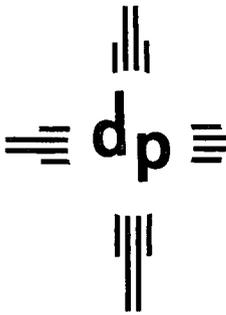


Susp: 2-7-2005

PMESD - 501861013



dugan production corp.

January 14, 2005

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Certified - 7004 1350 0002 0327 0112

RECEIVED

JAN 18 2005

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Re: Application for Administrative Approval of
Unorthodox Location for Dugan Production Corp.'s Alamo Com #90
(to be re-named Salge Federal A Com #91-S)
Unit J, Section 4, T25N, R13W
1495' FSL & 2270' FEL (E/2 - 320)

30-045-28806

Dear Mr. Stogner:

Dugan Production hereby requests administrative approval for an unorthodox location for the referenced well. Attached for your reference are the following exhibits:

1. Well location and acreage dedication plat (NMOCD Form C-102) dated 9/30/1993 (original, bad survey, wrong location).
2. Well location and acreage dedication plat (NMOCD Form C-102) dated 1/13/2005 (actual, good survey, correct location).
3. Copy of Sundry Notice to correct the location and change the well name of the Alamo Com #90-S to the Salge Federal A Com #91-S.
4. Fruitland Coal - Offsetting Working Interest Owners Map.
5. Fruitland Coal - Offsetting Royalty Interest Owners Map.

The unorthodox location is necessary due to a surveying error that was made on May 8, 1992. Unbeknownst to Dugan Production Corp. and based on the bad survey, the Alamo Com #90 was drilled and completed (8/23/1993) in the wrong location. The well has been producing marginal amounts of gas ever since it was First Delivered (9/6/1994).

On December 17, 2004 while surveying infill wells for the Alamo Com #90 and the Salge Federal A Com #91, Dugan's current surveyor discovered the survey error and/or incorrect location of the Alamo Com #90 and reported it to Dugan Production. The same day, Dugan met with the Bureau of Land Management (BLM) to report the error and begin working on a collaborative solution to the problem. After a second meeting with

the BLM on January 2, 2005 and two subsequent phone calls, on January 10, 2005 the following methodology to correct the situation was agreed upon:

1. Dugan Production Corp. would file an application for administrative approval of a Non-Standard Location with the New Mexico Oil Conservation Division (NMOCD).
2. Dugan Production Corp. would file a Sundry Notice with the BLM to correct the location, placing it in the E/2 proration unit and change the name of the Alamo Com #90 to the Salge Federal A Com 91-S.
3. Dugan Production Corp. will stake, permit and drill two new wells in the W/2 of Section 4, T25N, R13W.
4. BLM will terminate the current Communitization agreement covering the W/2 on the Alamo Com #90 and grant a new agreement once the replacement wells are drilled.
5. BLM will grant a two year extension to both committed leases (W/2, Sec. 4, T25N, R13W) while Dugan Production Corp. permits, drills and completes the replacement well and infill well.

Under separate notice, Dugan Production Corp. has proposed a settlement offer to all impacted working interest owners and royalty interest owners.

By certified mail, a copy of this application and request for administrative approval has been sent to all Fruitland Coal offsetting working interest owners, all Fruitland Coal offsetting royalty interest owners and the Bureau of Land Management.

Please contact me if you have any questions or need additional information.

Sincerely,



Kurt Fagrelius
Vice President Exploration

RECEIVED

JAN 18 2005

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Attachments

Cc:

Bureau of Land Management – 1235 La Plata Hwy., Farmington, NM 87401
(Certified Return Receipt Requested – 7004 1350 0002 0327 0129)

NMOCD - 1000 Rio Brazos Road, Aztec, NM 87410

(Certified Return Receipt Requested – 7004 1350 0002 0327 0136)

Elm Ridge Exploration Co. – 12225 Greenville Ave, Suite 950, Dallas, TX 75243

(Certified Return Receipt Requested – 7002 2410 0001 0134 2126)

Questar Exploration Co. – P.O. Box 4561, Salt Lake City, Utah 84145-0601
(Certified Return Receipt Requested – 7002 2410 0001 0134 2119)

Estate of Robert P. Brewer, III Rebeca J.E. Brewer, Ind. Exec. Brewer
C/O W.T. Chumney, Jr. - 40 N.E. Loop 410, Suite 200, San Antonio TX 78216-5876
(Certified Return Receipt Requested – 7002 2410 0001 0134 2133)

Betty Brewer Chumney
C/O W.T. Chumney, Jr. - 40 N.E. Loop 410, Suite 200, San Antonio TX 78216-5876
(Certified Return Receipt Requested – 7004 1350 0002 0327 0051)

Elizabeth H. Chumney
C/O W.T. Chumney, Jr. - 40 N.E. Loop 410, Suite 200, San Antonio TX 78216-5876
(Certified Return Receipt Requested – 7004 1350 0002 0327 0143)

India Brewer Chumney Demargin
C/O W.T. Chumney, Jr. - 40 N.E. Loop 410, Suite 200, San Antonio TX 78216-5876
(Certified Return Receipt Requested – 7004 1350 0002 0327 0044)

Winifred Chumney Meaden
C/O W.T. Chumney, Jr. - 40 N.E. Loop 410, Suite 200, San Antonio TX 78216-5876
(Certified Return Receipt Requested – 7004 1350 0002 0327 0037)

Jan Ginther Rose – 12215 Ravenmoor Dr., Houston, TX 77077
(Certified Return Receipt Requested – 7004 1350 0002 0327 0105)

Fay's Trust
C/O Norma Williams, Trustee – 3641 Wakeforest, Houston, TX 77098
(Certified Return Receipt Requested – 7004 1350 0002 0327 0068)

Ginther Liquidating Trust
C/O Lisa De Montaigu, Trustee – 3262 Westheimer Rd., Box 429, Houston, TX 77098
(Certified Return Receipt Requested – 7004 1350 0002 0327 0075)

Ellen Ginther Reifslager
C/O/ First National Bank – P.O. Box 470, El Campo, TX 77437
(Certified Return Receipt Requested – 7004 1350 0002 0327 0082)

RECEIVED

JAN 18 2005

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Submit to Appropriate District Office
 State Lease - 4 copies
 Fee Lease - 3 copies

Energy, Minerals and Natural Resources Department

Form C-102
 Revised 1-1-89

EXHIBIT 1.

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

RECEIVED
 BLM

92 JUN -5 AM 8:03

DISTRICT I
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
 P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
 1000 Rio Brazos Rd., Aztec, NM 87410

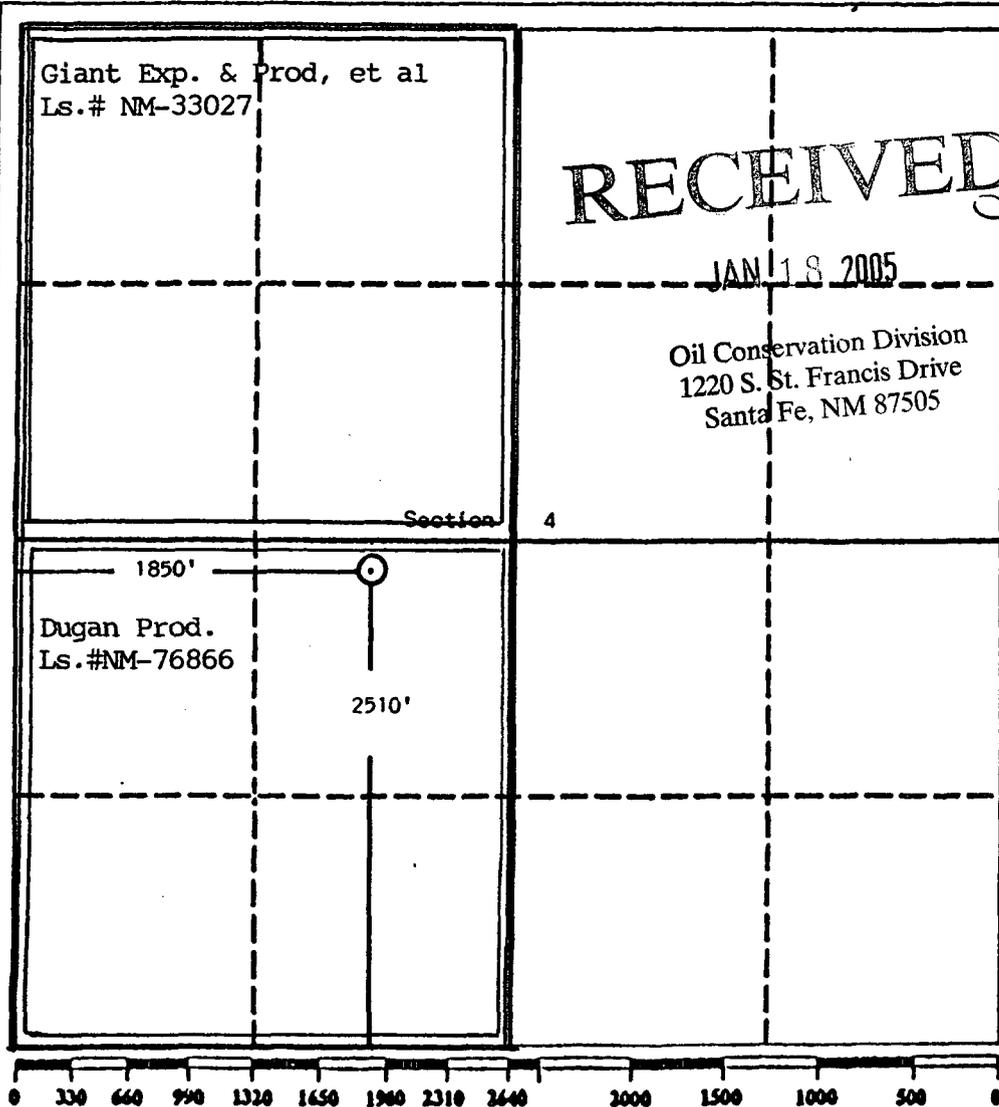
WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

619 FARMINGTON, N.M.

Operator Dugan Production Corporation			Lease Alamo Com			Well No. 90		
Unit Letter K	Section 4	Township 25 North	Range 13 West	County NMPM		San Juan		
Actual Footage Location of Well: 2510 feet from the South line and 1850 feet from the West line								
Ground level Elev. 6362 Est		Producing Formation Fruitland Coal			Pool Basin Fruitland Coal		Dedicated Acreage: 320 Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
 - Yes No If answer is "yes" type of consolidation communitized
 If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary).
 No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



RECEIVED

JAN 18 2005

Oil Conservation Division
 1220 S. St. Francis Drive
 Santa Fe, NM 87505

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

Signature: *Sherman E. Dugan*
 Printed Name: Sherman E. Dugan
 Position: Vice-President
 Company: Dugan Production Corp.
 Date: 5-27-92

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 knowledge and belief.

Date Surveyed: May 8, 1992

Signature & Seal of Professional Surveyor:
Edgar L. Risenhoover
 Certified: 5979
 Edgar L. Risenhoover, P.S.

District I
PO Box 1980, Hobbs, NM 88241-1980

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102

Revised February 21, 1997
Instructions on t

District II
PO Drawer DD, Artesia, NM 88211-0719

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Submit to Appropriate District Of:
State Lease - 4 Copies
Fee Lease - 3 Copies

District III
1000 Rio Brazos Rd., Aztec, NM 87410

AMENDED REPO

District IV
PO Box 2088, Santa Fe, NM 87504-2088

EXHIBIT 2.

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code	*Property Name SALGE FEDERAL A COM		*Well Number 91S
*GRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6362'

¹⁰ Surface Location

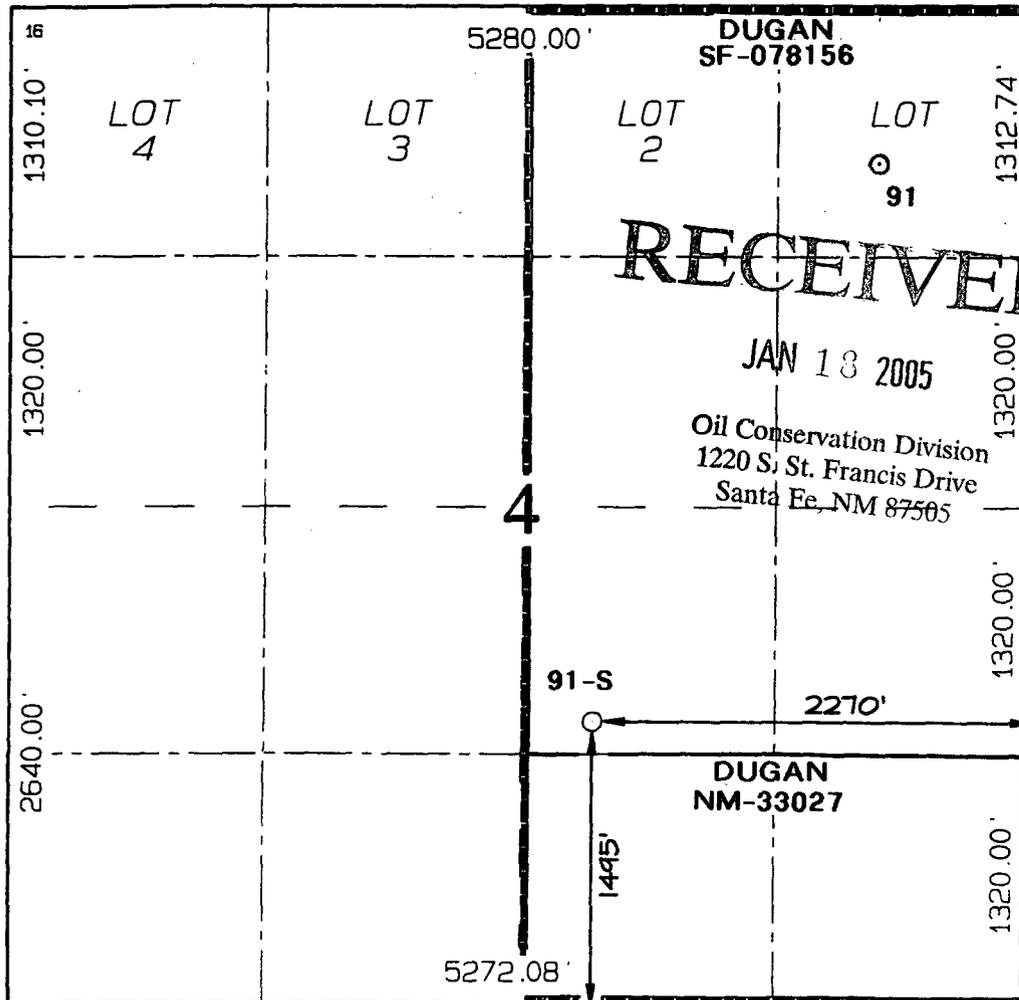
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	4	25N	13W		1495	SOUTH	2270	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 319.52 Acres - (E/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
---	-------------------------------	----------------------------------	-------------------------

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



¹⁷ OPERATOR CERTIFICATION

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

Kurt Fagrelus
Signature
Kurt Fagrelus

Printed Name
Geologist

Title
January 13, 2005

Date

¹⁸ 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.

Survey Date: DECEMBER 17, 2004

Signature and Seal of Professional Surveyor



Jason C. Edwards
Certificate Number 15269

District I
PO Box 1980, Hobbs, NM 88241-1980

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

District II
PO Drawer DD, Artesia, NM 88211-0719

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

District III
1000 Rio Brazos Rd., Aztec, NM 87410

AMENDED REPORT

District IV
PO Box 2088, Santa Fe, NM 87504-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code	*Property Name SALGE FEDERAL A COM		*Well Number 91S
*GRID No. 0065 15	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6362'

¹⁰ Surface Location

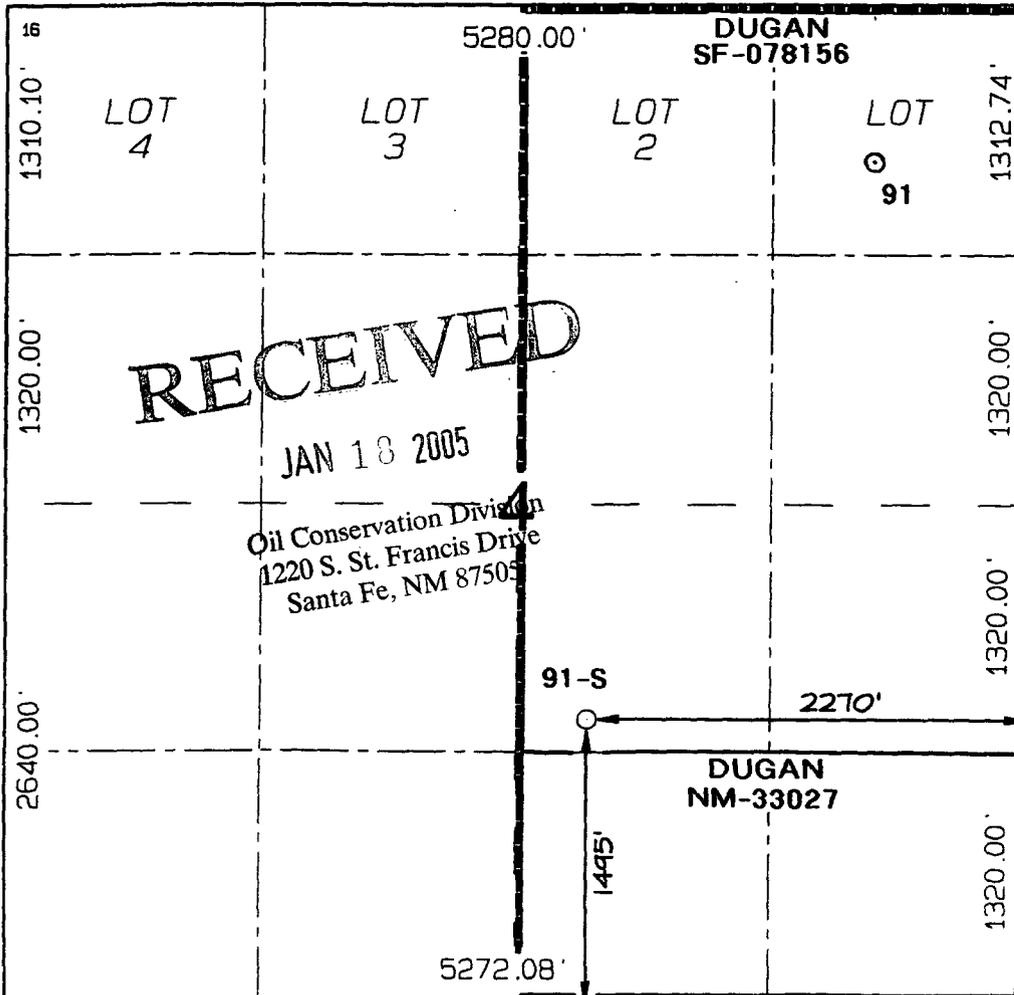
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	4	25N	13W		1495	SOUTH	2270	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 319.52 Acres - (E/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
---	-------------------------------	----------------------------------	-------------------------

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



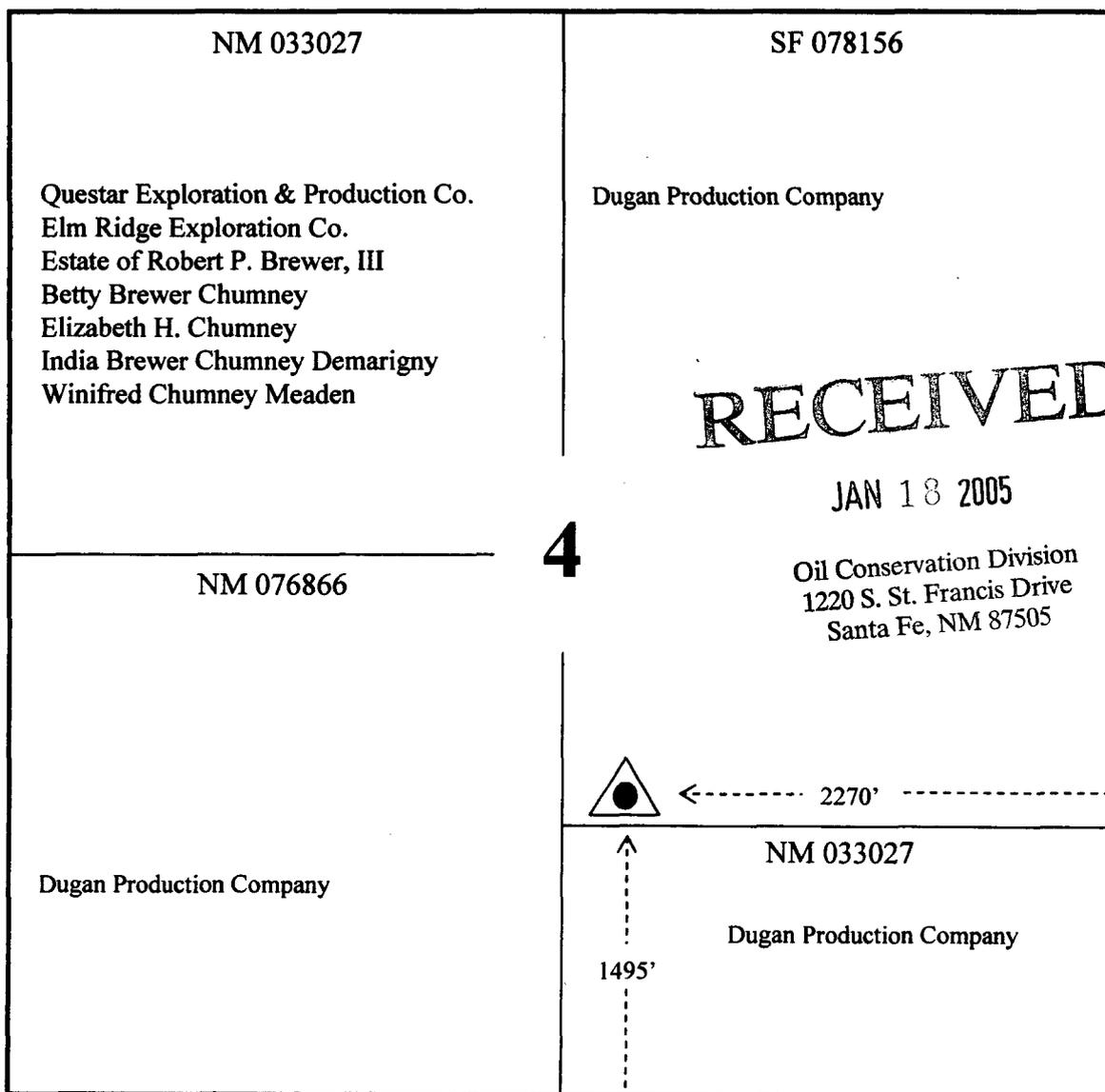
¹⁷ OPERATOR CERTIFICATION
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief
Kurt Fagrelius
Signature
Kurt Fagrelius
Printed Name
Geologist
Title
January 13, 2005
Date

¹⁸ 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.
Survey Date: DECEMBER 17, 2004
Signature and Seal of Professional Surveyor

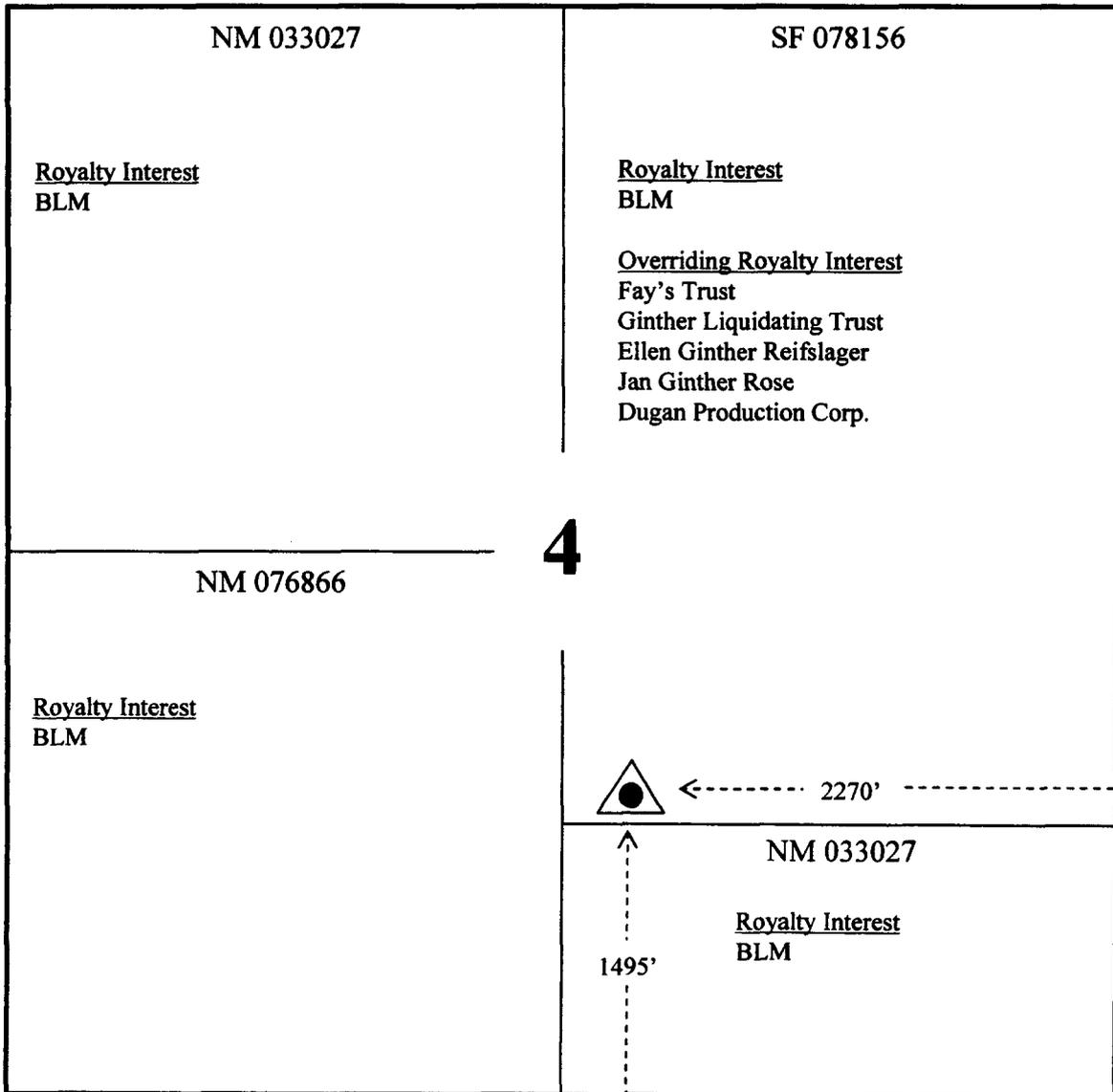


JASON C. EDWARDS
Certificate Number 15269

DUGAN PRODUCTION CORP.
APPLICATION FOR
NON-STANDARD WELL LOCATION
OFFSET WORKING INTEREST OWNER PLAT
ALAMO COM #90
1495' FSL & 2270' FEL
Section 4, Township 25 North, Range 13 West, NMPM



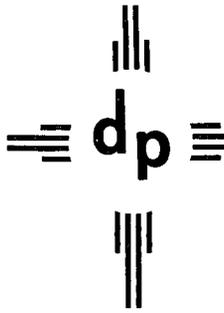
**DUGAN PRODUCTION CORP.
APPLICATION FOR
NON-STANDARD WELL LOCATION
OFFSET ROYALTY INTEREST OWNER PLAT**
ALAMO COM #90
1495' FSL & 2270' FEL
Section 4, Township 25 North, Range 13 West, NMPM



RECEIVED

JAN 18 2005

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505



dugan production corp.

January 17, 2005

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

2005 JAN 20 PM 4 45

Re: Application for Administrative Approval of
Unorthodox Location for Dugan Production Corp.'s Alamo Com #90
(to be re-named Salge Federal A Com #91-S)
Unit J, Section 4, T25N, R13W
1495' FSL & 2270' FEL (E/2 - 320)

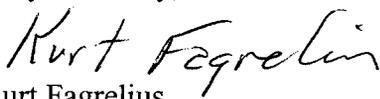
Dear Mr. Stogner:

On January 14, 2005 I mailed you an Application for Administrative Approval of Unorthodox Location for Dugan Production Corp.'s Alamo Com #90. The application was incomplete as it did not contain the Administrative Application Checklist form required by the NMOCD.

Enclosed you will find the Administrative Application Checklist for the Alamo Com #90 NSL application. Please include this with the application materials.

Please call if you have any questions or require additional information.

Very Sincerely,


Kurt Fagrelus

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
1220 South St. Francis Drive, Santa Fe, NM 87505



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
[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.

Kurt Fagrelus
Print or Type Name

Kurt Fagrelus
Signature

Geologist
Title

1/17/2005
Date

kfagrelus@duganproduction.com
e-mail Address