

RECEIVED

ABOVE THIS LINE FOR DIVISION USE ONLY

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



JAN 22 2007

Oil Conservation Division
 1220 S. 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]

PLC-2007

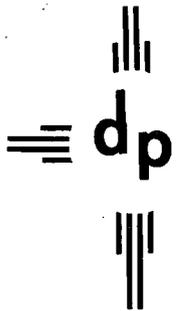
- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD
- Check One Only for [B] or [C]
- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 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,
** - Attachment No. 5 presents our interest owner notification efforts. Upon receiving the certified mail return receipts, copies will be sent to NMOCD.*
- [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.

John D. Roe _____ Engineering Manager _____ 1/17/07
 Print or Type Name Signature Title Date

_____ johnroed@duganproduction.com _____
 e-mail Address



dugan production corp.

January 17, 2007

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

Mr. Steve Henke, Manager
Bureau of Land Management
1235 La Plata Highway, Suite A
Farmington, NM 87401

Re: Application to add Dugan Production Corp.'s Kingfish No. 1 to the CDP
Gas Sales Meter for Dugan's Kingfish Com No. 90 & 90S wells

Dear Mr. Fesmire and Mr. Henke,

We are writing to request your administrative approvals to add the Kingfish No. 1 well (which is completed in the WAW Fruitland Sand-Pictured Cliffs gas pool and currently averages 2 mcf/d) to the central delivery gas sales meter (CDP) currently authorized for the Kingfish Com wells No. 90 & 90S (both of which are completed in the Basin Fruitland Coal gas pool and are anticipated to average a combined 285 mcf/d). This will require surface commingling of gas production from the subject wells. In addition, we are requesting that the NMOCD commingling order include a provision regarding the notice requirements for future additions to the gathering system. Since the CDP gas sales meter is located at the Kingfish Com No. 90 and is within the communitized spacing unit for the No. 90 & 90S, and is on the same lease as is the No. 1 well, off-lease measurement will not be an issue for all three wells. NMOCD Form 107-B is attached for this application.

The Kingfish Com 90 & 90S CDP gas sales meter was authorized by NMOCD Administrative Surface Commingling Order CTB-563 dated 7/25/06 and was approved by the BLM on 9/12/06. Both wells are completed in the Basin Fruitland Coal gas pool and are within a standard gas spacing unit comprising the N/2 (319.56 acres) of Section 3, T-26N, R-13W. This spacing unit encompasses two federal leases, NM-1336 (NW/4) and NM-37912 (NE/4) which are communitized under C/A agreement No. NMNM103090. The interest ownership for both wells is common and all royalty is federal. Details of the ownership are presented on Attachment No. 3.

The No. 90 well (API No. 30-045-29832) was completed on 9/27/00 and has produced 300.6 mmcf of gas as of 12/1/06. During the first eight months of 2006, production has averaged 85 mcf/d. The production history is presented in Attachment No. 6. The No. 90S (API No. 30-045-32987) was completed on 7/21/06, however has not produced and was not connected for gas sales until 12/15/06 at which time the 90S was connected to the CDP for the 90 & 90S. To date, production is averaging 60 BWPD and the gas is starting to increase. We anticipate that the 90S will average approximately 200 mcf/d once sufficient de-watering has occurred.

The Kingfish No. 1 (API No. 30-045-24235) was completed on 6/5/80 in the WAW Fruitland Sand-Pictured Cliffs gas pool. A standard gas spacing unit comprises the NE/4 (159.81 acres) of Section 3, T-26N, R-13W and encompasses federal lease NM-37912. The interest ownership for the Kingfish No. 1 is not the same as for the Kingfish Com No. 90 & 90S. The spacing unit does include one of the two leases within the Kingfish Com 90 & 90S spacing unit and all royalty is federal, however the working and overriding royalty interests are different. Details of the interest ownership are presented on Attachment No. 3. As of 12/1/06, the Kingfish No. 1 had produced 135.0 mmcf of gas and during the first eight months of 2006, production averaged approximately 2 mcf/d. The production history is presented on Attachment No. 6. The Kingfish No. 1 has been delivering gas to Enterprise Field Service's pipeline (Meter No. 93448) and the pipeline pressure has averaged ± 75 psia during the last two years and has been as high as 97 psia. The Kingfish No. 1 will likely benefit from wellhead compression, but since the Kingfish No. 1 has been a low volume producer, the economics of installing a compressor are very marginal. Since the gas line connecting the Kingfish Com No. 90S to the Kingfish Com No. 90 passes through the location for the Kingfish No. 1 (Ref. Attachment No. 1), it is proposed to add the Kingfish No. 1 to the gas line for the 90 & 90S which will allow the No. 1 well to utilize the compressor currently installed for the No. 90 & 90S wells. A conventional continuous recording dry flow meter

will be installed at each of the three wells. The meters will be operated and maintained by Dugan Production and gas charts will be integrated monthly by a commercial integration service. The proposed allocation procedures are presented on Attachment No. 4.

Attachment No. 1 presents a map of the Kingfish Gathering System which was produced using the Hugh Lake USGS Topography map. The central delivery gas sales meter (CDP) is located at the Kingfish Com No. 90 well in the SENE of Section 3, T-26N, R-13W and delivers gas to Enterprise Field Services (their Meter No. 98208). Dugan Production's leasehold interests are also presented on Attachment No. 1. Attachment No. 2 presents information for the three wells connected to the Kingfish Gathering System.

To produce the Fruitland Coal in the No. 90 & 90S, natural gas is produced from the casing-tubing annulus at each well, and water is produced up the tubing using a rod pump artificial lift. The water is delivered from each well by pipeline to a conventional two phase separator at the No. 90 location. Any gas that may be in the water is removed and all gas recovered from the water at the separator will then be metered and then delivered to the gas gathering line for compression and sale. The metered volumes at the separator will then be used to allocate CDP gas volumes back to the separator using the same allocation procedure used for all other wells (see Attachment No. 4). The gas volumes allocated to the separator will then be allocated to each well delivering water to the separator based upon the water volumes and the percentage of total water delivered to the separator. Water from the separator will be collected in an above grade tank at the No. 90 location. Gas produced up the casing-tubing annulus at each well will be metered at the well using a conventional dry flow meter (or other form of approved alternative measurement) for allocation purposes and will then be delivered in a line separate from the water line to the gathering system compressor located at the No. 90 which will then deliver gas to the CDP sales meter. This type of operation has been successful and is important to development of the Fruitland Coal on several other gathering systems operated by Dugan Production. The proposed allocation procedure is presented on Attachment No. 4.

Attachment No. 3 presents the interest ownership for all three wells and as required all interest owners have received notice of this application. Attachment No. 5 presents our notice efforts for this application. All notice letters have been sent certified, return receipt mail and upon receiving the receipts, copies will be forwarded to the NMOCD. As provided by Rule 19.15.5.303B.(4)(3)(vii), Dugan Production is requesting that the NMOCD include a provision in the order that for future additions to the gathering system, only the interest owners in the wells being added need to be notified, providing that in reasonable probability the proposed additions will not adversely affect the interest owners in the wells already approved for the system and that all wells added to the gathering system will be treated for measurement and allocation purposes the same as are all wells previously approved for the gathering system. Our notice letters to each of the interest owners did include a notice of this request. This provision will be very helpful and will greatly reduce the work effort necessary to add future wells to gathering system. It is our belief that once a well is approved for surface commingling and/or off-lease measurement (which is not currently an issue for the three wells on the Kingfish Gathering System) and that procedures are in place to insure proper accountability exists, then subsequent well additions do not require that wells previously approved for operation on a gathering system be re-approved a subsequent time. To add wells to a gathering system should only require that the wells being added are operated in exactly the same manner, for measurement and accountability purposes, as are all other wells previously approved.

In summary, Dugan Production is requesting approvals to; 1) add the Kingfish No. 1 to the existing CDP gas sales meter for Dugan's Kingfish Com No. 90 & 90S and; 2) include a provision in the order regarding notice requirements which will allow future additions following notice only to the interest owners of the wells being added. Should you need additional information or have questions regarding any of this information, please feel free to contact me at the letterhead address.

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

enclosures

cc: NMOCD - Aztec

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 87499-0420
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-563
Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
 Yes No State Land Office notice not required

(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
Basin Fruitland Coal (71629)	1009 BTU/scf	1009 BTU/scf	See	285 mcf
WAW Fruitland Sand-Pictured Cliffs (87190)	1038 BTU/scf		Note	2 mcf

- (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) Metering or approved method of alternative measurement
(5) Will commingling decrease the value of production? Yes No If "yes", describe why commingling should be approved. Note: gas revenue & MMBTU from the CDP sales meter will be allocated to individual wells using production based factors. There should be no loss of value to any well.

(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. See 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. See Attach. No. 1
(3) Lease Names, Lease and Well Numbers, and API Numbers. See Attachment No. 2

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: January 17, 2007
TYPE OR PRINT NAME John D. Roe TELEPHONE NO.: 505-325-1821
E-MAIL ADDRESS: johnroe@duganproduction.com

**ATTACHMENT NO. 2
DUGAN PRODUCTION CORP.
KINGFISH GATHERING SYSTEM
CENTRAL DELIVERY SALES METER (ENTERPRISE METER NO. 98208) SENE 3-T26N-R13W
SAN JUAN COUNTY, NEW MEXICO**

Well Name	API No.	Well Location		Well Location Lease No.	Lse. Type	Pool	Completion Date	Well Status	Current Prod. Φ		Spacing Unit	Dates for SC, OLM & S Φ					
		UL-Sec-Twn-Rng	UL-Sec-Twn-Rng						MCFD	BWPD		Application	BLM Approval	NMSLO Approval	NMOCD Approval		
WELLS TO BE ADDED TO CDR (1 well)	30-045																
Kingfish #1	24235	G-3-26N-13W		NM37912	FED	WAW Fruitland Sand-PC	6/5/1980	P	2	0.0	NE/4-159.81A	1/17/2007	pending	N/A		pending	
WELLS PREVIOUSLY APPROVED FOR KINGFISH CDP (2 wells)																	
Kingfish Corn #90	29832	H-3-26N-13W		NM37912	FED	Basin Fruitland Coal	9/27/2000	P	85	0.0	N/2-319.56A	7/21/2006	9/12/2006	N/A	N/A	7/25/2006	
Kingfish Corn #90S	32987	F-3-26N-13W		NM1336	FED	Basin Fruitland Coal	7/21/2006	P	200*	60*	N/2-319.56A	7/21/2006	9/12/2006	N/A	N/A	7/25/2006	

Notes:

N/A = Not applicable or not needed

Note 1 - Well status as of 1-1-07

P = Producing

Note 2 - Current production presents the average daily production during 1st 8 months of 2006 * - production represents anticipated rates of production from completion testing or production.

Note 3 - Dates of application and regulatory approvals for permission to use Dugan's Kingfish CDP to facilitate gas sales which typically requires the surface commingling (SC) plus off-lease measurement (OLM) and sale(s) of produced natural gas. The NMOCD has issued commingling order CTB-563 dated 7/25/06 for the Kingfish central delivery sales meter.

ATTACHMENT NO. 3
Interest Ownership Summary
Dugan Production Corp.'s
Kingfish No. 1 & Kingfish Com Well Nos. 90 & 90S

<u>Well Name</u>	<u>Pool</u>	<u>Lease #</u>	<u>Location</u>	<u>Spacing Unit</u>
Kingfish #1	WAW Fruitland Sand PC	NM-37912	SWNE-3-26N-13W	NE/4-159.81A
Kingfish Com #90	Basin Fruitland Coal	NM-37912	SENE 3-26N-13W	N/2-319.56A
Kingfish Com #90S	Basin Fruitland Coal	NM-1336	SENW 3-26N-13W	N/2-319.56A

INTEREST OWNERSHIP

	<u>KINGFISH COM NO. 90 & 90S</u>		<u>KINGFISH NO. 1</u>	
	<u>INTEREST %</u>		<u>INTEREST %</u>	
<u>Working Interest</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Dugan Production Corp.	94.99906%	76.87540%	90.00000%	78.75000%
Jim & Mary Lou Jacobs Living Trust	5.00094%	4.37580%	10.00000%	8.75000%
 <u>Royalty Interest</u>				
Bureau of Land Management		12.500000%		12.500000%
 <u>Overriding Royalty Interest</u>				
Hunt Oil Co.		4.374200%		
XTO Energy, Inc.		1.874600%		
 TOTAL WELL	100.00%	100.00%	100.00%	100.00%

Addresses

Working Interest Owners

Dugan Production Corp.
P. O. Box 420
Farmington, NM 87499-0420

Jim & Mary Lou Jacobs Living Trust
3505 Crescent Avenue
Farmington, NM 87401

Royalty Interest Owners

Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Overriding Royalty Interest Owners

XTO Energy, Inc.
Attn: Ryan O'Kelley
810 Houston Street
Fort Worth, TX 76102

Hunt Oil Company
Attn: James Harris
1445 Ross Avenue
Dallas, TX 75202-2739

ATTACHMENT NO. 4
Proposed Allocation Procedures
Dugan Production Corp.'s

Kingfish Gathering System
CDP Gas Sales Meter: SENE 3, T-26N, R-13W
Enterprise Field Services Meter No. 98208
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 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 $W/\text{SUM } W$.

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 = $(U/\text{Sum } U) \times V$.

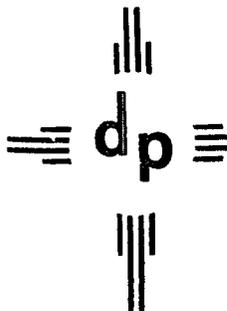
Attachment No. 5
Interest Ownership Notification
Dugan Production Corp.'s Application dated 1/17/07
Proposing:

- 1. The addition of Dugan Production's Kingfish No. 1 to the CDP gas sales meter currently authorized for Dugan Production's Kingfish Com No. 90 & 90S wells (CTB-563).**
- 2. The commingling order include a provision regarding notice requirements that will allow future additions to the gathering system following notice only to the interest owners of the wells being added.**

Presenting evidence that all interest ownership in the subject wells have been given notice of Dugan's application, attached is:

Note: A tabulation presenting the interest ownership for all wells (existing and proposed) is presented on Attachment No. 3 of the application.

1. A copy of Dugan's transmittal letter dated 1/17/07 used to send a copy of the subject application to the only working interest owner in addition to Dugan Production. Only the transmittal letter is included in this Attachment. The transmittal letter also included a complete copy of the subject application. Dugan Production holds 90 to ±95% of the working interest in all wells. This letter was hand delivered to Jim & Mary Lou Jacobs by John Roe of Dugan Production Corp.
2. Copy of Dugan's transmittal letter dated 1/17/07 used to send information and notice of the subject application to the two overriding royalty interest owners. Only the transmittal letter is included in this attachment. The transmittal letter also included Attachments No. 1, 2 & 3 which were extracted from the subject application. Both letters were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD.
3. All royalty interest for the three subject wells is federal. There is no fee acreage. In addition to the NMOCD, this application is also addressed to the Bureau of Land Management (BLM) for the two federal leases involved. The letter to the BLM was sent by certified mail with a return receipt requested. Upon receiving the receipt, a copy will be sent to the NMOCD.
4. There was no legal advertisement published for the subject application since the interest ownership and addresses are known with a reasonable level of confidence.



dugan production corp.

Attachment
No. 5
Pg 2 of 3

January 17, 2007

HAND DELIVERED

Jim & Mary Lou Jacobs
3505 Crescent Avenue
Farmington, NM 87401

Re: Proposed addition of the Kingfish No. 1 to the
Kingfish Com Nos. 90 & 90S CDP gas sales meter

Dear Jim & Mary Lou,

Attached for your information and file is a copy of our application to the New Mexico Oil Conservation Division (NMOCD) and the Bureau of Land Management (BLM) to add the Kingfish No. 1 well to the central delivery gas sales meter (CDP) currently authorized for the Kingfish Com wells No. 90 & 90S. You have a working interest in all three wells which are presented on Attachment No. 3 of the application. This will require surface commingling of gas production from the subject wells. Since the CDP gas sales meter is located at the Kingfish Com No. 90 and is within the communitized spacing unit for the No. 90 & 90S, and is on the same lease as is the No. 1 well, off-lease measurement will not be an issue for all three wells. Attachment No. 1 to our application presents a map of the gathering system and Attachment No. 2 presents information for each of the wells. Dugan Production will install all equipment and will operate and maintain the gathering system and central battery facilities. As a working interest owner in wells connected to the gathering system, your only costs associated with the gathering system will be a fee charged based upon production for gathering and compression. You will not be billed for any costs associated with installing the gathering system (including the allocation meters). Dugan Production's current company-wide gathering system fee is \$0.27/MMBTU, and our compression fee is \$0.09/MMBTU. These fees will be used until operating economics indicate the need for revisions. The addition of the Kingfish No. 1 should have little to no affect upon production from the Kingfish Com 90 and 90S wells and will allow the No. 1 well to use the compressor currently installed for the 90 & 90S wells. 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 keep our operating expenses as low as possible, and will allow for the recovery of more of the gas reserves from each well.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners (those in the existing system and those being added) receive notice of proposed additions to gathering systems. Included in Dugan's application, as permitted in the NMOCD rules, is a request 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, 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 NMOCD 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 on approximately 1/19/07.

Sincerely,

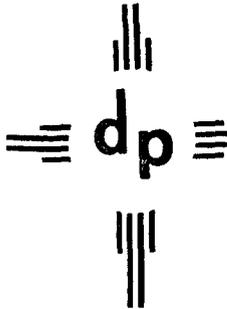
John D. Roe
Engineering Manager

JDR/tmf

attachments

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

R Harcourt
No. 5
p 23 of 3



dugan production corp.

CERTIFIED MAIL
RETURN RECEIPTS REQUESTED

January 17, 2007

Hunt Oil Company
Attn: James Harris
1445 Ross Avenue
Dallas, TX 75202-2739

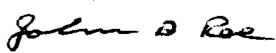
XTO Energy, Inc.
Attn: Ryan O'Kelley
810 Houston Street
Ft. Worth, TX 76102

Re: Proposed addition of the Kingfish No. 1 to the
Kingfish Com Nos. 90 & 90S CDP gas sales meter

Dear Interest Owner,

According to our records, you have an overriding royalty interest in Dugan Production's Kingfish Com No. 90 & 90S wells that are currently authorized to deliver gas to a central delivery gas sales meter (CDP) located at the No. 90 well. Dugan Production is submitting an application to the New Mexico Oil Conservation Division (NMOCD), and the Bureau of Land Management (BLM) requesting their approvals to add the Kingfish No. 1 well (which is completed in the WAW Fruitland Sand-Pictured Cliffs gas pool and currently averages 2 mcf/d) to the gas sales meter CDP currently authorized for the Kingfish Com wells No. 90 & 90S (both of which are completed in the Basin Fruitland Coal gas pool and are anticipated to average a combined 285 mcf/d). This will require surface commingling of gas production from the subject wells which is commonly done and since the gases are similar should not cause any operational problems. Each well will be equipped with a continuous recording gas meter which will be used to insure the proper allocation of CDP sales. Attachment No. 1 from our application presents a map of the gathering system, Attachment No. 2 presents information for each of the wells and Attachment No. 3 presents the interest ownership for all three wells. Dugan Production will install all equipment and will operate and maintain the gathering system and central battery facilities. Since your interest in these wells is an overriding royalty, there are no costs chargeable to you. The addition of the Kingfish No. 1 should have little to no affect upon production from the Kingfish Com 90 and 90S wells and will allow the No. 1 well to use the compressor currently installed for the 90 & 90S wells. 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 keep our operating expenses as low as possible, and will allow for the recovery of more of the gas reserves from each well.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners (those in the existing system and those being added) receive notice of proposed additions to gathering systems. Included in Dugan's application, as permitted in the NMOCD rules, is a request 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 1-19-07.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

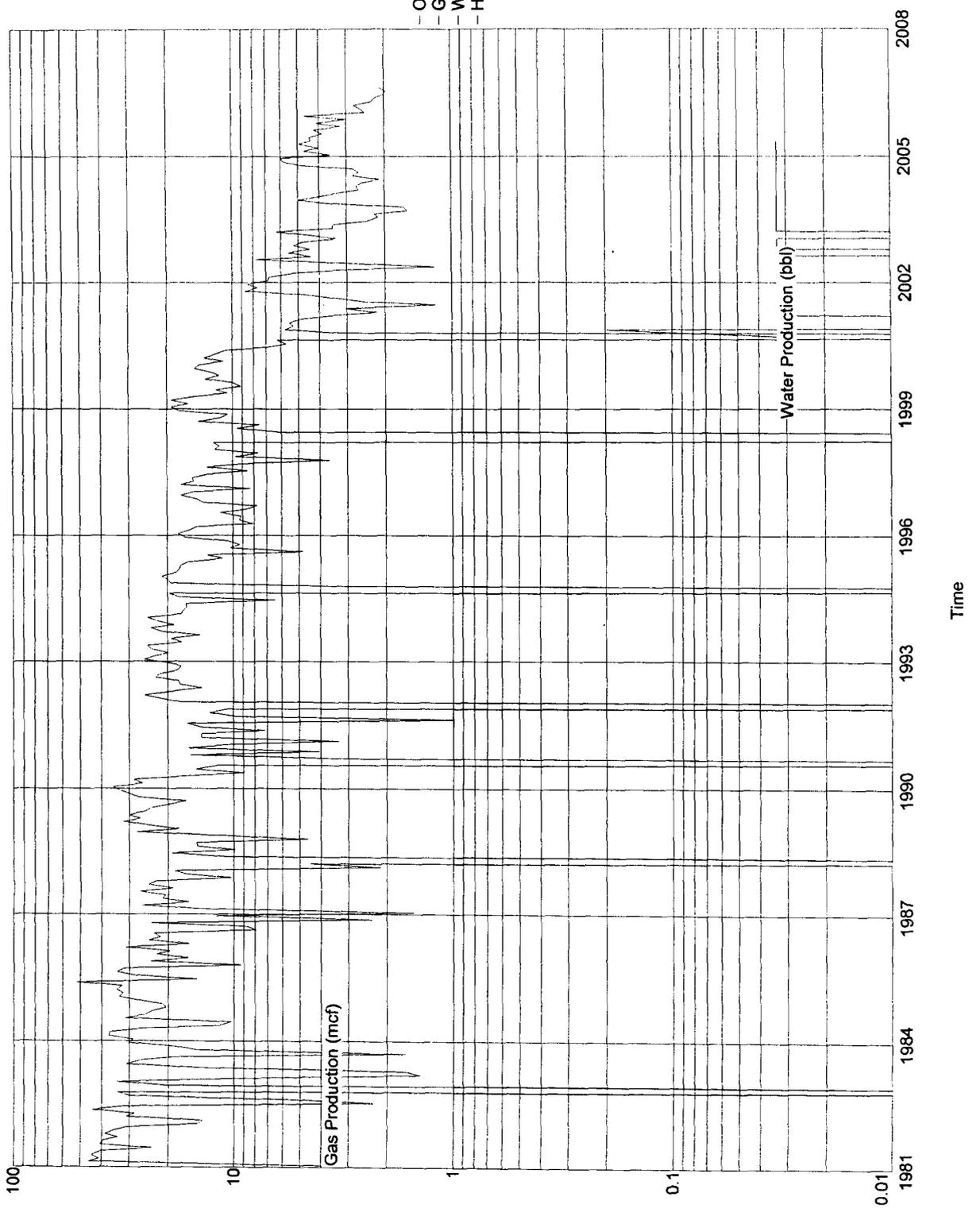
attachments

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

Lease Name: KINGFISH
 County, State: SAN JUAN, NM
 Operator: DUGAN PRODUCTION CORPORATION
 Field: WAW
 Reservoir: FRUITLAND PICTURED C
 Location: 3 26N 13W NE SW NE

Attachment
 No. 6
 Pg 1 of 2

Kingfish #1
 KINGFISH - WAW Fruitland Sand - Pictured CLAS



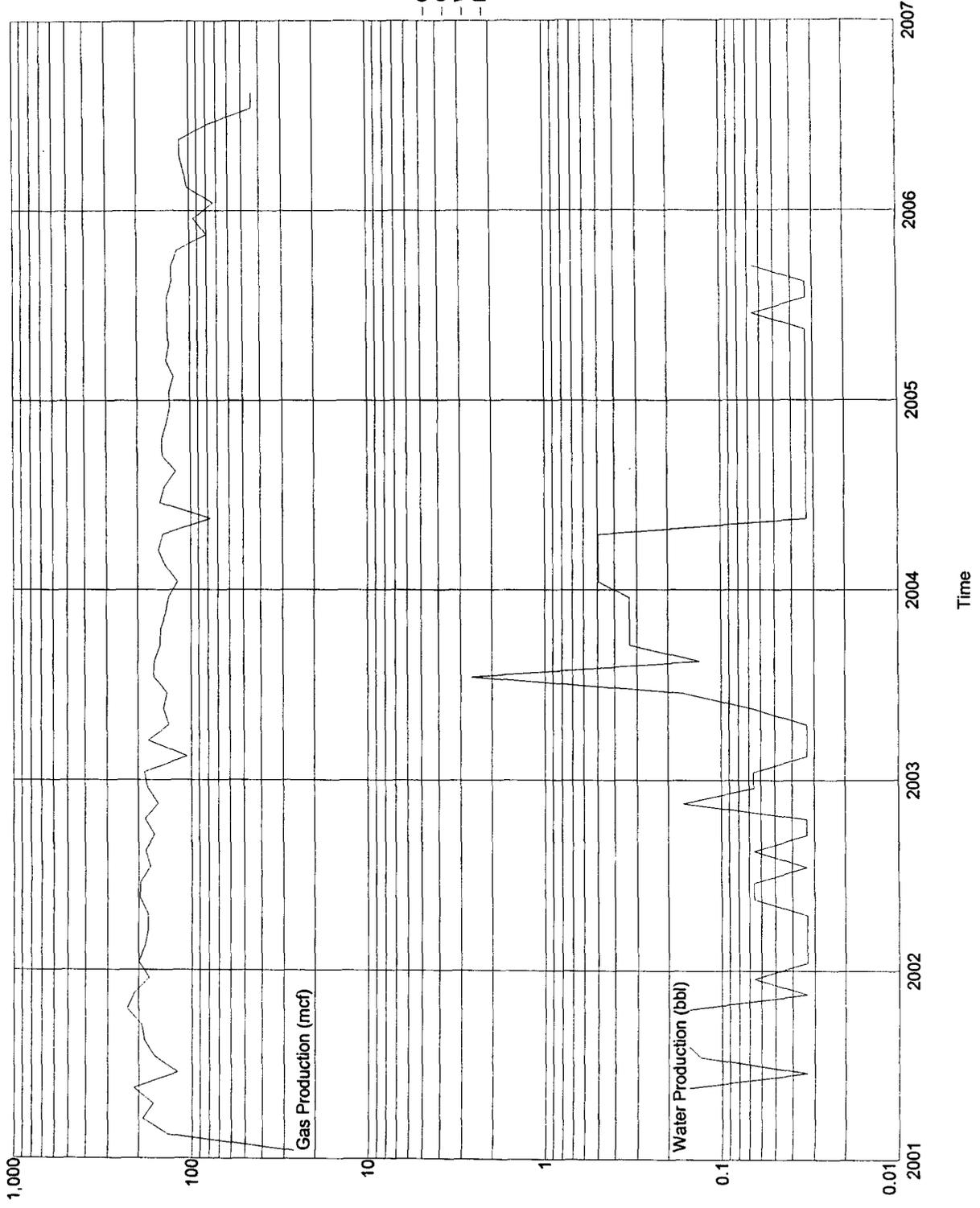
Production Rates
 mcf

- Oil Production (bbl) Daily
- Gas Production (mcf) Daily
- Water Production (bbl) Daily
- Historical Well Counts

Lease Name: KINGFISH COM
 County, State: SAN JUAN, NM
 Operator: DUGAN PRODUCTION CORPORATION
 Field: BASIN
 Reservoir: FRUITLAND COAL
 Location: 3 26N 13W NW SE NE

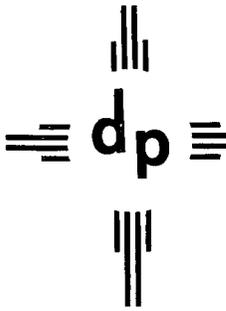
Attachment
No. 6
pg 2 of 2

Kingfish # 90
 KINGFISH COM - BASIN Fruitland Coal



Production Rates
mcf

- Oil Production (bbl) Daily
- Gas Production (mcf) Daily
- Water Production (bbl) Daily
- Historical Well Counts



dugan production corp.

February 16, 2007

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

Re: Dugan Production's Application dated 1-17-07
To add Dugan Production Corp.'s Kingfish No. 1 to the CDP
Gas Sales Meter for Dugan's Kingfish Com No. 90 & 90S wells

2007 FEB 20 PM 12 14

Dear Mr. Fesmire,

Attached for your consideration of the captioned application are copies of the certified mail return-receipts for the interest owners in the two wells currently authorized plus the one well proposed to be added to the subject gathering system. In addition, I hand delivered a complete copy of the subject application to Mr. Jim Jacobs on 1-18-07. This represents notice to 100% of working, royalty and overriding royalty interest owners as presented on Attachment No. 3 of the application.

To date, we have had no objection to our application. Should you have questions or need additional information, please let me know.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

attachments

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:

Kendish
 Bureau of Land Mgmt
 Attn: Mr. Steve Herke
 1235 La Plata Hwy
 Farmington, NM 87401

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 X *[Signature]* Agent Addressee

B. Received by (Printed Name) *[Signature]* C. Date of Delivery

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: 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 1820 0001 6168 8274

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

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:

Kendish CD
 Hunt Oil Co.
 Attn: James Harris
 1445 Ross Avenue
 Dallas, Tx 75202-2739

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 X *[Signature]* Agent Addressee

B. Received by (Printed Name) *[Signature]* C. Date of Delivery

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: 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 1820 0001 6168 8250

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

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:

Kendish CD
 XTO Energy, Inc.
 Attn: Ryan O'Kelley
 810 Houston Street
 Ft. Worth, Tx 76102

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 X *[Signature]* Agent Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: 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 1820 0001 6168 8267

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540