No. 1, located in Unit A of Section 6, Township 22 North, Range 7 West, Sandoval County, New Mexico.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by John D. Roe for Dugan Production Corp. as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Should No Objection Be Made Prior to Hearing
Dugan Production Corp.

ATTORNEY

William F. Carr
Holland & Hart LLP, Attorneys at Law

Should An Objection Be Made Prior to Hearing

John D. Roe, Engineering Manager
Dugan Production Corp.

John A. Dean
Curtis and Dean Attorneys at Law

Contact Person:

John D. Roe, Engineering Manager
Dugan Production Corp.
P.O. Box 420, Farmington, NM 87499
Phone: (505)325-1821 Fax: (505) 327-4613
e-mail: johnroe@duganproduction.com

OPPOSITION OR OTHER PARTY

None Anticipated

ATTORNEY

STATEMENT OF CASE

APPLICANT

Dugan Production Corp. (DPC) is seeking authority to add production from two wells operated by DPC (DPC's Little b No.2 and South Seas No. 1) to Questar E&P Company's South Lybrook Gas Gathering System currently authorized by Division Order R-11185 for the natural gas production from 38 wells operated by Questar E&P Company. This will result in the surface commingling of natural gas production from the Rusty Chacra Gas Pool in Dugan's two wells with natural gas production from 38 wells operated by Questar E&P and completed in the Alamito or Lybrook Gallup Oil Pools as currently authorized by Division Order No. R-11185. In addition, both DPC wells will require an exception to Division Rule No. 309-A since the CDP gas sales meter is not located on lease for either well. Natural gas production from Dugan's wells will be metered using conventional metering equipment with these measurements being used by Questar in their allocation of the commingled CDP gas sales volumes and BTU's back to the individual wells. There is no condensate or oil production anticipated from DPC's two wells; however, should any ever occur, all condensate or oil production plus any water will be separated, stored, and sold/disposed of at the individual well producing the oil, condensate, or water. There will not be any commingling of oil, condensate or water at Dugan's two wells.

By our application dated September 6, 2002, DPC has requested approval for the proposed expansion to Questar's South Lybrook Gas Gathering System, which was initially authorized by Division Order R-11185 dated 5-25-99. Questar E&P has reviewed and supports DPC's application and upon receiving the necessary regulatory approvals will add Dugan's two wells to their operations. This will allow DPC to place two wells (one on State and one on Federal leases) on production that have both been shut in over nine years as a result of not being connected to a pipeline for gas sales. All interest owners, (working, royalty, and overriding royalty) for all forty wells (Questar's 38, plus DPC's 2) have been provided copies of DPC's 9-6-02 application and have also been timely notified of the October 10th, 2002 NMOCD hearing to consider DPC's application. In the absence of objection, DPC does not plan to appear and present additional testimony. It is our understanding that in the absence of objection and without further testimony the NMOCD will take Dugan's application under advisement, and we request that the NMOCD make our application dated 9-6-02 a part of the record in this case.

We do not anticipate any objection, however, should an objection be made, we will appear and present testimony as outlined herein.

OPPOSITION OR OTHER PARTY

None anticipated.

PROPOSED EVIDENCE

APPLICANT

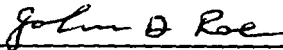
WITNESSES (Name and expertise)	EST. TIME	EXHIBITS
John D. Roe	45 min.	6

OPPOSITION

WITNESSES (Name and expertise)	EST. TIME	EXHIBITS
None anticipated		

PROCEDURAL MATTERS
(Please identify any procedural matters which
need to be resolved prior to the hearing)

In the absence of objection, Dugan Production Corp. does not plan to present additional testimony and requests that the NMOCD consider our application dated 9-6-02 as part of the record and as a basis for issuing an order in this case.



John D. Roe, Engineering Manager
Dugan Production Corp.
P.O. Box 420
Farmington, NM 87499-0420
Phone: (505) 325-1821



Questar Exploration and Production Company

Independence Plaza

1050 17th Street, Suite 500

Denver, CO 80265

Tel 303 672 6900 • Fax 303 294 9632

Denver Division

September 30, 2002

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

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

Mr. Steve Henke, Manager
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Re: Request for Surface Commingling, plus
Off-Lease Measurement and Sale of Produced Natural Gas
Add Dugan's Little b No. 2 and South Seas No. 1 wells to
the South Lybrook Gas Gathering System Operated by
Questar E&P Company
San Juan & Sandoval Counties, New Mexico

Dear Ms. Wrotenbery, Mr. Powell, and Mr. Henke:

Please be advised that Questar has agreed to add the two referenced Dugan well's to our South Lybrook Gas Gathering System. Further, Questar has reviewed Dugan's application and recommends approval.

Please advise if you need additional information or have any questions.

Sincerely yours,

Gary L. Ohlman
Sr. Petroleum Engineer

cc: John D. Roe, Dugan Production Corp.





United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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

IN REPLY REFER TO:

3162.7-3

South Lybrook Gas Gathering System CDP
07100

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

Dear Mr. Roe:

Reference is made to your application for inclusion of the following wells into the Questar E&P Company (Questar) operated South Lybrook Gas Gathering System (SLGGS):

Little b No. 2, located 1850' FNL and 1850' FEL section 36, T. 23N., R. 8W., on a State of New Mexico Lease.

South Seas No. 1, located 1100' FNL and 1135' FEL section 6, T., 22N., R. 7W., on Federal Oil and Gas lease No. NM 89023.

The referenced wells both produce gas from the Rusty Chacra Pool and are considered dry gas wells with no liquid hydrocarbons anticipated. The Questar wells currently on SLGGS produce from the Alarito and Lybrook Gallup Pools and produce both oil and gas. According to your application, the referenced wells will have individual allocation meters installed with an additional meter located at the point of delivery into the SLGGS.

After reviewing your application and the allocation methodology presented, you are hereby authorized to include these wells in the Questar operated SLGGS. Questar recently provided their concurrence with the inclusion of these wells into the system. With the exception of the modified allocation methodology, all other requirements outlined in our original approval to Questar are still in full force and effect. The recognized central delivery point (CDP) is the El Paso Natural Gas Company (EPNG) CDP at the following location:

SWNW Section 25, T. 23N., R. 7W., Sandoval County, New Mexico.

Failure to operate your portion of the SLGGS facility in accordance with the conditions outlined above may subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that federal royalties would be reduced.

Attached is a list of the wells recognized as contributing to the South Lybrook Gas Gathering System. If you have any questions regarding the above, contact Jim Lovato at (505) 599-6367.

Sincerely,

Jim Lovato
Senior Technical Advisor
Petroleum Engineer

Attachment (List of Contributing wells)

Questar Exploration and Production Company
Attn.: Gary Ohlman
1050 17th Street, Suite 500,
Denver, Colorado 80265

**South Lybrook Gas Gathering System Amended
Well List**

Questar Operated Wells:

<u>Well Name and No.</u>	<u>Lease No.</u>	<u>Formation</u>	<u>Location</u>
Federal B 2	NM6682	Gallup	SWNE 34-23N-7W
Federal B 3	NM6682	Gallup	NWSE 34-23N-7W
Federal B 4	NM6682	Gallup	NWSW 34-23N-7W
Federal B 5	NM6682	Gallup	NWNW 34-23N-7W
Federal B 6	NM6682	Gallup	SWSW 27-23N-7W
Federal B 7	NM6682	Gallup	NENE 21-23N-7W
Federal C 1	NM6681	Gallup	SESE 31-23N-7W
Federal C 2	NM6681	Gallup	NESE 31-23N-7W
Federal C 3	NM6681	Gallup	SESW 31-23N-7W
Federal I 2	NM16586	Gallup	NESE 33-23N-7W
Federal I 3	NM16586	Gallup	SWSW 33-23N-7W
Federal I 4	NM16586	Gallup	SWNW 33-23N-7W
Federal I 5	NM16586	Gallup	SWNE 21-23N-7W
Federal I 8	NM16586	Gallup	SWNW 21-23N-7W
Federal I 9	3NM16586	Gallup	NWNE 21-23N-7W
Federal L 1	NM58878	Gallup	SWSE 28-23N-7W
Federal G 1	NM048989A	Gallup	NENE 2-22N-7W
Federal G 2	NM048989A	Gallup	NWNE 2-22N-8W
Federal A 1	NM10087	Gallup	SWNW 23-23N-7W
Federal B 8	NM6682	Gallup	NENW 22-23N-7W
Federal B 9	NM6682	Gallup	SWNW 22-23N-7W
Federal B 20	NM6682	Gallup	SENE 21-23N-7W
Federal B 23	NM6682	Gallup	NWSW 22-23N-7W
Alamito 2	State	Gallup	SESW 32-23N-7W
Alamito 3	State	Gallup	SWNW 32-23N-7W
Alamito 4	State	Gallup	SWNE 32-23N-7W
Federal B 10	NM6682	Gallup	NENE-22-23N-7W
Federal B 11	NM6682	Gallup	NWSE 22-23N-7W
Federal B 13	NM6682	Gallup	SESE 22-23N-7W
Federal B 22	NM6682	Gallup	NWSE 22-23N-7W
Federal B 12	NM6682	Gallup	SWSE 27-23N-7W
Federal B 14	NM6682	Gallup	NENE 27-23N-7W
Federal B 15	NM6682	Gallup	NESE 27-23N-7W
Federal B 21	NM6682	Gallup	SESW 22-23N-7W
Federal B 24	NM6682	Gallup	SWSE 22-23N-7W
Federal B-25	NM6682	Gallup	NESW 22-23N-7W
State K 1	State	Gallup	SESE 36-23N-7W

Dugan Operated Wells:

Little b No. 2	State	Chacra	SWNE 36-23N-8W
South Seas No. 1	NM89023	Chacra	NENE 6-22n-7W

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) 827-1345

Fax (505) 827-5766

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

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

October 2, 2002

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

Attn: Mr. John D. Roe

Re: Request for Surface Commingling, plus
Off-lease Measurement and Sale of Produced Natural Gas and
Dugan's Little b No. 2 (NE/4 Sec. 36-23N-8W) and
South Seas No. 1 (NE/4 Sec. 1-22S-7W) Wells to the
South Lybrook Gas Gathering System Operated by
Questar E&P Company
San Juan & Sandoval Counties, New Mexico

Dear Mr. Roe:

We have received your application of September 6, 2002 requesting our approval for the surface commingling, plus off-lease measurement and sale of natural gas production from two wells operated by Dugan Production Corp. and the addition of the above captioned wells to be added to the South Lybrook Gas Gathering System operated by Questar E&P Company.

It is our understanding that both wells are currently shut-in and Questar is in agreement to add the two referenced well's to their South Lybrook Gas Gathering System.

Since it appears that all the New Mexico Oil Conservation Division's rules and regulations have been complied with, and there will be no loss of revenue to the State of New Mexico as a result of your proposed operation, your request is hereby approved. Our approval is subject to like approval by the New Mexico Oil Conservation Division and the Bureau of Land Management.

Your \$30.00 dollar filing has been received.

Please contact Ms. Debbie Padilla, of our Surface Division, at (505) 827-5729 regarding a possible right-of-way through the E/2SE/4 of Section 36-23N-8W.

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/pm

cc: Reader File, OCD-Attention: David Catanach