

DATE IN <u>2.15.12</u>	SUSPENSE	ENGINEER <u>RF</u>	LOGGED IN <u>2.15.12</u>	TYPE <u>CTB</u>	PTG-W APP NO. <u>1204649154</u>
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ABOVE THIS LINE FOR DIVISION USE ONLY

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



Dugan 6515
 RECEIVED OGD
 7012/15/12
 Little Sis #1

ADMINISTRATIVE APPLICATION CHECKLIST 30-043-20940

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 _____

*Amend -
 CTB-455
 31-230-7W*

- [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

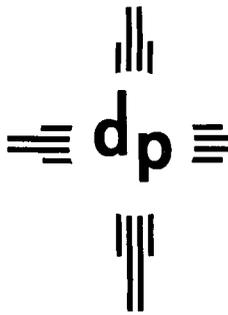
**-required notification was mailed certified - Return Receipt. upon receiving receipts, they will be sent to NMOCD.*

[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.

<u>John D. Roe</u>	<u>John D. Roe</u>	Engineering Manager	2/14/12
Print or Type Name	Signature	Title	Date
		<u>johnroe@duganproduction.com</u>	
		e-mail Address	



dugan production corp.

February 14, 2012

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

Mr. Larry Roybal, Director
Oil, Gas & Minerals Division
New Mexico State Land Office
P O Box 1148
Santa Fe, NM 87504

Mr. Dave Evans, District Manager
Bureau of Land Management
Farmington Field Office
1235 La Plata Highway
Farmington, NM 87401

Re: Application to Add One Well
Dugan Production's
Kenny Gas Gathering System
Sandoval County, New Mexico

Dear Ms. Bailey, Mr. Evans & Mr. Roybal,

We are writing to request your administrative approvals to add one well to Dugan Production's existing Kenny Gas Gathering System (KGS), which will require the surface commingling of gas. The KGS was initially approved by the BLM on 8/28/97, the NMOCD on 7/31/97 (CTB-455) and the NMSLO on 7/16/97 and currently has two wells operated by Dugan Production connected to it, both of which are completed in the Lybrook Gallup oil pool (42289), and typically produce less than 25 mcf/d per well. The well to be added is currently being completed in the Lybrook Gallup oil pool and will be operated by Encana Oil & Gas (USA) Inc. The interest ownership is not identical for all three wells. The CDP gas sales meter is on lease for two wells (Kenny No. 1 and Lybrook H36-2307 No. 1), and is off lease for one well (Little Sis No. 1).

NMOCD Form 107-B is attached in support of this application. **Attachment No. 1** presents a facility diagram and well information for all three wells. **Attachment No. 2** presents a map showing the wells along with the leasehold interest. This map was reproduced from the Lybrook Quadrangle USGS topographic map.

We do not anticipate any commingling of oil as each well is (or will be) equipped with a conventional 3 phase separator and all oil, gas and water will be separated at the well with oil and water being stored on location at each well.

Attachment No. 3 presents a summary of the interest owners in each of the wells. All working interest is held by Dugan Production or Encana Oil & Gas. Two of the wells (Kenny No. 1 and Lybrook H36-2307 No. 1) are located upon State Lease LG-3925 and one well (Little Sis No. 1) is on Federal Lease NM-89021. Since the BLM and SLO are receiving this application, a separate interest owner notice for the royalty interest owners was not prepared. Encana Oil & Gas (who is the only other interest owner in addition to Dugan Production) was provided with a complete copy of this application. The only overriding

royalty interest is held by Dugan Production. **Attachment No. 5** includes a copy of the notice letter sent which was sent by certified, return receipt mail and upon receiving the receipt, a copy will be forward to the NMOCD. Also included in Attachment No. 5 is a copy of our advertisement placed in the legal ads of the Farmington Daily Times on 2/12/12. This ad was placed as an assurance to the NMOCD that we have provided the required interest owner notification to all known interest owners.

Attachment No. 4 presents the currently approved allocation procedures. The two wells currently connected to the KGS are equipped with Electronic Flow Allocation Meters (EFM) and the well to be added will also be equipped with a similar EFM allocation meter. All allocation meters will be operated and maintained by Dugan Production.

The Lybrook H36-2307 Well No. 1H was spudded on 12/8/11 and is currently being completed in the Lybrook Gallup oil pool along a $\pm 4600'$ horizontal lateral extending westerly from Unit H to Unit E of Section 36. The spacing unit for this well was initially 320.0 acres comprising the N/2 of Section 36, T-23N, R-7W. Encana is revising the spacing unit to be 160.0 acres comprising the S/2N/2 of Section 36, T-23N, R-7W. There are many uncertainties as to what volumes of gas will be developed, however it is our belief that connecting this well to the KGS will facilitate selling the gas produced during completion as opposed to venting it and should not produce any significant affect upon production from the two wells currently connected to the KGS. Dugan Production and Encana Oil & Gas have worked together on this project and mutually agree that should production from the new well exceed the capacity available in the KGS, we will consider other options for marketing gas volumes produced from the Lybrook H36-2307 No. 1H well.

Should you need additional information or have questions regarding any of this information, please let me know.

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

enclosures

cc: NMOCD – Aztec
All interest owners

District I
1625 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original application to the Santa Fe office with one copy to the appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Dugan Production Corp.
OPERATOR ADDRESS: P O Box 420, Farmington, NM 84799-0420
APPLICATION TYPE:

Pool Commingling Lease Commingling Pool and Lease Commingling Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: Fee State Federal

Is this an Amendment to existing Order? Yes No If "Yes", please include the appropriate Order No.: CTB-455
Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
 Yes No

(A) POOL COMMINGLING
Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production	MMBTU/Day	Calculated Value of Commingled Production	Volumes

- (2) Are any wells producing at top allowables? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No.
(4) Measurement type: Metering Other (Specify)
(5) Will commingling decrease the value of production? Yes No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING
Please attach sheets with the following information

- (1) Pool Name and Code. -- Attachment No. 3
(2) Is all production from same source of supply? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No
(4) Measurement type: Metering Other (Specify)

(C) POOL and LEASE COMMINGLING
Please attach sheets with the following information

- (1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT
Please attached sheets with the following information

- (1) Is all production from same source of supply? Yes No
(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)
Please attach sheets with the following information

- (1) A schematic diagram of facility, including legal location. -- Attachment No. 1
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.-Attachment No. 2
(3) Lease Names, Lease and Well Numbers, and API Numbers. -- Attachment No. 1

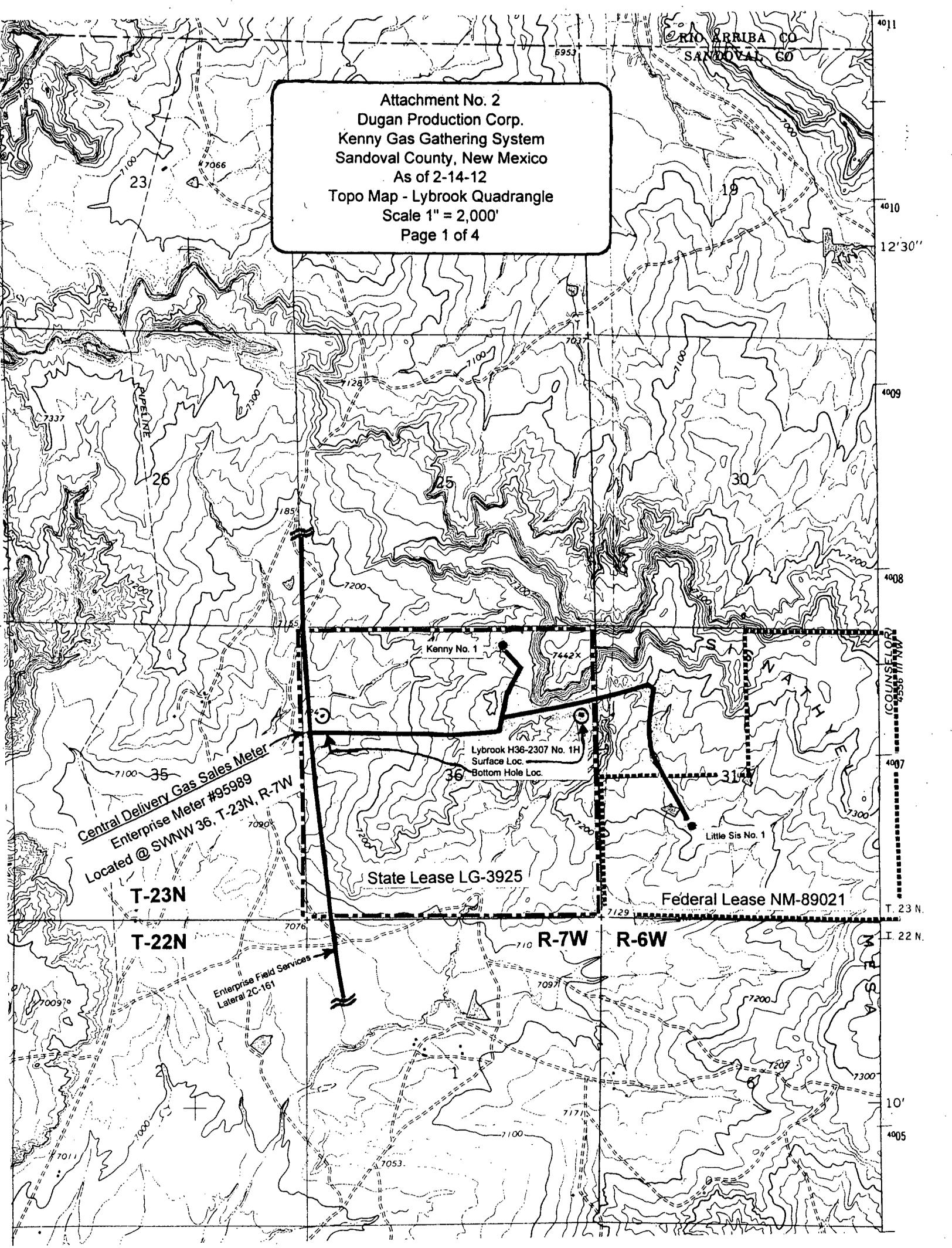
I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: John D. Roe TITLE: Engineering Manager DATE: February 14, 2012

TYPE OR PRINT NAME John D. Roe TELEPHONE NO.: 505-325-1821

E-MAIL ADDRESS: johnroe@duganproduction.com

Attachment No. 2
Dugan Production Corp.
Kenny Gas Gathering System
Sandoval County, New Mexico
As of 2-14-12
Topo Map - Lybrook Quadrangle
Scale 1" = 2,000'
Page 1 of 4



OIL CONSERVATION DIVISION

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

Attachment
No. 2
pg 2 of 4

Form C-102
Revised 10-1-78

All distances must be from the outer boundaries of the Section.

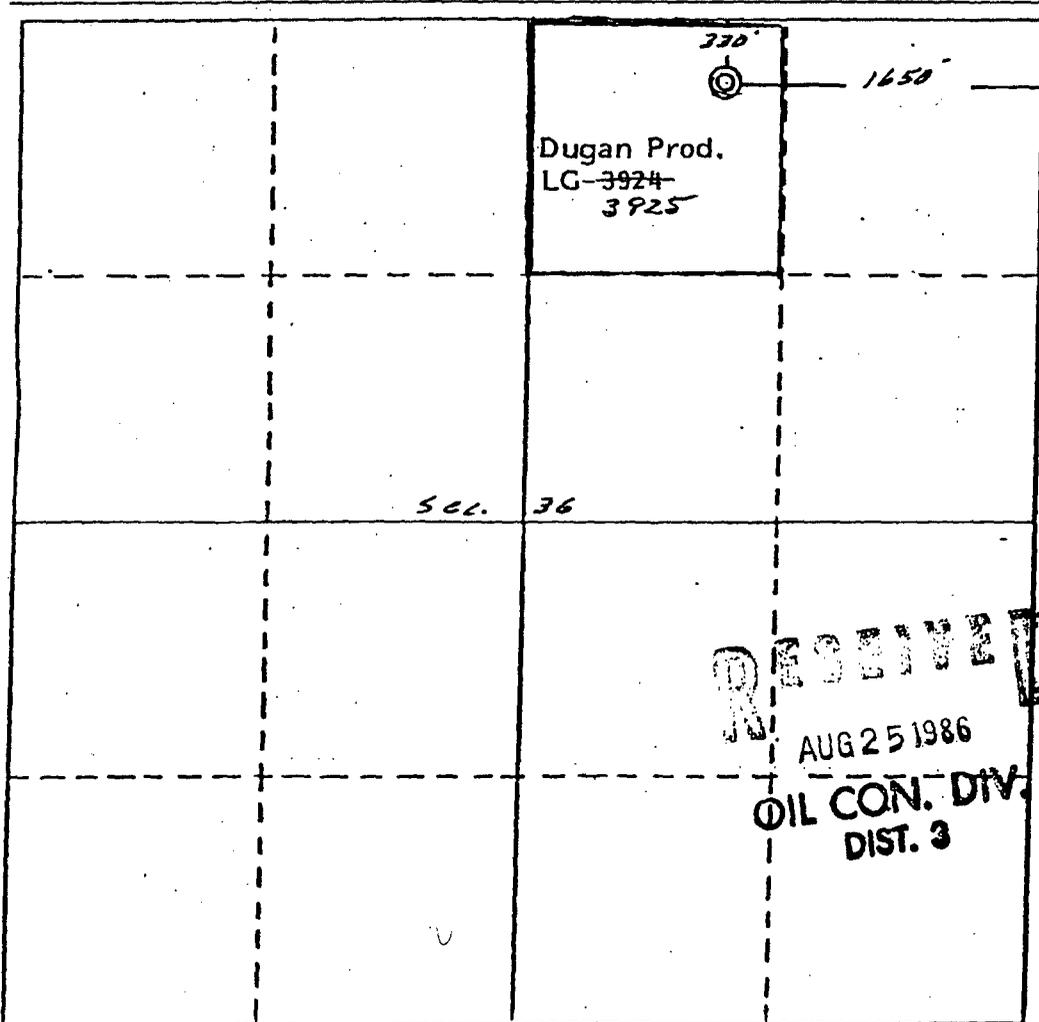
Operator Dugan Production Corporation		Lease Kenny			Well No. 1
Unit Letter B	Section 36	Township 23 North	Range 7 West	County Sandoval	
Actual Footage Location of Well:					
330	feet from the	North	line and	1650	feet from the East line
Ground Level Elev. 7284	Producing Formation Gallup		Pool Lybrook Gallup Ext.		Dedicated Acreage 40 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

Yes No If answer is "yes," type of consolidation _____

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 interests, has been approved by the Division.



RECEIVED
AUG 25 1986
OIL CON. DIV.
DIST. 3

CERTIFICATION

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

Jim L. Jacobs
Name
Jim L. Jacobs

Position
Geologist

Company
Dugan Production Corp.

Date
8-20-86

I hereby certify that the location shown on this plat was properly marked and that the same is correct to the best of my knowledge and belief.

EDGAR L. RISENHOOVER
REGISTERED LAND SURVEYOR
NEW MEXICO
5979

Date Surveyed
August 12, 1986

Registered Professional Engineer and/or Land Surveyor
Edgar L. Risenhoover

Certificate No. 5979
Edgar L. Risenhoover, L.S.

District I
 PO Box 1900, Hobbs, NM 88241-1900
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

P. H. Chismant
 NO. 2
 P 83 of A

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30 043-20940		Pool Code 42289	Pool Name Lybrook Gallup <i>EAT</i>
Property Code <i>20 746</i>	Property Name Little Sis		Well Number 1
OGRID No. 006515	Operator Name Dugan Production Corp.		Elevation 7205' est.

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
K	31	23N	6W		1650	South	1664	West	Sandoval

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 40	13 Joint or Infill	14 Consolidation Code	15 Order No.
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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

16	<p>Section 31</p> <p>Dugan Prod. NM-89021</p> <p>1664'</p> <p>1650'</p>	<p>RECEIVED APR 10 1997</p> <p>OIL CON. DIV. DIST. 3</p>	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i> Signature John Alexander Printed Name Vice-President Title 4/9/97 Date
			18 SURVEYOR CERTIFICATION <i>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.</i> Date of Survey Signature and Seal of Professional Surveyer: original plat surveyed by Edgar L. Risenhoover Certificate Number 5979

District I
1625 N. French Dr., Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

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

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

Attachment
No. 2
Pg 4 of 4

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 36-043-21117		Pool Code 22619 42289	Pool Name LYBROOK GALLUP
Property Code 38833	Property Name LYBROOK H36-2307		Well Number 01H
DGRID No. 282327	Operator Name ENCANA OIL & GAS (USA) INC.		Elevation 7265'

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
H	36	23N	7W		1550	NORTH	280	EAST	SANDOVAL

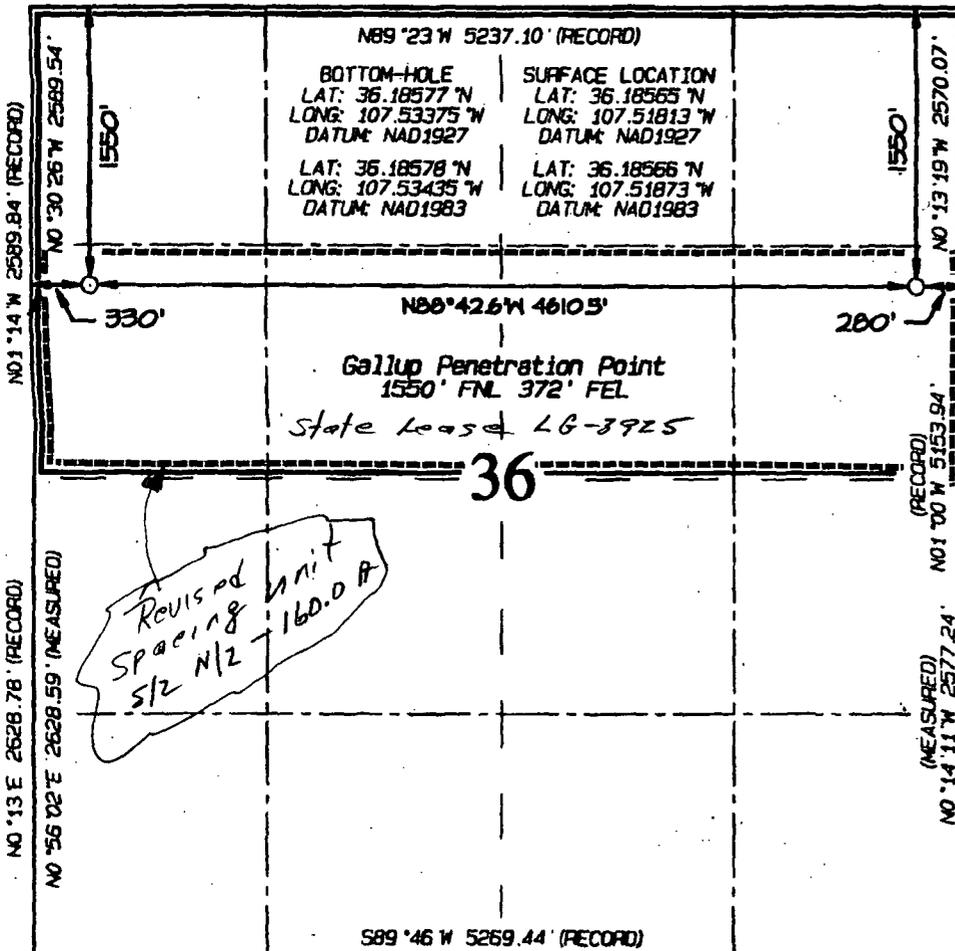
11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	36	23N	7W		1550	NORTH	330	WEST	SANDOVAL

12 Dedicated Acres: 160.0
320.0 Acres - 5/2 N/2 - (N/2)

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

16 N89°42'00"W 2613.69' (MEASURED) N88°41'24"W 2614.60' (MEASURED)



17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom-hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Brenda R. Linster 09/21/09
Signature Date
Brenda R. Linster
Printed Name

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: AUGUST 25, 2011
Signature and Seal of Professional Surveyor



JASON C. EDWARDS
Certificate Number 15269

ATTACHMENT NO. 3
 (page 1 of 1)
 Interest Ownership

<u>Well Name</u>	<u>Producing Pool & (Pool Code)</u>	<u>Location</u>	<u>Spacing Unit</u>
Kenny No. 1	Lybrook Gallup (42289)	B-36-23N-7W	NWNE-40.0A
Little Sis No. 1	Lybrook Gallup (42289)	K-31-23N-6W	NESW-40.0A
Lybrook H36-2307 No. 1H	Lybrook Gallup (42289)	H-36-23N-7W ①	S/2N/2-160.0A ②

	<u>Kenny No. 1</u>		<u>Little Sis No. 1</u>		<u>Lybrook H36-2307 No. 1H</u>	
	<u>Gross</u>	<u>Interest %</u>	<u>Gross</u>	<u>Interest %</u>	<u>Gross</u>	<u>Interest %</u>
INTEREST OWNER						
<u>Working Interest</u>						
Dugan Production Corp. P O Box 420 Farmington, NM 87499-0420	100.00	85.500	100.00	87.500	50.00	42.750
Encana Oil & Gas (USA) Inc. 370 17 th Street, Suite 1700 Denver, CO 80202	-0-	-0-	-0-	-0-	50.00	42.750
<u>Royalty</u>						
State of New Mexico P. O. Box 1148 Santa Fe, NM 87504-1148	-0-	12.500	-0-	-0-	-0-	12.500
USA - c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	-0-	-0-	12.500	-0-	-0-
<u>Overriding Royalty Interest</u>						
Dugan Production Corp. P O Box 420 Farmington, NM 87499-0420	-0-	2.000	-0-	-0-	-0-	2.000
TOTAL WELL	<u>100.00</u>	<u>100.000</u>	<u>100.00</u>	<u>100.000</u>	<u>100.00</u>	<u>100.000</u>

Notes: ① Surface location. Bottom location will be in Unit E, Section 36, T-23N, R-7W.
 ② -Spacing unit initially 320.0 acres comprising N/2 Section 36. Encana to revise to 160.0 acres comprising S/2N/2 of Section 36.

ATTACHMENT NO. 4
Allocation Procedures
Dugan Production Corp.'s
Kenny Gathering System & CDP
CDP – Enterprise Meter No. 95989 Located @ SWNW 36, T-23N, R7W
Sandoval County, New Mexico

Base Data:

W = Gas Volume (MCF) from allocation meters at individual wells 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.

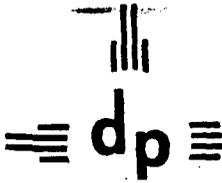
1. Individual Well Gas Production = A + B + C + D + E
A = Allocated Sales Volume, MCF = $(W/\text{SUM } W) \times X$

B = On lease fuel usage, MCF. Determined from equipment specification 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 $W/\text{SUM } W$ 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 $W/\text{SUM } W$.
2. Allocated Individual Well BTU's = $((W \times \text{Individual well BTU})/\text{Sum } (W \times \text{individual well BTU})) \times Y$. Individual well gas heating values to be determined in accordance with regulations (currently BLM's Onshore Order No. 5).
3. Allocated Individual Well Gas Revenues = $(\text{Allocated Individual Well BTU's}/\text{Sum Allocated Individual Well BTU's}) \times Z$.



dugan production corp.

Attachment
No. 5
Pg 1 of 2



February 14, 2012

CERTIFIED RETURN RECEIPT REQUESTED

Encana Oil & Gas (USA) Inc.
Attn: Brenda Lister
370 17th Street, Suite 1700
Denver, CO 80202

Re: Interest Owner Notification
Dugan Production's Application dated 2/14/12
Add one well to Kenny Gas Gathering System
Sandoval County, New Mexico

Dear Interest Owner,

Attached for your information and review is a complete copy of Dugan's application to the New Mexico Oil Conservation Division (NMOCD), the New Mexico State Land Office (NMSLO), and the Bureau of Land Management (BLM) requesting their approvals to add our joint interest Lybrook H36-2307 No. 1H well to Dugan Production's existing Kenny Gas Gathering System (KGS). This will require their approvals for the surface commingling of gas. Attachment No. 2 of the application presents a map of the KGS along with the two wells that are currently connected plus the one well proposed to be added. Interest ownership is presented on Attachment No. 3.

This notice is being sent to; 1) provide the required interest ownership notice, 2) solicit interest owner issues and/or concerns and, 3) provide the NMOCD with assurance that operators of wells connected to the KGS, other than Dugan Production, will operate their wells as approved for the KGS.

This matter does not require any action on your part. NMOCD regulations require that all interest owners receive notice of our application. Should you have any questions, need additional information, or have any concern as to our application, please let me know. Should you have an objection to our application, please let me know and you should contact the New Mexico Oil Conservation directly within 20 days from the date the NMOCD receives our application which will be approximately 2/15/12. The mailing address for the NMOCD is 1220 South St. Francis Drive in Santa Fe, New Mexico 87505. We would appreciate receiving a copy of your objection, should you have one.

Sincerely,


John Alexander
Vice-President

Attachments

cc: New Mexico Oil Conservation Division

JDR/tmf

Attachment
No. 5
Pg. 2 of 2

Please place in the legal ads for the Sunday, February 12th publication of the Farmington Daily Times. Once the ad has been run, please send Affidavit of Publication to Dugan Production Corp., Attn: John Roe, P. O. Box 420, Farmington, NM 87499-0420.

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to add one well to Dugan Production's Kenny Gas Gathering System (KGS). This will require the surface commingling of produced natural gas for three wells plus the off-lease measurement and sale of natural gas for one well. There will not be any commingling of oil or condensate. The well to be added and the existing gathering system are located within Section 31 of Township 23N, Range 6W plus Section 36 of Township 23N, Range 7W both located in Sandoval County, New Mexico. The central delivery gas sales meter (CDP) is located in the SWNW of Section 36, Township 23N, Range 7W and delivers gas to Enterprise Field Services (Meter No. 95989). The gathering system currently has two wells both of which are completed in the Lybrook Gallup oil pool (No. 42289). The well to be added will also be completed in the Lybrook Gallup oil pool. Dugan Production Corp. operates the two existing wells and the well to be added will be operated by Encana Oil & Gas (USA) Inc. All three wells are located upon, or the spacing units include the following leases held by Dugan Production Corp.; Federal Lease NM-89021 & State Lease LG-3925. The well to be added is: Encana's Lybrook H36-2307 Well No. 1H. The two wells currently authorized for the KGS typically produce less than 25 mcf/d per well and the new well to be added is currently being completed within the Lybrook Gallup oil pool and there are many variables as to anticipated production volumes. Addition of this well to the KGS will facilitate the sale of produced gas and will eliminate the need to vent gas produced during completion. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection, Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

Legal Notices
Farmington Daily
Times 2/12/12
P 3 D-4

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to add one well to Dugan Production's Kenny Gas Gathering System (KGS). This will require the surface commingling of produced natural gas for three wells plus the off-lease measurement and sale of natural gas for one well. There will not be any commingling of oil or condensate. The well to be added and the

existing gathering system are located within Section 31 of Township 23N, Range 6W plus Section 36 of Township 23N, Range 7W both located in Sandoval County, New Mexico. The central delivery gas sales meter (CDP) is located in the SWNW of Section 36, Township 23N, Range 7W and delivers gas to Enterprise Field Services (Meter No. 95989). The gathering system currently has two wells both of which are completed in the Lybrook Gallup oil pool (No. 42289). The well to be added will also be completed in the Lybrook Gallup oil pool. Dugan Production Corp. operates the two existing wells and the well to be added will be operated by Encana Oil & Gas (USA) Inc. All three wells are located upon, or the spacing units include the following leases held by Dugan Production Corp.; Federal Lease NM-89021 & State Lease LG-3925. The well to be added is: Encana's Lybrook H36-2307 Well No. 1H.

The two wells currently authorized for the KGS typically produce less than 25 mcf/d per well and the new well to be added is currently being completed within the Lybrook Gallup oil pool and there are many variables as to anticipated production volumes. Addition of this well to the KGS will facilitate the sale of produced gas and will eliminate the need to vent gas produced during completion. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection,

Legal Notices 152
Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.
Legal No. 67249 published in The Daily Times on Feb. 12, 2012.



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

COMMINGLING ORDER CTB-455

Dugan Production Corporation
P.O. Box 420
Farmington, New Mexico 87499-0402

Attention: Mr. John Roe

The above named company is hereby authorized to commingle Lybrook Gallup (42289) Pool production from the following leases:

Lease: Kenny Well No.1 (State Lease LG-3925)
Description: NW/4 NE/4 of Section 36, Township 23 North, Range 7 West, and,

Lease: Little Sis Well No.1 (Federal Lease NM-89021)
Description: NE/4 SW/4 of Section 31, Township 23 North, Range 6 West,

both NMPM, Sandoval County, New Mexico.

Gas production shall be allocated to each lease by separately metering the production from each well prior to commingling. The central delivery point meter, shall be installed after commingling, separation and compression, at the Kenny Well No.1 location. Gas volumes will be allocated to each well based on a ratio derived from individual well allocation meter volumes to total of both allocations meters and multiplying by the central delivery point sales meter volume. Any gas lost shall be determined by standard industry procedure and allocated to each well accordingly.

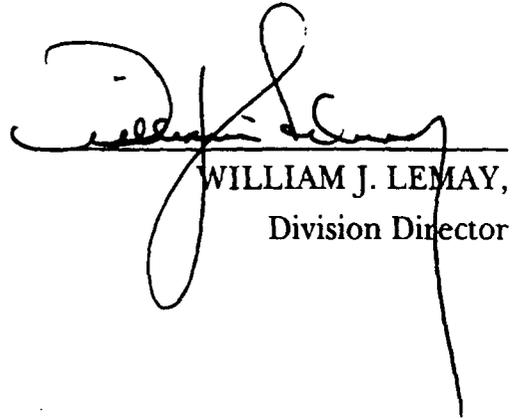
REMARKS: Commingling of liquid production will not occur as it will separated, metered and stored separately.

NOTE: This installation shall be installed and operated in accordance with the applicable provisions of Rule 303 of the Division Rules and Regulations and the Division "Manual for the Installation and Operation of Commingling Facilities." It is the responsibility of the producer to notify the transporter of this commingling authority.

FURTHER: The operator shall notify the Aztec district office upon implementation of the commingling process.

*Commingling Order CTB-455
Dugan Production Corporation
July 31, 1997
Page 2*

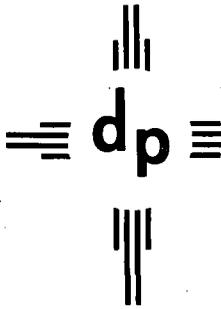
DONE at Santa Fe, New Mexico, on this 31st day of July, 1997.



WILLIAM J. LEMAY,
Division Director

WJL/BES/lb

cc: Oil Conservation Division – Aztec
State Land Office – Oil & Gas Division
Bureau of Land Management - Farmington



dugan production corp.

RECEIVED OGD

2012 FEB 23 P 12: 26

February 20, 2012

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

Re: Dugan Production's Application dated 2/14/12
Add One Well to Kenny Gas Gathering System
Sandoval County, New Mexico

Dear Ms. Bailey,

Attached is a copy of the "certified mail return receipt" for Dugan Production's interest owner notification of the subject application.

As noted in our application, Encana Oil & Gas and Dugan Production hold 100% of the working interest for all three wells included in the application. The royalty interest is either State of New Mexico (Lease LG-3925) or Federal (Lease NM-89021) and both the New Mexico State Land Office and Bureau of Land Management received our application seeking their respective approvals. Dugan Production holds the only overriding royalty interest. Thus, it is our belief that all interest owners have received notice of our application.

Should you have questions or need additional information, please let me know.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

enclosure

Kenna CDP

SENDER: COMPLETE THIS SECTION

- Complete Items 1, 2, and 3. Also complete Item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Parsons Tel + Gas (USA) Inc
Attn: Brenda Lister
370 17th St, Suite 1700
Denver, CO 80202

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *[Signature]* Agent Addressee

B. Received by (Printed Name)

C. Date of Delivery

2/16

D. Is delivery address different from item 1?

If YES, enter delivery address below: Yes No

3. Service Type

- Certified Mail Express Mail
- Registered Return Receipt for Merchandise
- Insured Mail C.O.D.

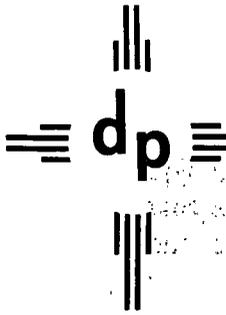
4. Restricted Delivery? (Extra Fee)

Yes

2. Article Number

(Transfer from service label)

7005 2570 0001 3772 0859



dugan production corp.

February 24, 2012

RECEIVED OCD

2012 FEB 27 A 11:32

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

RE: Dugan Production's Application dated 2/14/12
Add One Well to Kenny Gas Gathering System
Sandoval County, New Mexico

Dear Ms. Bailey

Attached is the "Affidavit of Publication" for Dugan Production's Legal Notice of the Subject application which was published in the February 12, 2012 edition of the Farmington Daily Times. With this legal notice, plus we have received return receipts for our "certified mail" interest owner notice, it is our belief that all interest owners have received notice of our application. To date, we have had no interest owner comment or objection.

Should you have questions or need additional information, please let me know.

Sincerely,

John D. Roe
Engineering Manager

/egl

Enclosure

AFFIDAVIT OF PUBLICATION

COPY OF PUBLICATION

Ad No. 67249

**STATE OF NEW MEXICO
County of San Juan:**

JOHN ELCHERT, being duly sworn says:
That HE is the PUBLISHER of THE DAILY TIMES, a daily newspaper of general circulation published in English at Farmington, said county and state, and that the hereto attached Legal Notice was published in a regular and entire issue of the said DAILY TIMES, a daily newspaper duly qualified for the purpose within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico for publication and appeared in the Internet at The Daily Times web site on the following day(s):

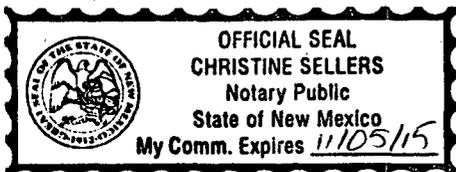
Sunday, February 12, 2012

And the cost of the publication is \$115.43



ON 2/12/12 JOHN ELCHERT appeared before me, whom I know personally to be the person who signed the above document.


My Commission Expires -

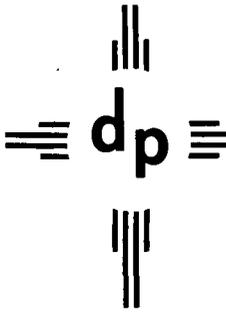


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Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

Legal No. 67249 published in The Daily Times on Feb. 12, 2012.

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dugan production corp.

RECEIVED OCD

2012 FEB 29 A 9:58

RECEIVED OCD

2012 FEB 29 A 9:57

February 28, 2012

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

Mr. Larry Roybal, Director
Oil, Gas & Minerals Division
New Mexico State Land Office
P O Box 1148
Santa Fe, NM 87504

Re: Dugan Production's Application dated 2/14/12
Add One Well to Kenny Gas Gathering System
Sandoval County, New Mexico

Dear Ms. Bailey & Mr. Roybal,

Attached for your consideration of the subject application is a copy of the BLM's approval dated 2/22/12.

Should you have questions or need additional information, please let me know.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

enclosure



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
Kenny CDP



February 22, 2012

Attn: John D. Roe
Dugan Production
PO Box 420
Farmington, New Mexico 87499

Dear Mr. Roe:

Reference is made to your application dated February 14, 2012, requesting approval to connect one (1) additional well to your Kenny Central Delivery Point (CDP). This CDP was originally approved on August 28, 1997 and included 2 wells. Based on the information you supplied, Dugan and Encana are hereby authorized to include the following well in the Kenny CDP:

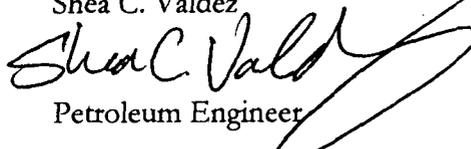
No. 1H Lybrook H36-2307, located 1550 FNL and 280 FEL section 36, T. 23N., R. 7W., Sandoval County, New Mexico. On State oil and gas lease LG3925 in the Lybrook Gallup formation.

You are hereby authorized to measure and sell gas in accordance with procedures outlined in your application unless otherwise modified by the conditions outlined below. If you have any questions regarding the above, contact me at (505) 599-8969.

- Liquid hydrocarbons produced at the CDP must be allocated back to each well in proportion to the well's allocated gas production. Fuel used at the CDP must also be allocated back to each contributing well in proportion to each well's allocated gas production.
- Allocation must be made on an MMBTU basis.
- Measurement of gas at the allocation meters and the CDP must be conducted in accordance with the requirements outlined in Onshore Order Mo. 3, Site security, Onshore Order No. 4, Oil Measurement, Onshore Order No. 5, Gas Measurement and NM NTL 2008-001.
- In Order to prevent waste and conserve Natural gas, periodic review of each well's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1.
- No other wells can be added to this system of measurement and sales without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the CDP.

- Post a permanent sign at the CDP identifying the location as the Kenny CDP E(SW/NW) T23N R7W Sec. 36

Shea C. Valdez

A handwritten signature in black ink, appearing to read "Shea C. Valdez", with a large, sweeping flourish extending to the right.

Petroleum Engineer

CC:

NMOCD: Santa Fe
Encana Oil & Gas Inc.

Bcc:

Kenny CDP File
Suspense: Valdez