

dugan production corp.

October 1, 1996

Mr. Bill LeMay, Director
 New Mexico Oil Conservation Division
 2040 South Pacheco
 Santa Fe, NM 87505

7/16/29

**Re: Request for Surface Commingling, Off-lease Measurement
 & Sale of Produced Natural Gas - 2 Additional Wells
 NMOCD Amended Commingling Order CTB-407
 Dugan Production's Topaz Gas Gathering System
 Jeter No. 5, Unit A, Section 35, T-26N, R-13W
 Bisti State No. 90, Unit H, Section 2, T-25N, R-13W
 San Juan County, NM**

30045 29390 N/2
 29216 E/2

Dear Mr. LeMay,

Attached for your records, information and approval is a copy of our 9/26/96 application to the Bureau of Land Management (BLM) for the addition of the captioned two wells (both operated by Dugan Production Corp.) to our Topaz Gas Gathering System. This gathering system is currently operating with 7 wells authorized by the BLM and the NMOCD (Amended Commingling Order CTB-407) and during 7/96 delivered a total of 11,419 MCF (@15.025 psi) of gas to El Paso Field Services. With the addition of these 2 wells, we will have a total of 9 wells (8 on Federal & 1 on State leases) delivering gas into our Topaz Gas Gathering System.

We are also making application to the State Land Office for the Bisti State No. 90.

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

Sincerely,

John D. Roe

John D. Roe
 Manager of Engineering

JDR/cg

attachs.

cc: Frank Chavez, NMOCD - Aztec



dugan production corp.

September 26, 1996

Ms. Sue Richardson
Acting Farmington District Manager
Bureau of Land Management
1235 La Plata Hwy.
Farmington, NM 87401

Hand Delivered

**Re: Request for Surface Commingling, Off-lease Measurement and Sale of Produced Natural Gas - Two Additional Wells
Dugan Production's Topaz Gas Gathering System
Federal Lease SF-078155 (Section 35, T26N, R13W)
State Lease LG-3734 (Section 2, T25N, R13W)
San Juan County, New Mexico**

Dear Ms. Richardson:

We are writing to request approval for the surface commingling, plus off-lease measurement and sale of gas produced from two additional natural gas wells to be connected to our Topaz Gas Gathering System.

Dugan Production's Topaz Gas Gathering Systems currently receives gas from seven Basin Fruitland Coal wells and during July 1996, production totalled 11,648 MCF (@ 14.73 psi) for an average of 376 MCFD. The operation of the gas gathering system which delivers gas to a CDP sales meter on El Paso Field Services' System in the NW/4 SE/4 of Section 25, T26N, R13W was initially authorized for 6 wells by the BLM on October 11, 1994 and expanded to include a seventh well on 1-9-95.

Attachment No. 1 presents the Topaz Gas Gathering System with the addition of Dugan Production's Jeter No. 5 and Bisti State No. 90 which are the wells to be added with this application.

Dugan Production completed the Jeter No. 5 on September 17, 1996 in the Basin Fruitland Coal Pool testing 70 MCFD during the completion. The Jeter No. 5 has been connected to the Topaz Gas Gathering System and the connecting line has been pressure tested to the maximum system pressure of 100 psig for 24 hours with no loss of pressure.

The Bisti State No. 90 is currently being completed in the Basin

Fruitland Coal Pool and has not been connected to the Topaz Gas Gathering System, however we do plan to do so upon completion of the well.

The Jeter No. 5 and the Bisti State No. 90 are both completed in the Basin Fruitland Coal at intervals correlative to the producing interval in the seven other wells currently delivering gas into the Topaz Gas Gathering System and we anticipate the production performance from these two wells to be similar to other wells currently connected to the gathering system. As with the other seven wells, the Jeter No. 5 and Bisti State No. 90 should produce primarily dry natural gas and possibly a small amount of water. We do not anticipate any liquid hydrocarbons to be produced from either well. All gas production will be metered at the individual wells utilizing a standard meter run and conventional orifice metering equipment. As with the other seven wells, the measurements from the wellsite meters will be utilized to determine factors for allocating sales volumes and BTUs from the CDP back to the individual wells. The methodology and procedures approved by the BLM for the operation of the initial six wells on the Topaz Gas Gathering System (Dugan's application dated August 26, 1994 and supplemented) will also be utilized for the Jeter No. 5 and Bisti State No. 90.

Dugan Production Corp. is the operator of the Jeter No. 5 and Bisti State No. 90 along with all other wells connected to the Topaz Gathering System. All leasehold interest for the seven wells previously approved is Federal acreage and the Jeter No. 5 is also located upon a federal lease which already has two other wells (the Jeter No. 3 and No. 4) previously approved for the Topaz Gas Gathering System. The Bisti State No. 90 is located on a State lease and will be the only well which is not on a Federal lease producing into the Topaz Gas Gathering System. Upon completion of the Bisti State 90, we will also secure approval for this well from the New Mexico State Land Office. There is no Indian or Fee acreage within any of the 9 spacing units.

Many of the wells presented on Attachment No. 1 are part of Dugan Production's West Bisti Unit which produces oil from the Gallup formation with very little casinghead gas. These wells are not connected to the Topaz Gas Gathering System. For clarification, the 9 wells connected or to be connected to the Topaz Gas Gathering System have been highlighted in blue.

Attachment No. 2 lists pertinent data for the Jeter No. 5 and Bisti State No. 90 wells along with information for the seven previously approved wells.

The commingling of the natural gas production from each lease is the result of using a common system to gather and transport the produced gas to the CDP sales meter. All gas volumes will be continuously measured at each well using a standard meter run and

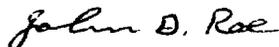
conventional orifice metering equipment installed and maintained by Dugan Production.

Currently, the Jeter No. 5 and the Bisti State No. 90 have no well or system equipment that requires fuel, and since the Topaz Gas Gathering System is connected to EPNG's low pressure pipeline (100 psi or less), we do not anticipate the installation of any equipment which would require fuel in the near future. Should it become necessary to supply fuel to lease or system equipment, all volumes will be accounted for and allocated to the wells benefiting from operation of the equipment.

In summary, Dugan Production Corp. is requesting approval to add two wells, our Jeter No. 5 and Bisti State No. 90, to the Topaz Gas Gathering System which will require surface commingling, plus off-lease measurement and sale of produced gas. These wells will be operated in the same manner as has been approved by the BLM for the other 7 wells currently delivering gas into the system. Dugan Production Corp. has incurred a substantial investment in installing this gathering system, following extensive negotiations with EPNG upon their refusal to make wellhead connections for these wells. The only way EPNG (now El Paso Field Services) would consider accepting the gas produced from the subject wells was if we gathered and delivered the gas to a central point on their existing system, which has necessitated the installation and operation of the Topaz Gas Gathering System.

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

Sincerely,



John D. Roe
Manager of Engineering

JDR/cg

attachs - 2

cc: NMOCD - Santa Fe & Aztec

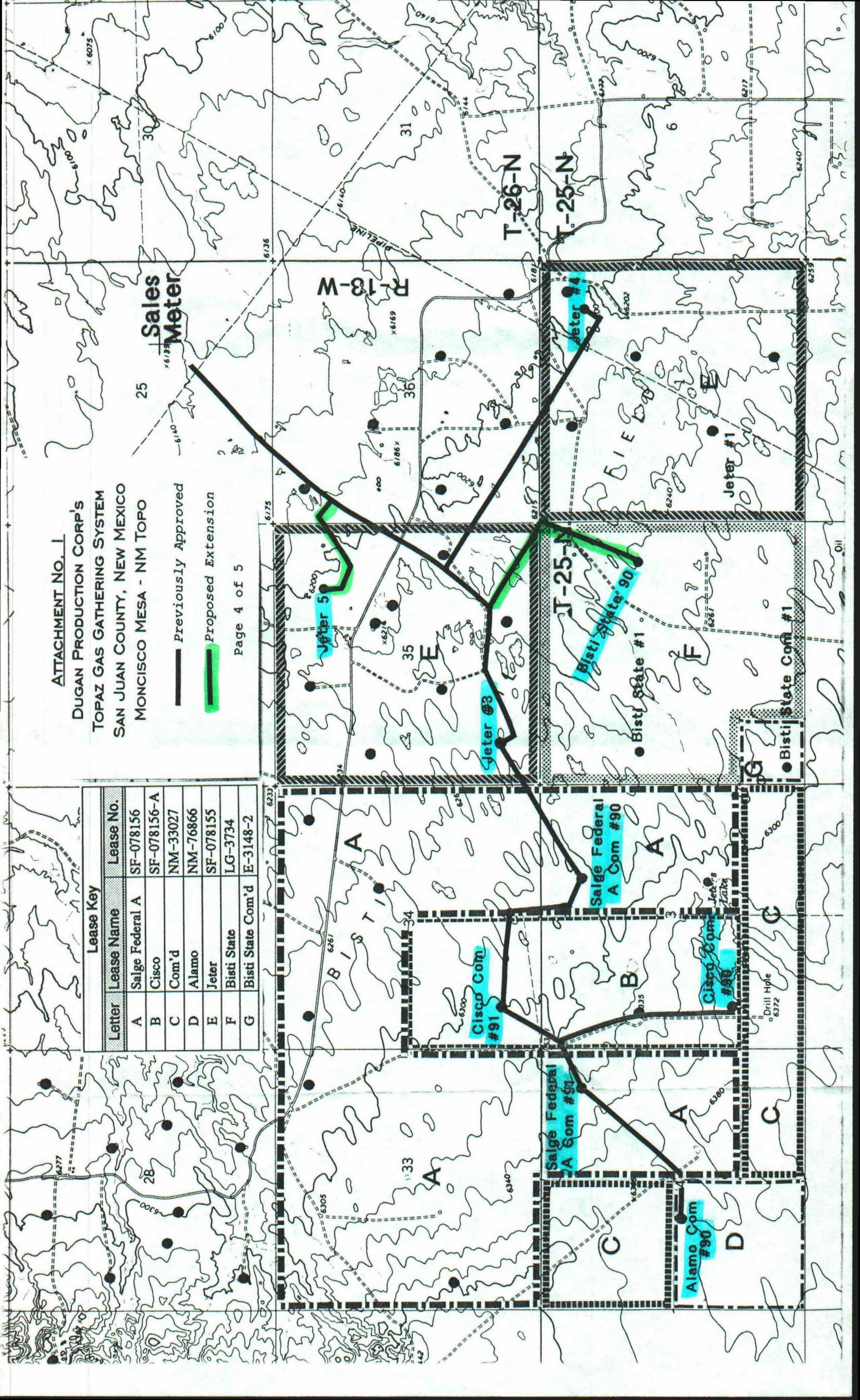
ATTACHMENT NO. 1
DUGAN PRODUCTION CORP'S
TOPAZ GAS GATHERING SYSTEM
SAN JUAN COUNTY, NEW MEXICO
MONCISCO MESA - NM TOPO

— Previously Approved
 — Proposed Extension

Page 4 of 5

Lease Key	
Letter	Lease Name
A	Salge Federal A
B	Cisco
C	Com'd
D	Alamo
E	Jeter
F	Bisti State
G	Bisti State Com'd

Sales Meter



ATTACHMENT NO. 2
 DUGAN PRODUCTION CORP.
 TOPAZ GAS GATHERING SYSTEM 9-26-96
 SAN JUAN COUNTY, NEW MEXICO

Well Name	Well Location		Lease Number	Type Lease	Communitization Agreement Number	Producing Interval	Completion Date	Initial Potential		Spacing Unit	Dates for SC, OLM & S (1)	
	1/4	Sec-Twn-Rng						MCFD	BWPD		Application	BLM Approval
WELLS TO BE ADDED TO SYSTEM												
Jeter #5	NENE	35-26N-13W	SF078155	Fed.	N/A	Basin Fruitland Coal	09-17-96	Note(3)	---	N/2-320A	09-26-96	Pending
Bisti State #90	SENE	02-25N-13W	LG-3734	State	N/A	Basin Fruitland Coal	Note(4)	Note(4)	---	E/2-319.67A	09-26-96	Pending
WELLS PREVIOUSLY APPROVED FOR SYSTEM												
Alamo Com #90	NESW	04-25N-13W	NM 76866	Fed.	NM NM 91217	Basin Fruitland Coal	08-15-93	120	80 (Frac)	W/2-320A	08-26-94(2)	10-11-94
Cisco Com #90	NWSW	03-25N-13W	SF 078156-A	Fed.	NM NM 89398	Basin Fruitland Coal	02-22-93	269	Trace	W/2-320A	08-26-94(2)	10-11-94
Cisco Com #91	SWSW	34-26N-13W	SF 078156-A	Fed.	NM NM 89374	Basin Fruitland Coal	04-15-93	277	Trace	W/2-320A	08-26-94(2)	10-11-94
Jeter #3	SWSW	35-26N-13W	SF 078155	Fed.	N/A	Basin Fruitland Coal	04-12-93	413	Trace	S/2-320A	08-26-94(2)	10-11-94
Jeter #4	NENE	01-25N-13W	SF-078155	Fed.	N/A	Basin Fruitland Coal	12-21-92	404	NR	N/2-320A	12-29-94	01-09-95
Salge Federal A Com #90	NWNE	03-25N-13W	SF 078156	Fed.	NM NM 88297	Basin Fruitland Coal	02-12-92	172	Trace	E/2-320A	08-26-94(2)	10-11-94
Salge Federal A Com #91	NENE	04-25N-13W	SF 078156	Fed.	NM NM 89362	Basin Fruitland Coal	02-14-93	241	Trace	E/2-320A	08-26-94(2)	10-11-94

N/A - Not Applicable
 NR - None Reported
 (1) - Applications for Surface Commingling, Off-lease Measurement & Sale
 (2) - Application Supplemented 9/19/94, 9/30/94 and 10/19/94
 (3) - None reported. Tested 70 MCFD.
 (4) - Well not completed. Spudded 7-15-96 & completion work initiated 8-22-96.