



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

March 16, 2005

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

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

Attention: **Kurt H. Fagrelius**
kfagrelius@duganproduction.com

Administrative Order NSL-5170

Dear Mr. Fagrelius:

Reference is made to the following: (i) your original application dated January 14, 2005 (*administrative application reference No. pMES0-501861013*), filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on January 18, 2005; (ii) your letter dated January 17, 2005 with the Division's administrative application coversheet attached; (iii) the Division's initial response by letter dated March 8, 2005 from Mr. Michael E. Stogner, Engineer/Hearing Officer in Santa Fe requesting additional data and comments concerning this application; (iv) your responses to Mr. Stogner by telefax and by e-mail on March 16, 2005 with the necessary information to complete your request; (v) Mr. Stogner's e-mail correspondence with Mr. Chuck A. Snure, Senior Landman with Questar Exploration and Production, Inc. in Denver, Colorado on March 16, 2005; and (vi) the Division's records in Aztec and Santa Fe: all concerning Dugan Production Corporation's ("Dugan") request for an exception to the well location requirements [Rule 7 (a) (1)] provided within the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended, for a non-standard gas well location within an existing 319.52-acre standard stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool (71629) comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 4, Township 25 North, Range 13 West, NMPM, San Juan County, New Mexico.

This application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*;" (ii) Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission ("Commission") in Case No. 12119 on August 12, 1999; and (iii) Rule 1207.A (2), revised by Division Order No. R-11205, issued by the Commission in Case No. 12177 on June 17, 1999.

This unit is to be simultaneously dedicated to Dugan's existing:

- (a) Salge Federal "A" Com. Well No. 91 (API No. 30-045-28663), located at a standard coal gas well location 790 feet from the North and East lines (Lot 1/Unit A) of Section 4; and

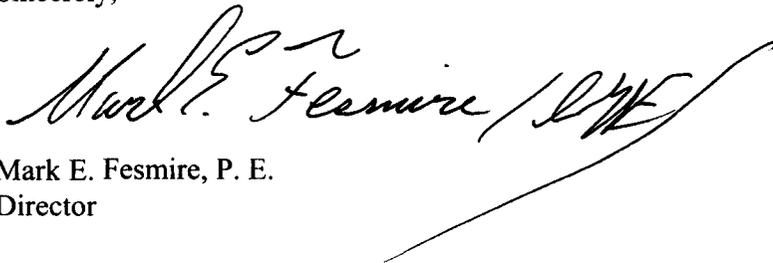
(b) Salge Federal "A" Com. Well No. 91-S (API No. 30-045-28806), formerly designated the Alamo Com. Well No. 90, which is actually located at an unorthodox coal gas well location 1495 feet from the South line and 2270 feet from the East line (Unit J) of Section 4.

By the authority granted me under the applicable provisions of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool and Division Rule 104.F (2), the above-described unorthodox coal gas well location for Dugan's Salge Federal "A" Com. Well No. 91-S is hereby approved.

Further, Dugan is hereby authorized to simultaneously dedicate production attributed to the Basin-Fruitland Coal (Gas) Pool underlying the E/2 equivalent of Section 4 from both its above-described Salge Federal "A" Com. Wells No. 91 and 91-S.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark E. Fesmire". The signature is written in black ink and is positioned above the typed name and title.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management – Farmington
William F. Carr, Legal Counsel for Dugan Production Corporation – Santa Fe