NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

COMMINGLING ORDER CTB-560

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

Attention: Mr. John D. Roe

The above-named company is hereby authorized to surface commingle Basin-Fruitland Coal Gas Pool (Gas -71629) gas production from Federal Leases No. NM-39017 and NM-17015, and Navajo Allotted Leases No. NO-G-0502-1717, NO-G-0502-1718 and NO-G-0502-1719, this area comprising all of Section 1, the E/2 of Section 2, and all of Sections 11 and 12, Township 24 North, Range 11 West, NMPM, San Juan County, New Mexico. The commingled gas production shall be gathered and transported by a system of pipelines known as the Sesamee Street Gathering System.

Gas production shall be allocated to each well and/or lease utilizing the method described in Exhibit "B" attached hereto.

NOTE: The commingled natural gas production shall be delivered to a CDP sales meter on Enterprise Field Service's Pipeline in the SW/4 NE/4 of Section 36, Township 25 North, Range 11 West, NMPM, San Juan County, New Mexico.

NOTE: This installation shall be installed and operated in accordance with the applicable Division rules governing surface commingling of gas production.

It is the responsibility of the producer to notify the transporter of this commingling authority.

Note: Additional Basin-Fruitland Coal Gas Pool wells that are within the area defined by this order may be added to this surface commingling authority at a later time without additional notice to the interest owners within this area. The applicant shall submit a letter to the Santa Fe office of the Division identifying the well or wells added to the gas gathering system.

FURTHER: The operator shall notify the supervisor of the Aztec District Office of the Division prior to implementing commingling operations.

DONE at Santa Fe, New Mexico, on this 20th day of September, 2005.

MARK E. FESMIRE, P.E.
Division Director

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

Exhibit "B"
Gas Allocation Procedure
Dugan Production Corp.'s
Sesamee Street Gathering System

Base Data:
U = Water Volume (**BWPD**) from Periodic Well Test x days operated during allocation period.
V = Water Volume (bbl) at Central Battery during allocation period.
W = *Gas* Volume (MCF) from allocation meters at individual wells and central battery separator during allocation period.
X = Gas Volume (MCF) from CDP Sales Meter during allocation period.
Y = BTU's 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 GasProduction=A+B +C+D+E+F A = Allocated Sales Volume, MCF = (W/SUM W) x 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/SUM W for the wells involved.

   B = 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/SUM W.

   F = Allocated gas sales volume (MCF) associated with water production = (A) in mcf for the central battery separator multiplied by a factor of (TJ/SUM U) for wells delivering gas and water to the central battery separator.

2. Allocated Individual Well BTU's = ((W x Individual well BTU)/Sum (W x individual well BTU)) x Y. Individual well gas heating values to be determined in accordance with BLM regulations (currently Onshore Order No. *5).*

3. Individual Well Water Production = Allocated production volume, bbl = (U/Sum U) x V.