



New Mexico Energy, Minerals and Natural Resources Department

Susana Martínez
Governor

John H. Bemis
Cabinet Secretary-Designate

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



Surface Commingling Order PLC-343
August 12, 2011

Dugan Production Corporation
709 E. Murray Drive
Farmington, NM 87499-0420

Attention: John D. Roe:

It is our understanding that diversely owned lands producing natural gas from more than one common source of supply are proposed for commingling through facilities operated by the Dugan Production Corporation ("applicant" or "Dugan"). Applicant has made application for diversely owned surface commingling per 19.15.12.10.C.(4) NMAC. Notice has been provided and no objections were received.

Applicant is hereby authorized to surface commingle natural gas production within the WAW Gas Gathering System located within Townships 26 and 27 North, Range 13 West, NMPM, San Juan County, New Mexico.

The applicant's exhibit attached to this permit (labeled as Attachment No. 2) contains a listing of this gathering system and all 30 wells and 34 completions which have produced or currently produce within this WAW Gas Gathering System.

The primary producing reservoir within this system is the WAW Fruitland Sand Pictured Cliffs Gas Pool (87190), with four wells also producing through down hole commingles from the Basin Fruitland Coal Gas Pool (71629). The active well count at this time consists of 18 wells and 21 completions.

It is our understanding all wells and completions within this gathering system are on federal acreage and no state or fee lands are involved. The gathering system (surface commingle) was approved by the U.S. BLM in 1984 (with application made by a Mr. John Roe) and at this time Dugan is requesting approval from the Division for all wells that have ever contributed gas to this system. Dugan is maintaining separate meters for separately owned leases within this gas gathering system even though current daily gas production per well is below 15Mcf for all but one well.

This installation shall be installed and operated in accordance with the applicable Division Rules and Regulations. Gas from each separately owned "lease" shall be continuously metered prior to

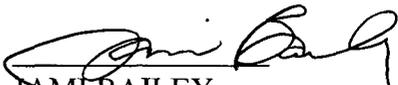


being commingled for sales. Alternately, because of the low gas rates, gas production rates from each lease and well may be tested periodically before commingling and sales. The gas meters on this gathering system shall be calibrated on a schedule based on throughput as per Division Rule 19.15.12.10.C.(2) NMAC.

Commingled gas production from the wells detailed in the attached exhibit shall be measured for sales at a CDP located in Unit Letter A, Section 35, Township 27 North, Range 13 West, NMPM, San Juan County, New Mexico.

Before commencing surface commingling, the operator must obtain approval from the Bureau of Land Management (BLM) as directed in 19.15.12.10.C.(4)(h) NMAC. The operator shall notify the Aztec District office of the Division prior to implementation of further commingling operations. It is the responsibility of the producer to notify the transporter of this commingling authority.

Applicant has not provided notice providing for the addition of future wells or completions to this commingle as per 19.15.12.10.C.(4)(g)(i) NMAC. Therefore, additional wells or completions, except those wells added to currently existing active gas spacing units, shall not be included in this surface commingle without the operator again making application as per 19.15.12.10.C.(4) NMAC, including notices provided to all owners, and obtaining approval from the Division.


JAMLBAILEY
Division Director

JB/wvjj

cc: Oil Conservation Division – Aztec
Bureau of Land Management – Farmington