

RECEIVED: 9/11/2017	REVIEWER: M Am	TYPE: PLC	APP NO: DMAM/725451520
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ABOVE THIS TABLE FOR OCD DIVISION USE ONLY

*Received
9-11-2017
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NEW MEXICO OIL CONSERVATION DIVISION
 - Geological & 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

Applicant: Dugan Production Corp. OGRID Number: 006515
 Well Name: Designated Hitter Gathering System API: _____
 Pool: Business Unit Land Corp WAW Fraitland Sand DC (GAS) Pool Code: 9223 87190

PLC-484

SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED BELOW

- 1) **TYPE OF APPLICATION:** Check those which apply for (A)
- A. Location - Spacing Unit - Simultaneous Dedication
 NSL NSP (PROJECT AREA) NSP (PRORATION UNIT) SD
- B. Check one only for (I) or (II)
- (I) Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- (II) Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

- 2) **NOTIFICATION REQUIRED TO:** Check those which apply.
- A. Offset operators or lease holders
 B. Royalty, overriding royalty owners, revenue owners
 C. Application requires published notice
 D. Notification and/or concurrent approval by SLO
 E. Notification and/or concurrent approval by BLM
 F. Surface owner
 G. For all of the above, proof of notification or publication is attached, and/or,
 H. No notice required

FOR OCD ONLY	
<input type="checkbox"/>	Notice Complete
<input type="checkbox"/>	Application Content Complete

3) **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.

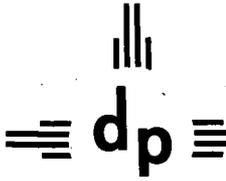
Kevin Smaka
 Print or Type Name

9/7/17
 Date

505-325-1821
 Phone Number

Kevin Smaka
 Signature

Kevin.smaka@duganproduction.com
 e-mail Address



dugan production corp.

September 8, 2017

Mr. David Catanach, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Rick Fields, Field Manager
Bureau of Land Management
6251 College Blvd., Suite A
Farmington, NM 87402

Maureen Joe, Acting Director
Federal Indian Minerals Office
6251 College Blvd., Suite B
Farmington, NM 87402

Re: Application to surface commingle and for the Off-Lease
Measurement/sale of produced natural gas at Dugan Production's newly formed
Designated Hitter Gathering System
San Juan County, New Mexico

RECEIVED OGD
2017 SEP 14 P 1:45

Dear Mr. Catanach, Mr. Fields, and Ms. Joe.

We are writing to request your administrative approvals to create Dugan Production's Designated Hitter Gathering System (DHGS) that requires approval for the surface commingling, off-lease measurement and sale of natural gas produced from 2 existing wells. Gas will be allocated to each well by allocation meters located at each well. NMOCD Form 107-B is attached with this application. A summary presenting the wells and production for each pool is presented on Attachment No. 4. Gas sales for the DHGS will occur at Enterprise meter 90163, located in the SWSW quarter of Section 27, T-26N, R-12W. We are also requesting the NMOCD include a provision in their order that for future additions to the DHGS, only the interest owners in the wells being added need to be notified, providing that it is reasonably certain that the proposed additions will not adversely affect the interest owners in the wells already approved for the gathering system. This provision will be very helpful and will significantly reduce the work effort necessary to add future wells to the gathering system.

The DHGS was obtained by DPC and upon review of NMOCD records it was determined that Running Horse LLC had not acquired the necessary approvals to commingle production or conduct off-lease measurement. Currently there are 2 wells producing and selling natural gas within the DHGS. Production currently averages a total of 26 mcf/d for an overall average of 13 mcf/d per well. Well production ranges from 7 to 19 mcf/d. Individual well production for the DHGS is presented on Attachment 2 and a summary of pool production is presented on Attachment No. 4.

A description of each attachment has been included for clarity and informational purposes:

Attachment No. 1 presents a map of the DHGS with the wells and proposed locations to be added highlighted in blue. In addition, Dugan Production's leases are also presented. Dugan Production has a majority of the leasehold interest and to date most wells drilled are considered to be marginal producers. The DHGS has one central delivery gas sales meter, meter no. 90163, located in the SWSW quarter of Section 27, T-26N, R-12W. The meter delivers gas to Enterprise Field Services.

Attachment No. 2 presents information for the wells DPC seeks to include in the formation of the DHGS. At the time of this application there are 2 wells connected and producing gas in the system. Both wells are considered marginal by definitions found in 43 CFR 3173.

Attachment No. 3 presents the interest ownership for the wells to be added to the DHGS. From Attachment No. 3, Dugan Production holds 100% of the working interest in both wells and leases being added and their infill locations. Both wells being added sit on federal lands and pay federal royalties. No wells in the gathering system are located on state lands and as a result no royalty will be paid to state agencies. Royalty will be paid to appropriate tribe and/or allottee. All interest owners in the wells being added as presented in Attachment No. 3 will receive information

pertaining to this application. Attachment No. 8 presents copies of our interest owner notice efforts. All notice letters have been sent by certified mail with return receipts, and upon receiving the receipts, copies will be forwarded to the NMOCD.

Attachment No. 4 presents a summary of the pools, wells, production and leases for the DHGS. The DHGS has wells completed in two pools (Basin Fruitland Coal and WAW Fruitland Sand PC) delivering gas to the gathering system. It is also noted that for the DHGS production averages 26 mcf/d and ranges from 7 to 19 mcf/d. Of the 2 wells/locations to be added with this application, 2 are currently producing and connected to the gathering system. Dugan Production's leases for the wells in the DHGS are summarized on Page 2 of Attachment No. 4. The attachment identifies 1 federal lease and 1 Navajo Allotted lease which are to be included as part of the DHGS.

Attachment No. 5 presents the allocation procedure being used for the DHGS.

Attachment No 6 presents a comparison of connecting the proposed wells to the existing DHGS as opposed to directly connecting each well to the nearest pipeline which will be Enterprises line at the current CDP. This analysis was done to illustrate the benefits connecting wells to the gathering system.

From Attachment No. 6, to connect 2 wells and infill locations to DPC's DHGS will have minimal cost and environmental impact since the wells were produced connected to the gathering system prior to DPC acquiring the wells.

If each well and lease, where possible, were to be individually connected directly to Enterprise for gas sales, the length of necessary would require DPC install .1 mile of additional pipe and disturb 5 acres of surface. In addition, since we typically will install the required compressor at the well site, the line between the well and connection to the pipeline will be operating at a higher pressure for direct connection, which will require using 4" steel line as opposed to 4" polypipe which will increase the installation costs from \$15/ft to \$38/ft and will result in the pipeline cost increasing from \$0.00 for connecting to a gathering system to \$162,681.00 for connecting to Enterprise. In addition, and probably one of the biggest benefits of operating a gathering system is that we can install central gas compression facilities to serve multiple wells and we typically operate our gathering systems at 20 to 30 psig which provides an optimum surface operating pressure for wells connected to it. For direct connect, it will be necessary to install a compressor on each line in order to deliver gas into Enterprise's pipeline which is currently averaging 325 psig. This will require purchasing and installing 2 compressors to deliver the same gas, which will result in using more produced gas for fuel and producing more noise and exhaust gas. In addition, the cost to make a connection to our gathering system averages about \$5,000/tap and meter run where Enterprise will charge an average of \$131,000 for each pipeline tap and meter run. For our analysis, since the infill wells will have the same interest ownership as the initial spacing unit well, we assumed it will be acceptable to connect the infill well to the initial well and use only one line and compressor to deliver the gas to Enterprise which will not only reduce the necessary pipeline length, but will reduce the meter run and connection cost for the infill well to \$5,000 and enable the infill well to use the compressor installed for the initial well.

Thus considering all factors of connecting to the existing gathering system versus directly connecting to Enterprise pipeline, the total costs presented in attachment 6 are summarized as follows:

<u>Gathering System</u>	<u>Connect to Gathering System</u>	<u>Connect to Enterprise</u>	<u>Additional Cost for Direct Connections</u>
DHGS	<u>\$ 0.00</u>	<u>\$ 162,681.00</u>	<u>\$ 162,681.00</u>

Considering that the wells to be added to the DHGS are considered to be marginal producers, it will be very important that we receive approval to use the existing gathering system as opposed to directly connecting each well to the pipeline company. Also considering that these wells are in an area that has significant archaeological, cultural, and paleontology presence, plus is in close proximity to two wilderness areas, and is within the threatened and endangered Brack's Cactus and Aztec Gila Habitat, it is important to minimize the surface disturbance and installation of necessary compression equipment.

Attachment No. 7 presents a block diagram representing all gathering system facilities.

Attachment No. 8 presents copies of our efforts to provide the required notice to all interest owners in the wells being added to the gathering system.

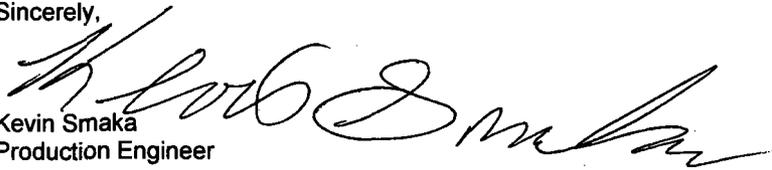
Attachment No. 9 presents a copy of the BLM approval letter dated April 25, 2002.

In summary, Dugan Production is requesting approvals to:

1. Create the Designated Hitter Gathering System.
2. Add 2 wells/locations to the Designated Hitter Gathering System.
3. Authorize the surface commingling of produced gas.
4. Authorize the off-lease measurement of gas.
5. Authorize beneficial off-lease fuel usage to run gathering system equipment.

Should you need additional information or have questions regarding this application, please feel free to contact me at the letterhead address.

Sincerely,


Kevin Smaka
Production Engineer

cc: NMOCD – Aztec;

District I
1625 N. French Drive, Hobbs, NM 88240
District II
811 S. First St., 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 August 1, 2011

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: Box 420 Farmington, NM 87499
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. _____
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		Calculated Value of Commingled Production	Volumes
See attachment #4					

(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.
(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.
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.
(3) Lease Names, Lease and Well Numbers, and API Numbers.
See Attachment #2

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

SIGNATURE: Kevin Smaka TITLE: Production Engineer DATE: 9/7/2017

TYPE OR PRINT NAME Kevin Smaka TELEPHONE NO.: 505-325-1821

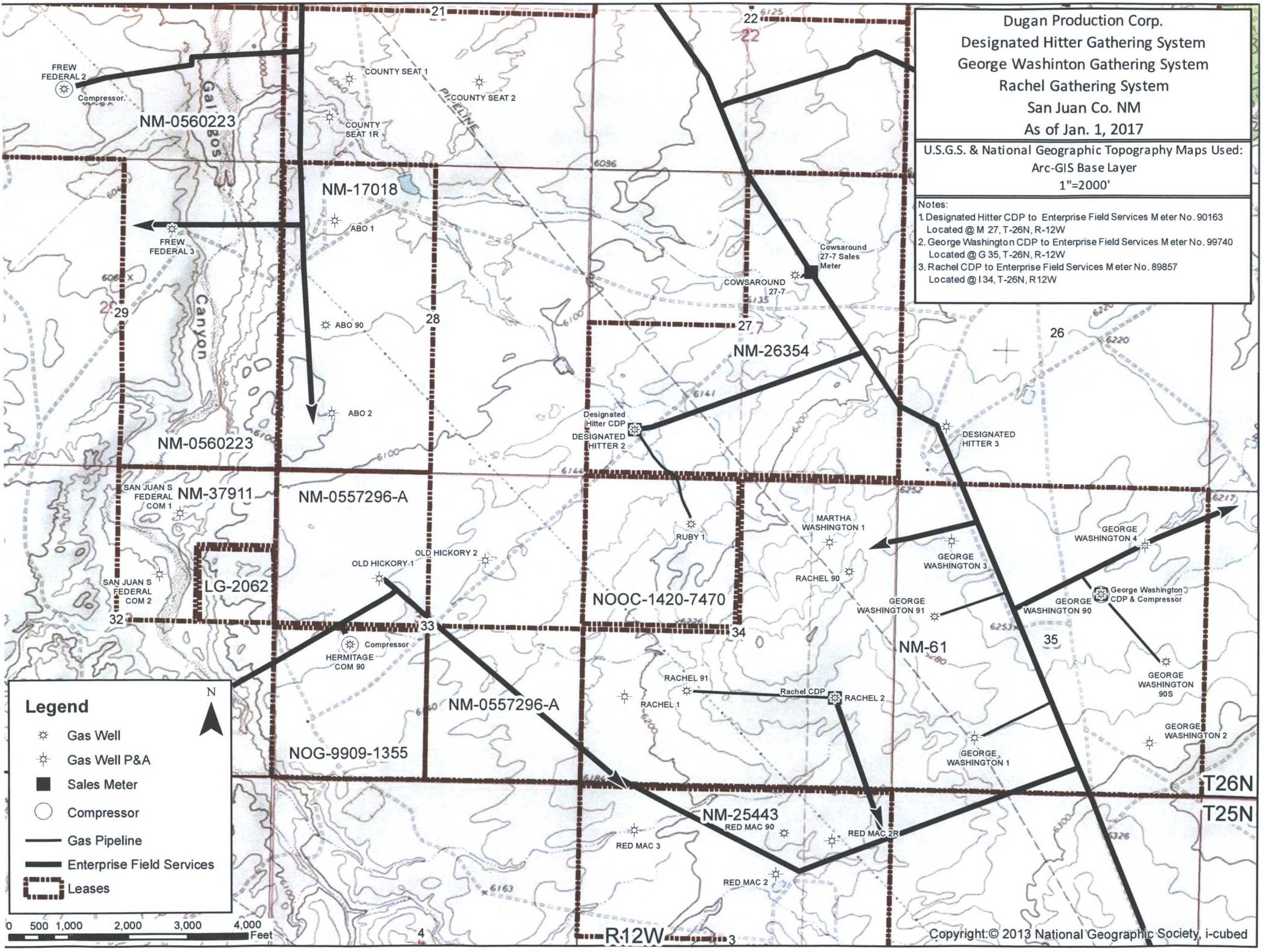
E-MAIL ADDRESS: Kevin.smaka@duganproduction.com

Dugan Production Corp.
 Designated Hitter Gathering System
 George Washington Gathering System
 Rachel Gathering System
 San Juan Co. NM
 As of Jan. 1, 2017

U.S.G.S. & National Geographic Topography Maps Used:
 Arc-GIS Base Layer
 1"=2000'

Notes:

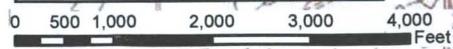
- 1 Designated Hitter CDP to Enterprise Field Services Meter No. 90163
 Located @ M 27, T-26N, R-12W
2. George Washington CDP to Enterprise Field Services Meter No. 99740
 Located @ G 35, T-26N, R-12W
3. Rachel CDP to Enterprise Field Services Meter No. 89857
 Located @ I34, T-26N, R12W



Legend

- Gas Well
- Gas Well P&A
- Sales Meter
- Compressor
- Gas Pipeline
- Enterprise Field Services
- Leases

N



ATTACHMENT NO. 2
 DUGAN PRODUCTION CORP.
 DESIGNATED HITTER GATHERING SYSTEM (9/8/17)
 SAN JUAN COUNTY, NEW MEXICO

Well Name	API # 30-045-	Surface Location				Communitization Agreement No. (If Established)	Pool	Completion Date	Current Status ①	Current Average Production ②			Spacing Unit	Dates for SC, OLM & S ③			
		¼¼	Sec-Twn-Rng	Lease No.	Lease Type					BOPD	MCFD	BWPD		Application	BLM	NMOCD	NMSLO
WELLS TO BE ADDED (2 WELLS)																	
Designated Hitter #2	22638	SWSW	27-26N-12W	NM26354	Federal	NMNM75976	WAW Fruitland Sand PC	1/11/1978	P	0	7	0	SW/4-160A	9/8/2017			
Ruby #1	23839	NENW	34-26N-12W	NOO-C-1420-7470	Allotted		Basin Fruitland Coal	3/22/1989	P	0	19	0	NW/4-160A	9/8/2017			

- 1 - Status of well 7/27/17
 Loc = proposed general location
 LOC A = proposed location - staked
 LOC B = proposed location - APD submitted
 NC = not connected to gathering system
 P = producing, includes wells temporarily shut in but able to produce

2 - Previous years average production (June 2016 - July 2017)

Well Name	Cumulative	6-month prod 1-2017 thru 6-2017
	mcf	mcf
Designated Hitter #2	272,069	1,876
Ruby #1	395,622	3,464

- 3 - The Designated Hitter Gathering System currently has 2 wells connected and sale gas at an Enterprise CDP:
 (CDP) located in SWSW, Section 27, T-26N, R-12W on Enterprise Field Services Meter No. 90163.

Attachment No. 3

Interest Ownership Summary

Dugan Production Corp.'s Designated Hitter Gathering System

	Designated Hitter No. 1 (details on Pg. No. 2)		Ruby No. 1 (details on Pg. No. 3)	
	WI	NI	WI	NI
<i>Working Interest</i>				
Dugan Production Corp.	100.000	75.000	100.000	80.000
<i>Royalty Interest</i>				
United States - BLM		12.500		
Navajo Allotted				20.000
<i>Overriding Royalty Interest</i>				
Number of Owners		4		
Total ORRI		12.500		
TOTALS	100.000	100.000	100.000	100.000

**ATTACHMENT NO. 3 – PAGE 2 OF 2
Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Lease #</u>	<u>Location</u>	<u>Spacing Unit</u>
Designated Hitter 2	WAW Fruitland Sand PC	NM-26354	SWSW 27-26N-12W	SW/4-160A

INTEREST OWNER

	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u> Dugan Production Corp.	100.000000	75.000000
<u>Royalty</u> USA – c/o Bureau of Land Management 6251 College Blvd., Suite A Farmington, NM 87402	-0-	12.500000
<u>Overriding Royalty</u> William & Maxine L. Clegg PO Box 119 Algona, IA 50511	-0-	1.500000
Abbie Moody Cliff PO Box 804 Dexter, NM 88202	-0-	0.250000
Flame Royalties PO Box 702281 Tulsa, OK 74170-2281	-0-	8.500000
McBride Oil & Gas Corporation PO Box 1515 Roswell, NM 88202-1515	-0-	2.250000
<u>TOTAL WELL</u>	<u>100.000000</u>	<u>100.000000</u>

Dugan Production Corp.

<u>Well Name</u>	<u>Pool</u>	<u>Lease #</u>	<u>Location</u>	<u>Spacing Unit</u>
Ruby 1	Basin Fruitland Coal	NOO-C-1420-7470	NENW 34-26N-12W	NW/4-160A

INTEREST OWNER

	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u> Dugan Production Corp.	100.000000	80.000000
<u>Royalty</u> Navajo Allotted c/o Federal Indian Minerals Office 6251 College Blvd., Suite B Farmington, NM 87402	-0-	20.000000
<u>TOTAL WELL</u>	<u>100.000000</u>	<u>100.000000</u>

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

State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-102
 Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
 Santa Fe, New Mexico 87504-2088

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

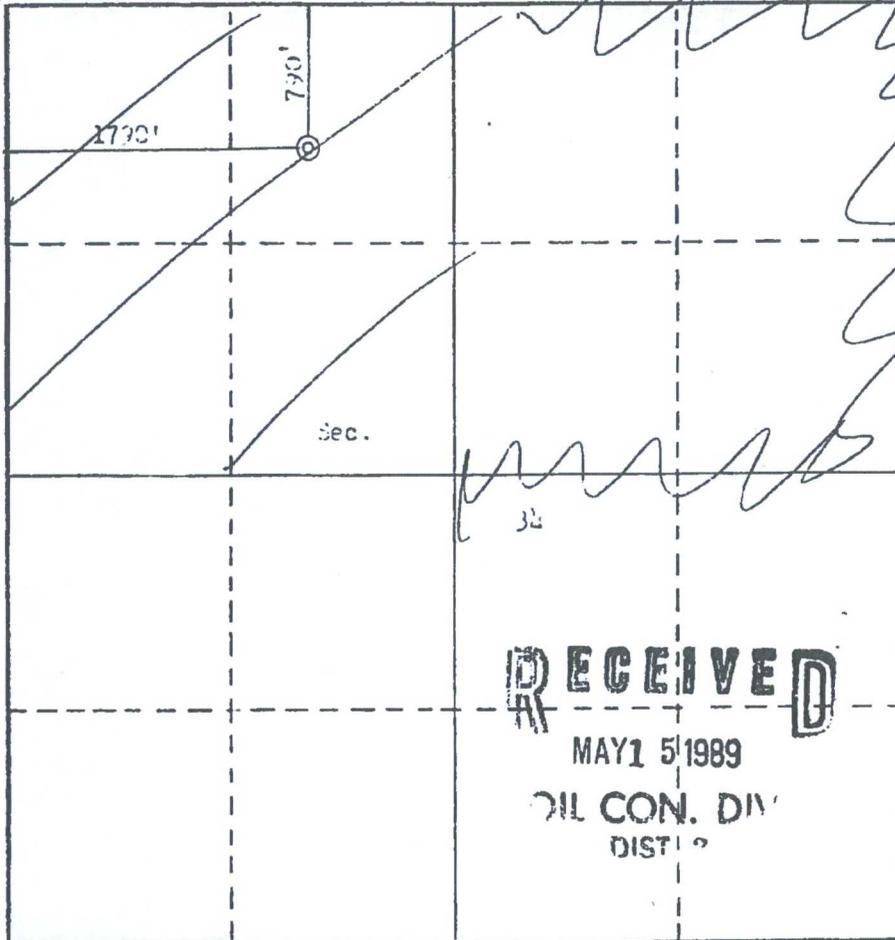
Operator Robert L. Bayless			Lease Ruby			Well No. 1		
Unit Letter C	Section 34	Township 26N	Range 12W	County NMPM San Juan				
Actual Footage Location of Well: 790' feet from the north line and 1790' feet from the west line								
Ground level Elev. 6178'	Producing Formation Fruitland Coal			Pool Basin-Fruitland Coal		Dedicated Acreage: 320 Acres		

- Outline the acreage dedicated to the subject well by colored pencil or hachure 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 _____

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.



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

Signature: *Kevin H. McCord*
 Printed Name: Kevin H. McCord
 Position: Petroleum Engineer
 Company: Robert L. Bayless
 Date: 5/12/89

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: June 5, 1989
 Registered Professional Engineer
 and/or Land Surveyor
Fred B. [Signature]
 Certificate No. 3450

RECEIVED

MAY 15 1989
 OIL CON. DIV.
 DIST. 2

0 330 660 990 1320 1650 1980 2310 2640 2000 1500 1000 500 0

81-2101

NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-102
Supersedes C-128
Effective 1-1-65

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

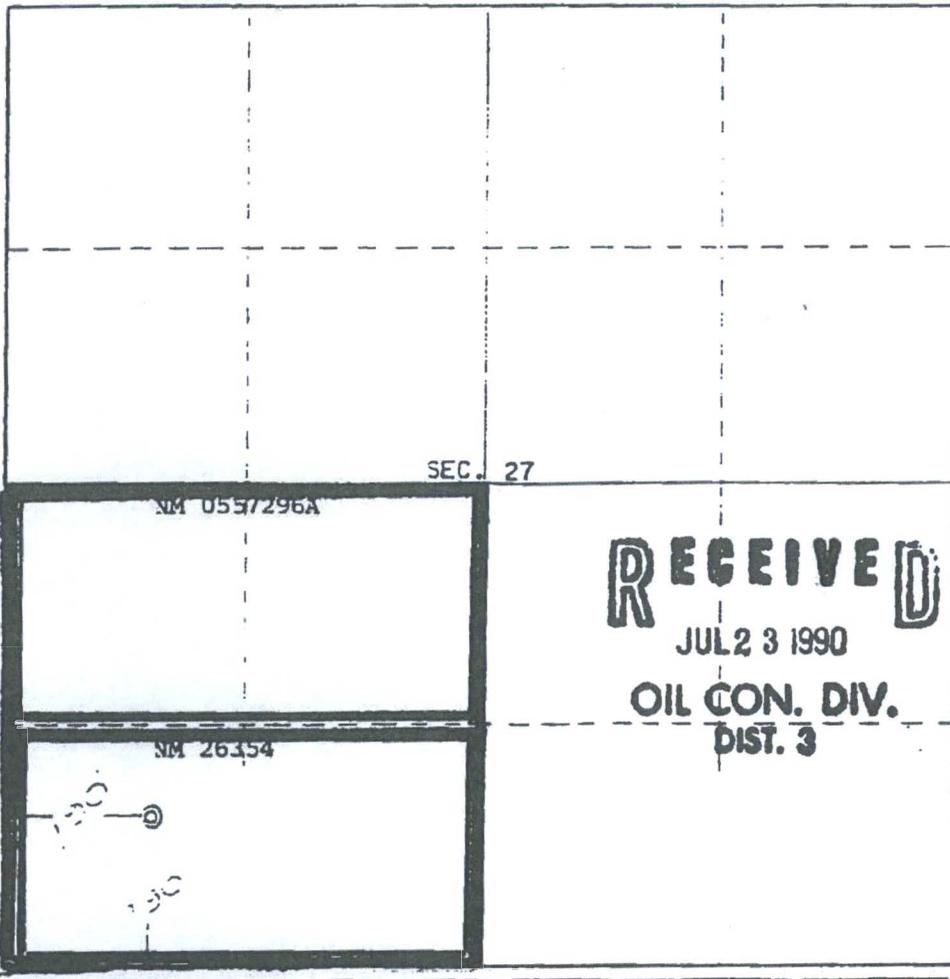
Operator DUGAN PRODUCTION CORP.		Lease Designated Hitter			Well No. 2
Unit Letter M	Section 27	Township 26 North	Range 12 West	County San Juan	
Actual Footage Location of Well: 790 feet from the South line and 790 feet from the West line					
Ground Level Elev. 6132	Producing Formation Pictured Cliffs	Pool WAW Fruitland Sand PC		Dedicated Acreage: 160 Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hachure 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 interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

Yes No If answer is "yes," type of consolidation Communitization (C.A.# 7940012990)

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 Commission.



RECEIVED
JUL 23 1990
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.

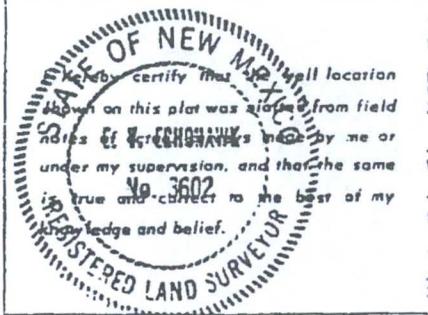
Thomas A. Dugan

Name
Thomas A. Dugan

Position
Petroleum Engineer

Company
Dugan Production Corp.

Date
7-18-90



Date Surveyed
June 11, 1977

Registered Professional Engineer
and/or Land Surveyor
E. J. Echonawk

No. **3602**

E. J. Echonawk

**ATTACHMENT NO. 4
PRODUCTION SUMMARY
WELLS CONNECTED OR TO BE CONNECTED TO DUGAN PRODUCTION'S
DESIGNATED HITTER GATHERING SYSTEM**

POOL NAME & CODE	AVERAGE BTU btu/scf	WELLS OR COMPLETIONS ①		POOL PRODUCTION ALL WELLS - mcf/d ②		AVERAGE PRODUCTION PER WELL - mcf/d ②	
		EXISTING	PROPOSED	EXISTING	PROPOSED	EXISTING	PROPOSED
DESIGNATED HITTER GATHERING SYSTEM							
Basin Fruitland Coal (71629)	997	1(1)	0	7	0	7	0
WAW Fruitland Sand PC (87190)		1(1)	0	19	0	19	0

Calculated BTU of commingled production for DHGS = 997 btu/scf for all wells (existing and proposed) which is nearly identical to the actual BTU average at the CDP sales meter during July 2016 of 1009 btu/scf.

Calculated value of commingled production: commingling is necessary to get produced natural gas to a gas sales meter from 2 low volume gas wells. CDP gas revenue and MMBTU will be allocated to individual wells using factors determined from the MMBTU produced from each well. Each well will be equipped with an allocation meter. Data indicates average production was 26 MCFD from 2 wells. There should be no loss in value to any well as a result of this commingling.

Notes:

- ① - Wells as of 7-1-2017. Existing = wells currently approved for gathering system. Proposed = wells & locations to be added to gathering system. Active completions in parentheses.
- ② - Production data from July 2016-2017

Attachment No. 4
Dugan Production's
Lease Summary

Designated Hitter Gathering System

Federal Leases

NM-26354

Allotted Leases

NOOC-1420-7470

ATTACHMENT NO. 5
Allocation Procedures
Dugan Production Corp.'s
Designated Hitter Gathering System
Enterprise Field Services Meter #90163 located @ SWSW 27, T-26N, R-12W
San Juan County, New Mexico

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 Gas Production = A + B + C + D + E + F

A = Allocated Sales Volume, MCF = $(W/\text{SUM } W) \times X$

B = On lease fuel usage, MCF. Determined from equipment specifications, operating conditions and days operated.

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 $(W/\text{SUM } W)$.

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

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 BLM regulations (currently Onshore Order No. 5).

3. Individual Well Water Production = Allocated production volume, bbl = $(U/\text{Sum } U) \times V$.

**ATTACHMENT 6
DIRECT CONNECT VS CONNECTION TO DHGS
2 WELLS PROPOSED FOR GATHERING SYSTEM**

	Direct Connect to PL		Connect to RGS	
Wells to be added	2	Wells to be added	2	
Lines needed	1	Lines needed	0	
Total PL length (feet)	0	Total PL length (feet)	0	
Average PL length per well (feet/well)	0	Average PL length per well (feet/well)	0	
Surface disturbance w/40' ROW (acres)	0	Surface disturbance w/40' ROW (acres)	0	
# additional compressors needed	1	# additional compressors needed	0	
Additional compressor hp (horsepower)	118	Additional compressor hp (horsepower)	0	
Additional compressor fuel usage (MCF/year)	7,227	Additional compressor fuel usage (MCF/year)	0	
Engine exhaust volume (SCF)	57,984	Engine exhaust volume (MCF)	0	
Value of fuel gas - (\$/year) @\$3.00/mmbtu	\$21,681	Value of fuel gas - (\$/year) @\$3.00/mmbtu	\$0	
Pipeline Tap (USD) \$131,000.00/line	\$131,000	Pipeline Tap (USD) \$5,000/well	\$0	
Pipeline Installation Cost (USD) \$38/foot	\$0	Pipeline Installation Cost (USD) \$15/foot	\$0	
Pipeline Pigging System Cost (USD) \$10,000/line	\$10,000	Pipeline Pigging System Cost (USD) *Already in place	\$0	Difference
Additional costs (USD)	\$162,681	Additional Costs	\$0	\$162,681
Surface Disturbance (Acres)	0.0	Surface Disturbance	0.0	0
Additional Emissions (SCF)	7,248	Additional Emissions	0	7,248

Attachment #7

Designated Hitter Gathering System Facilities Diagram



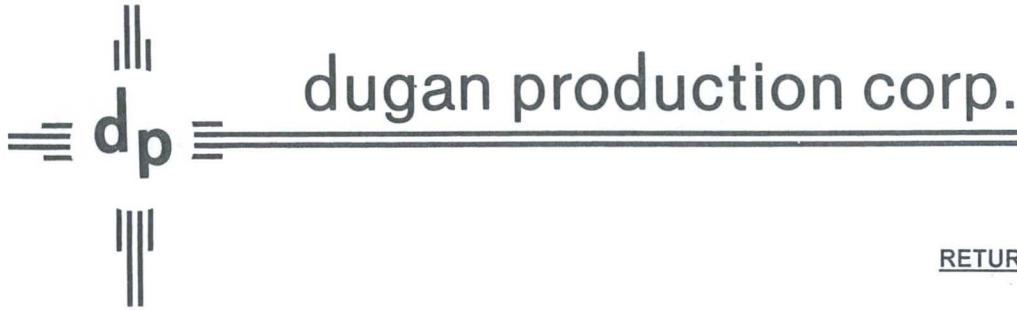
Compressor Information

<u>Engine</u>		<u>Horsepower</u>		<u>Fuel Usage</u>
VRG 155		32 BHP		8.06 MCFD

Attachment No. 8
Interest Ownership Notification
Dugan Production Corp.'s Application dated 9/6/17
Proposing the Addition of 2 Wells to
Dugan Production's Designated Hitter Gathering System

Presenting evidence that interest ownership in the Ross Gathering System and the 2 wells proposed to be added have been given notice of Dugan's application, attached is:

1. A copy of Dugan's transmittal letter dated 9/6/17 used to send copies of the subject application to the four overriding royalty interest owners in the 2 wells/locations being added to the Designated Hitter Gathering System. Each overriding royalty interest owner was offered a copy of our application should they desire to receive one. Of the 2 wells/locations being added, Dugan Production will be the operator of all wells and holds 100% of the working interest in all of the wells. All letters were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD.
2. The royalty interest for both wells/locations being added is federal. There is no state or fee royalty. Since the subject application is addressed to the Farmington Field Office of the Bureau of Land Management (for federal leases), a separate notice to royalty interest owners was not needed. The applications were sent by certified mail with a return receipt requested and upon receiving the receipts, copies will be sent to the NMOCD.
3. Copy of the "Affidavit of Publication" for our advertisement published in the Legal Notice section of the Wednesday, August 2nd, 2017 issue of the Farmington Daily Times regarding the subject application to add 2 wells/locations to Dugan's Designated Hitter Gathering System. This publication was made in anticipation that of the notice mailed to 4 interest owners, there will be at least one either returned for some reason or the return receipt will be lost in the mail.



CERTIFIED MAIL
RETURN RECEIPTS REQUESTED

September 7, 2017

Interest Owners (Address list attached)

Re: Dugan Production's Application dated 9/7/17 to add 2 wells/locations to
Designated Hitter Gathering System
San Juan County, New Mexico

Dear Interest Owner,

According to our records, you have an overriding royalty interest in one of the wells that is proposed to be added to the Designated Hitter Gathering System (DHGS). The wells and interest owners are listed on the attached address list. The subject application to the New Mexico Oil Conservation Division (NMOCD), and the Bureau of Land Management (BLM), requests their approvals to add 2 wells/locations to Dugan's DHGS. This will require surface commingling of gas production from the subject wells, plus the sale of gas at an off-lease central delivery sales meter (CDP). Each well will be equipped with a meter to measure production for allocation purposes. Attached for your information is a copy of Attachment No. 2 from the subject application which provides detailed information for all wells to be added. Since your interest in these wells is an overriding royalty, there are no costs chargeable to you. The wells to be added should not affect production from wells that are currently connected to the gathering system. Adding the subject wells to the DHGS will allow these wells to begin selling produced natural gas for the benefit of all interest owners. This proposal will allow for optimum operations on all wells and will allow all wells to benefit from central compression which should keep wellhead operating pressures as low as possible. This method of operation will help to keep our operating expenses as low as possible, and will allow for the recovery of more of the gas reserves from each well.

Since the royalty interest is federal, and the application is addressed to the BLM & NMOCD, this notice letter is not being separately mailed to the royalty interest owners, but it is included in Attachment No. 8 to the application.

This matter does not require any action on your part. Current NMOCD regulations require that interest owners (in wells being added) receive notice of proposed additions to gathering systems. Included in Dugan's application is a request to that for future additions to the gathering system, only the interest owners in the wells to be added will require notification, provided the proposed additions will not adversely affect the existing wells. This will greatly simplify adding wells to the gathering system and should not affect the interests previously authorized to operate on the gathering system. Should you have any questions, need additional information, desire to receive a complete copy of our application, or have any concern as to our proposal, please let me know. Should you have an objection to our proposal, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 1220 South St. Francis Drive, Santa Fe, NM 87505, and we would appreciate receiving a copy of your objection. Objections should be filed within 20 days after the NMOCD receives our application. We anticipate that our application will be received by the NMOCD approximately 9/8/17 or 9/11/17.

Sincerely,

Kevin Smaka
Production Engineer

KS/tmf

attachments

xc: New Mexico Oil Conservation Division, Bureau of Land Management

Designated Hitter Gathering System
(wells with ownership interest in parentheses)

A = Designated Hitter 2; b = Ruby 1

Working Interest Owners

Dugan Production Corp. (a,b)
P O Box 420
Farmington, NM 87499-0420

Royalty Interest Owners

USA-BLM (a)
6251 College Blvd, Suite A
Farmington, NM 87402

Navajo Allotted (b)
c/o Federal Indian Minerals Office
6251 College Blvd., Suite B
Farmington, NM 87402

Overriding Royalty Interest Owners

William & Maxine L. Clegg (a)
PO Box 119
Algona, IA 50511

Abbie Moody Cliff (a)
PO Box 804
Dexter, NM 88202

Flame Royalties (a)
PO Box 702281
Tulsa, OK 74170-2281

McBride Oil & Gas Corporation (a)
PO Box 1515
Roswell, NM 87202-1515

AFFIDAVIT OF PUBLICATION

Ad No. 74159

STATE OF NEW MEXICO

County of San Juan:

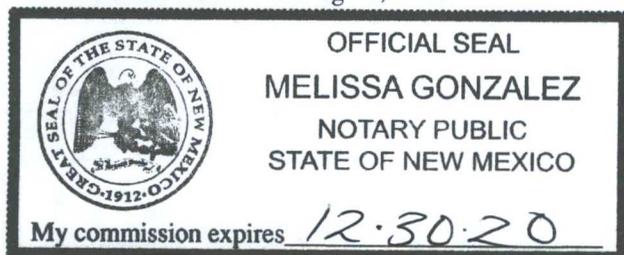
SAMMY LOPEZ, being duly sworn says: That She IS the PRESIDENT of THE DAILY TIMES, a daily newspaper of general circulation published in English at Farmington, said county and state, and that the hereto attached Legal Notice was published in a regular and entire issue of the said DAILY TIMES, a daily newspaper duly qualified for the purpose within the State of New Mexico for publication and appeared in the Internet at The Daily Times web site on the following day(s):

Wednesday, August 2, 2017

And the cost of the publication is \$100.63



SAMMY LOPEZ appeared before me, whom I know personally to be the person who signed the above document on the 2nd of August, 2017.





[signature of Notary]
Melissa Gonzalez NOTARY PUBLIC

COPY OF PUBLICATION

Dugan Production Corp. is applying to the Bureau of Land Management (BLM), New Mexico Conservation Division (NMOCD), and the New Mexico State Land Office (NMSLO), for regulatory approvals to create a new gathering system and add 2 existing wells to Dugan Production's Designated Hitter Gathering System (DHGS). This will require the surface commingling of produced natural gas plus the off-lease measurement and sale of natural gas. There will not be any commingling of oil or condensate. Dugan Production is also requesting that wells connected to the gathering system also be approved for providing natural gas as a "beneficial use" to field equipment necessary to operate the gathering system. The wells to be added and the existing gathering system are located within Sections 27 & 34 of T-26N, R-12W; all located in San Juan County, New Mexico. The gathering system currently has 2 wells which are completed in the Basin Fruitland Coal and WAW Fruitland Sand PC gas pools and are operated by Dugan Production Corp. The wells to be added are located upon, or the spacing units include the following leases held by Dugan Production Corp; Federal lease NM-26354; Allotted Lease NOOC-1420-7470. The wells to be added are: Dugan Production's Designated Hitter #2 and Ruby #1. The wells being added to the DHGS currently average 26 mcf per well. The wells being added should have with no effect upon the existing production. 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 Kevin Smaka 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 No. 74159 published in The Daily Times on August 2, 2017.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

(1)

IN REPLY REFER TO:
3162.7-3
Designated Hitter Gas Gathering System

April 25, 2002

Pendragon Energy Partners
C/O Walsh Engineering & Production Corp.
7415 East Main
Farmington, NM 87402

Dear Mr. Thompson:

Reference is made to your application for surface commingling and off-lease measurement and sales of gas and associated liquid hydrocarbons from the hereafter designated Designated Hitter Gas Gathering System (DHGGS). You propose to measure production at an El Paso Field Services meter at the following location:

SWSW section 27, T26N, R12W, San Juan County, New Mexico.

Your application indicates that measurement at a central delivery point is necessary to effectively and economically operate these wells and extend the economic life of the properties. We have reviewed your application and concur with these findings. As such, you are hereby authorized to measure natural gas and associated liquid hydrocarbons in accordance with the procedure outlined in your application. The following are conditions of this approval:

- Allocation methodology must be made on an MMBTU basis.
- Operational requirements for Navajo allotted wells, found in attachment 1-3, must be adhered to.
- In order to prevent waste and conserve natural gas, periodic review of the gathering system's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1. In the event that line purging or venting becomes necessary, the purged fluids must be allocated proportionally to coincide with the established production allocations.
- Fuel use must be allocated proportionally to coincide with the established production allocations.
- In the event that line purging or venting becomes necessary, the purged fluids must be allocated proportionally to coincide with the established production allocations.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the central delivery point.

Failure to operate this facility in accordance with the conditions outlined above may subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that federal royalties would be reduced. Attached is a list of the wells recognized as contributing to DHGGS.

If you have any questions regarding the above, contact Adrienne Garcia at (505) 559-6358 or Jim Lovato at (505) 599-6367.

Sincerely,

/s/ Jim Lovato

Jim Lovato
Team Lead, Petroleum Management Team

Handwritten initials or signature mark.

Enclosure: List of contributing wells
Attachment 1-3

cc: NMOCD, Santa Fe
NMOCD, Aztec
FIMO

bcc: Designated Hitter Gas Gathering System CDP File
Well Files (2)
DOMR
07100:AGarcia:4/25/02:HitterCDP

2

3

Designated Hitter Gas Gathering System Well List

<u>Well Name and No.</u>	<u>API No./Lease No.</u>	<u>Formation</u>	<u>Location</u>
Designated Hitter #2 Ruby #1	3004522638/NM 26354 3004523839/NOO-C-14-20-7470	WAW Fruitland PC Basin Fruitland Coal	sec 27, T26N, R12W sec 34, T26N, R12W

Production Summary Report

API: 30-045-22638

DESIGNATED HITTER #002

Year	Pool	Oil(BBLS)	Gas(MCF)	Water(BBLS)	Days P/I
2/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	174	1	28
3/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	175	1	31
4/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	231	1	30
5/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	167	1	31
6/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	164	1	30
7/1/2017	[87190] WAW FRUITLAND SAND PC (GAS)	0	144	1	31
CUM			958318		

Production Summary Report

API: 30-045-23839

RUBY #001

Year	Pool	Oil(BBLS)	Gas(MCF)	Water(BBLS)	Days P/I
2/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	520	0	28
3/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	419	0	31
4/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	773	0	30
5/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	610	1	31
6/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	941	1	30
7/1/2017	[71629] BASIN FRUITLAND COAL (GAS)	0	671	1	31
CUM			445554		