

8/21/97	<del>XXXXXXXXXX</del>	B D	W	OLM
---------	-----------------------	-----	---	-----

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

- [NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
- [DD-Directional Drilling] [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]

AUG 21 1997

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling  
 NSL  NSP  DD  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

RECEIVED  
 AUG 18 1997  
 OIL CON. DIV.  
 DIST. 3

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or  Does Not Apply

- [A]  Working, Royalty or Overriding Royalty Interest Owners
- [B]  Offset Operators, Leaseholders or Surface Owner
- [C]  Application is One Which Requires Published Legal Notice
- [D]  Notification and/or Concurrent Approval by BLM or SLO  
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E]  For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F]  Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

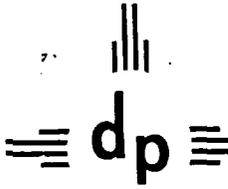
Note: Statement must be completed by an individual with supervisory capacity.

John D. Roe  
 Print or Type Name

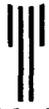
*John D. Roe*  
 Signature

Engineering Manager  
 Title

8-15-97  
 Date



# dugan production corp.



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

August 15, 1997

Mr. Duane Spencer  
Bureau of Land Management  
1235 La Plata Highway  
Farmington, NM 87401

Re: Off-lease Measurement & Sale  
Dugan Production's Latex No. 2  
Federal Lease No. NM-86080  
NW SW (Unit L), Section 9, T-25N, R-10W, NMPM  
San Juan County, New Mexico

RECEIVED  
AUG 18 1997

OIL CON. DIV.  
DIST. 3

Dear Mr. LeMay and Mr. Spencer:

We are writing to request approval for the off-lease measurement and sale of produced natural gas from the captioned well. We do not anticipate that there will be any liquid hydrocarbon production, however should there be, all liquid hydrocarbons, along with water, will be separated, stored and sold on the lease.

Attachment No. 1 was reproduced from the Huerfano Trading Post, NW quadrangle map and presents the subject well, our existing Latex No. 1 gas sales line, Dugan's lease NM-86080, along with our proposed gas sales line and sales meter using the existing Latex No. 1 sales meter located on El Paso's line.

This request for off-lease measurement and sale is the result of our connection to El Paso Field Services' (EPFS) gas gathering system being located in the SESW of Section 3, T-25N, R-10W; approximately 1600' removed from our lease. This is the closest pipeline connection available for this well and will require that we convert the existing gas sales meter for our Latex No. 1 to a CPD for the Latex No. 1 and 2. EPFS is willing to do this which will allow us to utilize our existing flow line for the Latex No. 1 to also deliver gas from the Latex No. 2 to the sales meter and will eliminate installing approximately 2900' of line paralleling the existing line for our Latex No. 1. The Latex No. 1 was approved for off-lease measurement by the BLM on 8-22-96 and the NMOCD on 9-11-96 (corrected administrative order OLM-15). Since both wells are on Federal Lease NM-86080, produce from the Basin Fruitland Coal, and have common ownership, we understand that the surface commingling of production from the Latex No. 1 and 2 does not require BLM approval and can be administratively authorized by the NMOCD using NMOCD Form C-136. We have submitted Form C-136 proposing the surface commingling of production from our Latex No. 1 and 2 wells along with the conversion of the Latex No. 1 gas sales meter to a CPD meter for the Latex No. 1 and 2 and Attachment No. 2 is a copy of this application submitted to the Aztec District Office of the NMOCD.

The Latex No. 2 was completed on 7-9-97 from perforations 1669-1678' in the Basin Fruitland Coal Pool. The perforated interval was fracture stimulated using 28,800 gallons of foam plus 32,000 pounds sand, and based upon testing to date, we anticipate production performance to be similar to the Latex No. 1 well which has averaged 36 MCFD during the 1st 11 months of production. Attachment No. 3 presents the production history for the Latex No. 1. We are proposing to utilize the production facilities at the Latex No. 1 well for production from the Latex No. 2 and any fluid recovered (currently

only water) will be stored and disposed of from the No. 1 well site. An annual test of each well under normal producing conditions using Dugan's portable well test unit will be taken and the test results will be used to establish allocation factors for each well. Allocation procedures are presented on Attachment No. 4

A 32 hp gas compressor has been installed at the Latex No. 1 and will also be used for the Latex No. 2. All fuel utilized for well equipment will be accounted for and fuel used by shared equipment (currently the separator and the compressor) will be allocated to the wells using the equipment based upon production volumes. We also anticipate using a rod pump to produce the Latex No. 2 which will require fuel for a 6-7 hp pumping unit engine. Lease fuel requirements are presented on Attachment No. 5. At the meter site, there is no lease equipment other than the meter and meter run which will be operated and maintained by EPFS. Should it ever be necessary to vent the well to unload wellbore fluid accumulations, all volumes vented will be accounted for using volumetric methods taking wellbore pressures into account. This is a procedure we use on all wells which require periodic purging in order to maintain production from being impaired by accumulated wellbore fluids (primarily water)

The gas line from the Latex No. 1 well to the meter and the line between the Latex No. 1 and 2 wells will be periodically monitored for line integrity using Dugan's gas leak detector. Should there ever be gas lost prior to measurement as the result of leaks and/or line breaks, we will account for the volumes using the appropriate procedures considering the circumstances and any such volumes will be allocated to the affected wells and reported along with gas sales and lease use.

Attachment No. 6 is a copy of a recent gas analysis from the Latex No. 1 and we anticipate that gas from the Latex No. 2 should be fairly similar to and compatible with the gas produced from the Latex No. 1.

The spacing units for the Latex No. 1 and 2 wells comprises 320 acres in the N/2 & S/2, respectively, of Section 9, T-25N, R-10W and includes only 1 lease, Federal Lease NM-86080. Dugan Production is the only working interest owner and there are no overriding royalty interest owners. Thus, with this application to the BLM, all interest owners have been notified as to our proposed off-lease measurement of natural gas produced from Dugan's Latex No. 2 well. Notice to interest owners is being sent by certified mail and upon receiving, copies of the return receipts will be provided to the NMOCD as evidence of notice.

In summary, we request approval for the off-lease measurement and sale of natural gas produced from our recently completed Latex No. 2 well. Off-lease measurement is necessary in order to deliver gas into El Paso Field Services' gas gathering system at their meter site provided for this well. Any liquids produced will be separated, stored and sold on the lease from central facilities located at the Latex No. 1 well site.

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

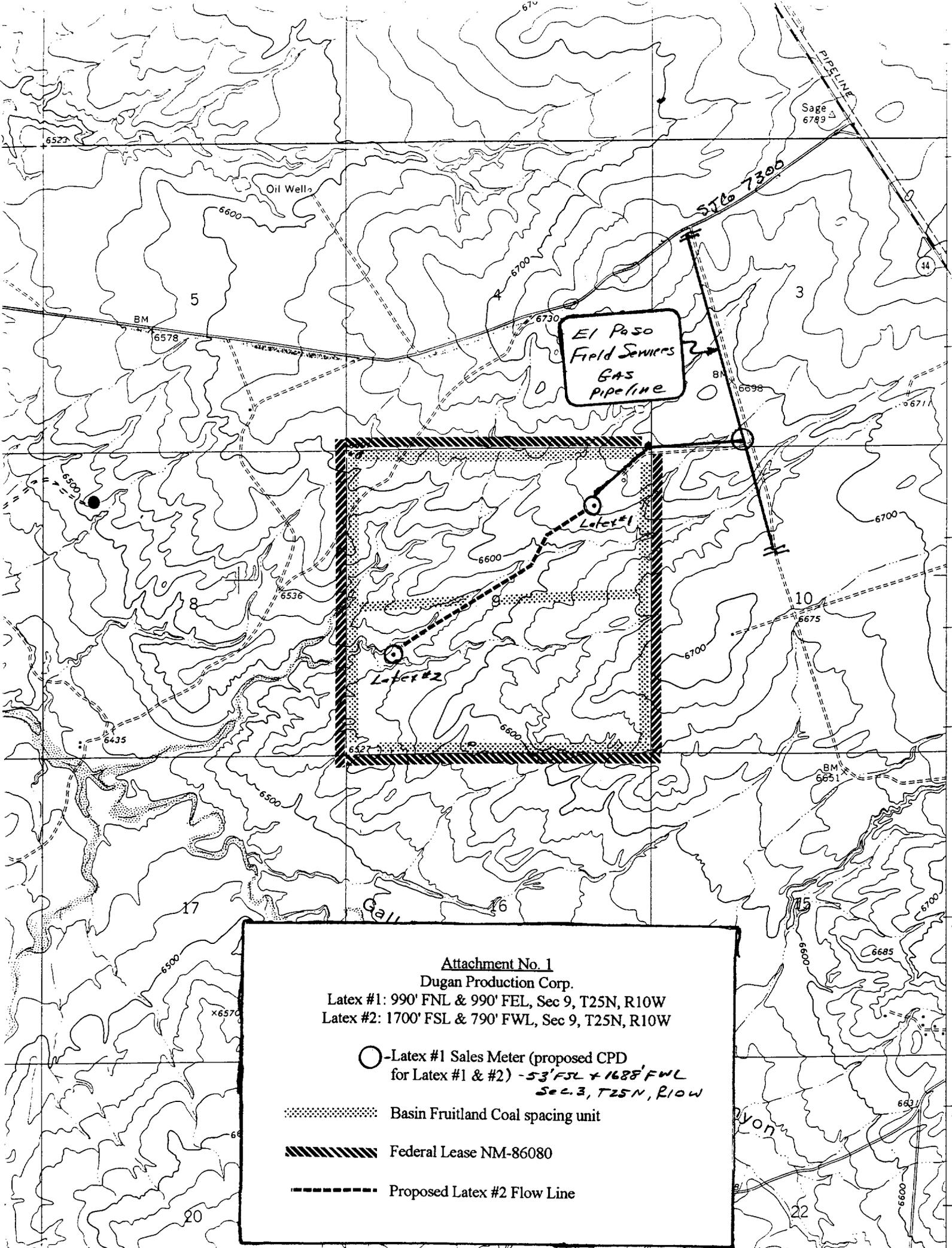
Sincerely,



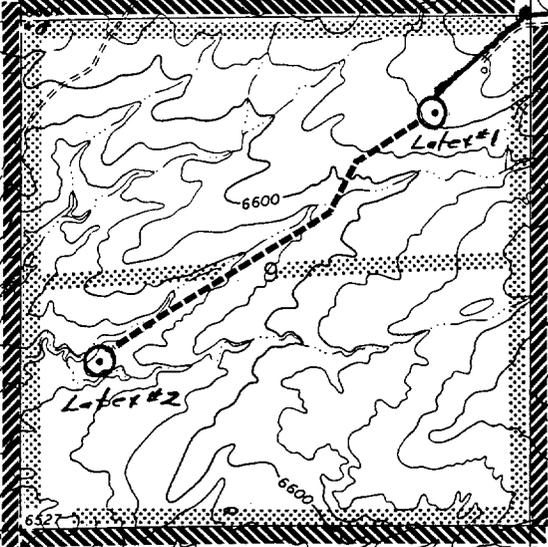
John D. Roe  
Engineering Manager

cc: Frank Chavez - NMOCD, Aztec

attachments



El Paso  
Field Services  
GAS  
PIPELINE



**Attachment No. 1**  
 Dugan Production Corp.  
 Latex #1: 990' FNL & 990' FEL, Sec 9, T25N, R10W  
 Latex #2: 1700' FSL & 790' FWL, Sec 9, T25N, R10W

○ - Latex #1 Sales Meter (proposed CPD  
 for Latex #1 & #2) - 53' FSL x 1688' FWL  
 Sec. 3, T25N, R10W

▤ Basin Fruitland Coal spacing unit

▨ Federal Lease NM-86080

- - - Proposed Latex #2 Flow Line

ESTIMATE  
P.O. Box 2788, Hobbs, NM 88241-2788

State of New Mexico  
Energy, Mineral & Natural Resources Department

Form C-136  
Originated 12/23/91

ESTIMATE  
P.O. Drawer 00, Artesia, NM 88211-0729

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

Submit original and 4 copies to the  
appropriate district office.

ESTIMATE  
1628 San Bruno Road, Aztec, NM 87418

APPLICATION FOR APPROVAL TO USE AN ALTERNATE GAS MEASUREMENT METHOD  
Rule 403.B(1) or (2)

Attachment  
No. 2  
Pg 1 of 3

Operator Name: Dugan Production Corp. Operator No. 006515  
Operator Address: P.O. Box 420, Farmington, NM 87499  
Lease Name: Latex Type: State      Federal X Fee       
Location: Well No. 1: A-9-25N-10W, well No. 2: L-9-25N-10W, CPD: N-3-25N-10W  
Pool: Basin Fruitland Coal  
Requested Effective Time Period: Beginning upon approval Ending Until terminated

APPROVAL PROCEDURE: RULE 403.B.(1)

Please attach a separate sheet with the following information:

- 1) A list of the wells (including well name, number, ULSTR location, and API No.) included in this application.
- 2) A one year production history of each well included in this application (showing the annual and daily volumes).
- 3) The established or agreed-upon daily producing rate for each well and the effective time period.
- 4) Designate wells to be equipped with a flow device (required for wells capable of producing 5 MCF per day or more).
- 5) The gas transporter(s) connected to each well.

APPROVAL PROCEDURE: RULE 403.B.(2)

Please attach a separate sheet with the following information.

A separate application is required for each Central Point Delivery (CPD).

Working interest, royalty and overriding royalty ownership must be common for all wells to be connected to the CPD.

- 1) An ownership plat showing a description of the lease and all of the wells to be produced through this CPD.
  - a) List the wells which will be metered separately, including API No.
  - b) List the wells which will not be metered separately, including API No.
- 2) Describe the proposed method of allocating production from non-metered wells.
- 3) A one year production history of the wells which will not be metered showing the annual and daily volumes.
- 4) The gas transporter(s) connected to this CPD.

RECEIVED  
AUG 18 1997  
OIL CON. DIV.  
DIST 3

Applicant will be responsible for filing OCD Form C-111 for the CPD.

OPERATOR

I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature: John D. Roe 8/14/97

Printed Name & Title: John D. Roe, Eng. Manager

OIL CONSERVATION DIVISION

This approval may be cancelled at anytime that operating conditions indicate that re-tests may be necessary to prevent waste and protect correlative rights.

Approved Until: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Attachment  
No. 2  
Pg 2 of 3

Attachment to NMOCD Form C-136  
Dugan Production Corp.  
Application for Latex No. 1 & No. 2 CPD  
NMOCD Rule 403.B. (2)

1. Ownership Plat and Well Description

Wells not metered separately.

<u>Well</u>	<u>Well Location</u>	<u>API No.</u>
Latex No. 1	Unit A, Sec. 9, T25N, R10W	30-045-29244
Latex No. 2	Unit L, Sec. 9, T25N, R10W	30-045-29448

Ownership Plat - NMOCD form C-102 for Latex No. 2 attached, with well #1 added.

2. Proposed Allocation of Production.

Each well will be tested annually using Dugan's portable test unit to establish MCFD + BCPD + BWPD. No liquid hydrocarbon production is anticipated. Individual well tests will be used to compute allocation factors based upon the proportion each well's individual test rate bears to the total test rates for all wells connected to the CPD. Commingled gas volumes, BTU's and revenues recorded at the CPD will be allocated to individual wells using MCFD factors. Commingled water volumes will be allocated using BWPD factors.

3. One Year Production History.

<u>Well No.</u>	<u>12 Months Production 7/96 - 6/97</u>				<u>Daily Avg. Last 12 months</u>		
	<u>MCF</u>	<u>Gas</u>		<u>Days</u>	<u>MCFD</u>	<u>BCPD</u>	<u>BWPD</u>
		<u>BBL.</u>	<u>BBL.</u>				
Latex No. 1*	11,722	0	1356	323	36.3	0	4.20
Latex No. 2**	0	0	0	0	0	0	0

4. CPD Gas Transporter - El Paso Field Services.

\*1st production = 8-6-96-data is for 11 months

\*\*Well completed 7-9-97. Well not 1st delivered - anticipate production to be similar to well No. 1.

District I  
 PU Box 1988, Babb, NM 87241-1988  
 District II  
 PU Drawer DU, Arco, NM 88211-8719  
 District III  
 1000 Kin Braune Rd., Aztec, NM 87418  
 District IV  
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico  
 Energy, Minerals & Natural Resources Department

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

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

*RHachman*  
 No 2  
 pg 3 of 3

AMENDED REPORT

Ownership  
 Plat  
 Form C-136  
 Attachment

WELL LOCATION AND ACREAGE DEDICATION PLAT

* API Number 30 045 - 2744 B		* Pool Code 71629	* Pool Name Basin Fruitland Coal
* Property Code 017014	* Property Name Latex		* Well Number 2
* OGRID No. 006515	* Operator Name Dugan Production Corp		* Elevation 6542' Estimated

10 Surface Location

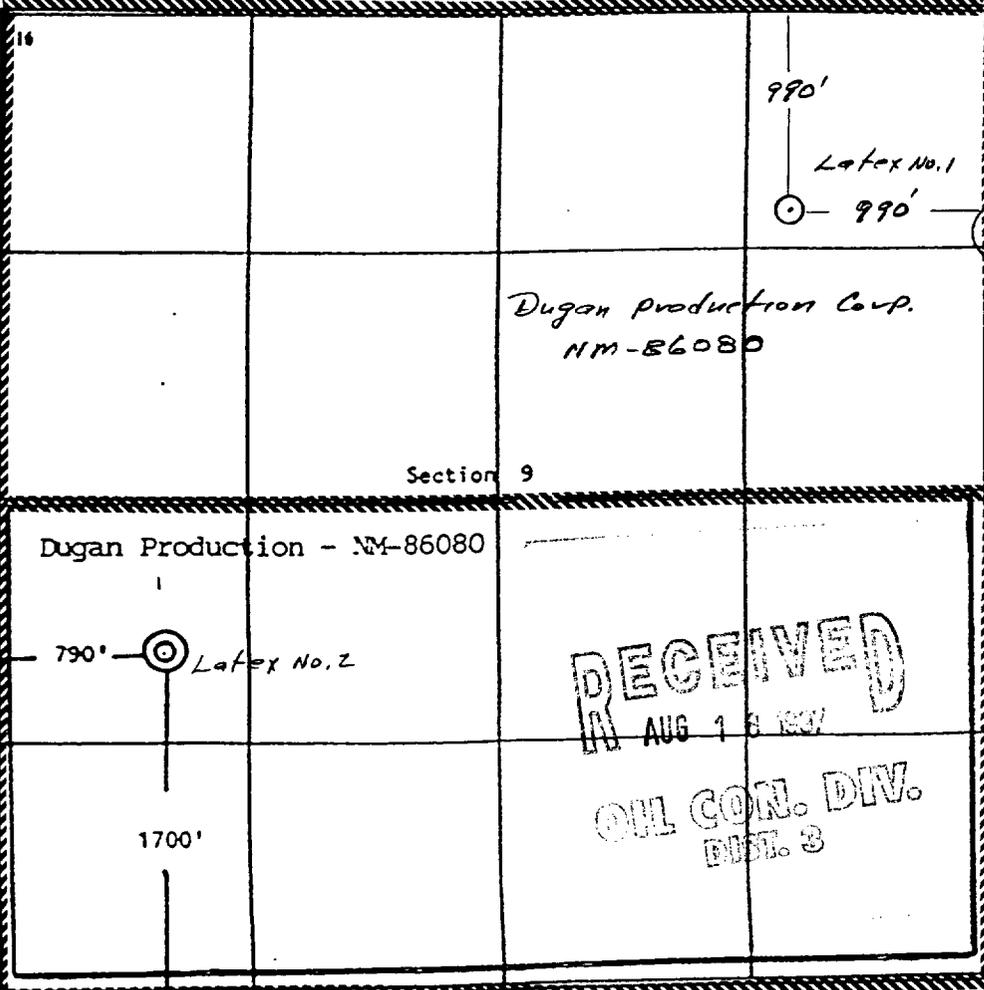
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
L	9	25N	10W		1700	South	790	West	San Juan

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County

* Dedicated Acres 320	* Joint or Infill	* Consolidation Code	* Order No.
--------------------------	-------------------	----------------------	-------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



17 OPERATOR CERTIFICATION

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

*Sherman E. Dugan*  
 Signature  
 Sherman E. Dugan  
 Printed Name  
 Vice-President  
 Title  
 3/6/97  
 Date

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

February 1997  
 Date of Survey  
 Signature and Seal  
 EDGARD L. RISENHOVER  
 PROFESSIONAL SURVEYOR  
 5979  
 Certificate Number 5979

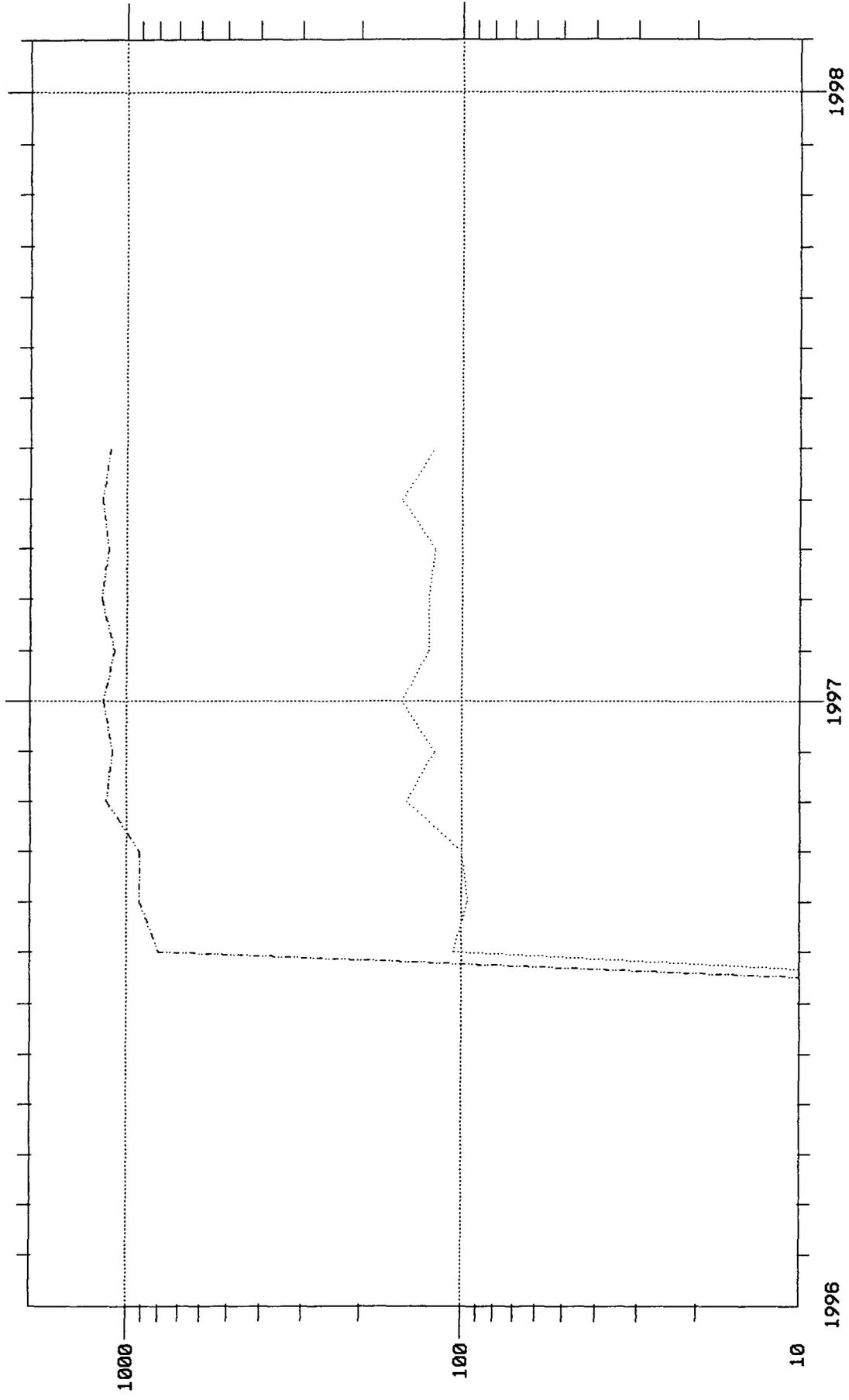
RECEIVED  
 AUG 1 8 1997  
 OIL CON. DIV.  
 DIST. 3

Calculated  
 Oil .....  
 Gas .....  
 Water .....

BASIN FRUITLAND COAL  
 Production Rate vs Time  
 Bbl/Mo or Mcf/Mo vs Months  
 LATEX:11  
 A-9-25N-10W

*Attachment*  
 No. 3  
 Pg 1 of 1

Production  
 Oil .....  
 Gas .....  
 Water .....



Reported Oil Production = 0 Bbls  
 Reported Gas Production = 11722 Mcf  
 Reported Water Production = 1356 Bbls

*As of 7-1-97*  
 " " " " " "  
 " " " " " "

**Attachment No. 4  
Allocation Procedures  
Dugan Production Corp.'s  
Proposed Surface Commingling  
Latex No. 1 & No. 2  
Section 9, T-25N, R-10W  
San Juan County, New Mexico**

**Base Data:**

W=Volume (MCFD) from Annual Well Test

X=Volume (MCF) from CPD Sales Meter

Y=BTU's from CPD Sales Meter

Z=Gas Revenue (\$) from CPD Sales Meter

1. **Individual Well Production** = A+B+C+D+E

A = Allocated Sales Volume, MCF.

$$= (W/SUM W) \times X$$

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

C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefiting from the equipment using allocation factors determined by  $W / \text{Sum } W$  for the wells involved.

E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by  $W / \text{Sum } W$ .

2. **Allocated Individual Well BTU's** =  $(W \times \text{Individual well BTU}) / \text{Sum } (W \times \text{individual well BTU}) \times Y$ .

Individual well gas heating values to be determined in accordance with BLM's On Shore Order No. 5.

3. **Allocated Individual Well Gas Revenues** =  $(\text{Allocated Individual well BTU's} / \text{Sum Allocated individual well BTU's}) \times Z$

ATTACHMENT NO. 5  
 GAS USED ON LEASE ①  
 DUGAN PRODUCTION CORP.  
 PROPOSED LATEX CPD  
 SAN JUAN COUNTY, NEW MEXICO

Well Name	Lease Equipment				Gas Purged to Unload Accumulated Liquids			
	Separator Burner BTU/hr	HP of Pump Unit Engine	HP of Compressor Engine	Lease Fuel MCFD ②		Normal Tubing Size -Inch	Average Wellhead Press - psia	MCF per Cycle
				Summer Months	Winter Months			
Latex No. 1	Note③	---	32	9.3	9.48	1½	62	0.10
Latex No. 2	Note④	Note⑤	Note④	Note④	Note④	---	---	---

**WELLS TO BE ADDED TO SYSTEM**

Notes:

- 1 Data reflects information as of 8-1-97. As descriptions &/or equipment change, fuel uses will also change.
- 2 Summer Months = May thru October. Winter Months = November thru April. Lease fuel is calculated from stated burner requirements and horsepower.
- 3 Well has a non heated separator, equipped with a 12" catalytic heater to minimize freezing problems. Fuel consumption = 0.18 MCFD.
- 4 Equipment on Latex No. 1 will be shared & fuel allocated between wells based upon production volumes.
- 5 Rod pump equipment will be installed. A 6 to 7 hp engine will be required which will need 1.5 to 1.76 MCFD lease fuel.

EL PASO NATURAL GAS  
CUSTOMER ACCOUNTING SERVICES DEPARTMENT  
VOLUME CALCULATION DIVISION  
POST OFFICE BOX 1492  
EL PASO, TEXAS 79978

CONTACTS:  
EL PASO FIELD SERVICES  
(713) 510-2931  
EL PASO MAINLINE  
(915) 541-2595

DATE 9/10/96

CHROMATOGRAPHIC GAS ANALYSIS REPORT

MAILEE  
26730

DUGAN PRODUCTION CORPORATION  
P O BOX 420  
FARMINGTON, NM 87499-0420

Attachment  
No. 6  
Pg 1 of 1

METER NUMBER 99325 - LATEX #1  
OPERATOR 1862 - DUGAN PRODUCTION CORP

ANALYSIS DATE 8/08/96 TYPE CODE 2 - ACTUAL  
SAMPLE DATE 8/07/96 H2S GRAINS 0  
EFFECTIVE DATE 9/01/96 LOCATION D - DANIELS FM  
EFFECTIVE FOR 6 MONTHS

COMPONENTS	NORMALIZED MOL %	GPM
CO2	.46	.000
H2S	.00	.000
N2	4.13	.000
METHANE	91.53	.000
ETHANE	2.73	.730
PROPANE	.59	.163
ISO-BUTANE	.18	.059
NORM-BUTANE	.17	.054
ISO-PENTANE	.08	.029
NORM-PENTANE	.04	.014
HEXANE PLUS	<u>.09</u>	<u>.039</u>
	100.00	1.088

SPECIFIC GRAVITY .605  
MIXTURE HEATING VALUE  
(BTU @ 14.73 DRY) 1013  
RATIO OF SPECIFIC HEATS .000  
NO TEST SECURED FOR H2S CONTENT

5 NMOCD 1 File 4 BLM 1 EPFS-Fmn 1 EPFS-EP  
DISTRICT I  
P.O. Box 1988, Hobbs, NM 88411-1988  
DISTRICT II  
P.O. Drawer 00, Arado, NM 88211-0719  
DISTRICT III  
1000 Rio Grande Road, Aztec, NM 87410

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

OLM - 13  
Form C-136  
Originated 12/23/91

Submit original and 4 copies to the appropriate district office.

**APPLICATION FOR APPROVAL TO USE AN ALTERNATE GAS MEASUREMENT METHOD**  
Rule 403.B(1) or (2)

Operator Name: Dugan Production Corp. Operator No. 006515  
Operator Address: P.O. Box 420, Farmington, NM 87499  
Lease Name: Latex Type: State      Federal X Fee       
Location: Well No. 1: A-9-25N-10W, well No. 2: L-9-25N-10W, CPD: N-3-25N-10W  
Pool: Basin Fruitland Coal  
Requested Effective Time Period: Beginning upon approval Ending Until terminated

**APPROVAL PROCEDURE: RULE 403.B.(1)**  
Please attach a separate sheet with the following information:

- 1) A list of the wells (including well name, number, ULSTR location, and API No.) included in this application.
- 2) A one year production history of each well included in this application (showing the annual and daily volumes).
- 3) The established or agreed-upon daily producing rate for each well and the effective time period.
- 4) Designate wells to be equipped with a flow device (required for wells capable of producing 5 MCF per day or more).
- 5) The gas transporter(s) connected to each well.

RECEIVED  
AUG 18 1997

**APPROVAL PROCEDURE: RULE 403.B.(2)**  
Please attach a separate sheet with the following information.  
A separate application is required for each Central Point Delivery (CPD).  
Working interest, royalty and overriding royalty ownership must be common for all wells to be connected to the CPD.

- 1) An ownership plat showing a description of the lease and all of the wells to be produced through this CPD.
  - a) List the wells which will be metered separately, including API No.
  - b) List the wells which will not be metered separately, including API No.
- 2) Describe the proposed method of allocating production from non-metered wells.
- 3) A one year production history of the wells which will not be metered showing the annual and daily volumes.
- 4) The gas transporter(s) connected to this CPD.

OIL CON. DIV.  
DISTRICT # 3

Applicant will be responsible for filing OCD Form C-111 for the CPD.

**OPERATOR**  
I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature: John D. Roe 8/14/97

Printed Name & Title: John D. Roe, Eng. Manager

**OIL CONSERVATION DIVISION**  
This approval may be cancelled at anytime that operating conditions indicate that re-tests may be necessary to prevent waste and protect correlative rights.

Approved Until: per further notice

By: [Signature]

Title: SUPERVISOR DISTRICT # 3

Attachment to NMOCD Form C-136  
 Dugan Production Corp.  
 Application for Latex No. 1 & No. 2 CPD  
 NMOCD Rule 403.B. (2)

1. Ownership Plat and Well Description

Wells not metered separately.

<u>Well</u>	<u>Well Location</u>	<u>API No.</u>
Latex No. 1	Unit A, Sec. 9, T25N, R10W	30-045-29244
Latex No. 2	Unit L, Sec. 9, T25N, R10W	30-045-29448

Ownership Plat - NMOCD form C-102 for Latex No. 2 attached, with well #1 added.

2. Proposed Allocation of Production.

Each well will be tested annually using Dugan's portable test unit to establish MCFD + BCPD + BWPD. No liquid hydrocarbon production is anticipated. Individual well tests will be used to compute allocation factors based upon the proportion each well's individual test rate bears to the total test rates for all wells connected to the CPD. Commingled gas volumes, BTU's and revenues recorded at the CPD will be allocated to individual wells using MCFD factors. Commingled water volumes will be allocated using BWPD factors.

3. One Year Production History.

<u>Well No.</u>	<u>12 Months Production 7/96 - 6/97</u>				<u>Daily Avg. Last 12 months</u>		
	<u>Gas</u>	<u>Condensate</u>	<u>Water</u>				
	<u>MCF</u>	<u>BBL.</u>	<u>BBL.</u>	<u>Days</u>	<u>MCFD</u>	<u>BCPD</u>	<u>BWPD</u>
Latex No. 1*	11,722	0	1356	323	36.3	0	4.20
Latex No. 2**	0	0	0	0	0	0	0

4. CPD Gas Transporter - El Paso Field Services.

\*1st production = 8-6-96-data is for 11 months

\*\*Well completed 7-9-97. Well not 1st delivered - anticipate production to be similar to well No. 1.

District I  
 PO Box 1988, Elmhurst, NM 87241-1988  
 District II  
 PO Drawer DU, Arriba, NM 87211-0719  
 District III  
 1000 Kin Braune Rd., Aztec, NM 87410  
 District IV  
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico  
 Energy, Minerals & Natural Resources Department

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

Ownership  
 Plat  
 Form C-136  
 Attachment

' API Number 30 045 - 2944 B	' Pool Code 71629	' Pool Name Basin Fruitland Coal
' Property Code 017014	' Property Name Latex	' Well Number 2
' OGRID No. 006515	' Operator Name Dugan Production Corp	' Elevation 6542' Estimated

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
L	9	25N	10W		1700	South	790	West	San Juan

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County

" Dedicated Acres 320	" Jlot or Infill	" Consolidation Code	" Order No.
--------------------------	------------------	----------------------	-------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16

Dugan Production - NM-86080

790' Latex No. 2

1700'

**17 OPERATOR CERTIFICATION**

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

*Sherman E. Dugan*  
 Signature  
 Sherman E. Dugan  
 Printed Name  
 Vice-President  
 Title  
 3/6/97  
 Date

Dugan Production - NM-86080

790' Latex No. 2

1700'

**18 SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was placed from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

February  
 Date of Survey  
 Signature and  
  
 Edgard L. Risenhoover  
 Certificate Number 5979

RECEIVED  
 AUG 18 1997  
 OIL CON. DIV.  
 DIST. 3

320 Acre Spacing unit

ILLEGIBLE



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

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

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

Attention: Mr. John D. Roe

*ADMINISTRATIVE ORDER OLM-15*

*Latex Well No.1  
Unit Letter A, Section 9, Township 25 North, Range 10 West  
San Juan County, New Mexico  
Basin-Fruitland Coal Gas Pool*

Reference is made to your recent request dated August 7, 1996 for an exception to Division Rule 403 to permit off-lease measurement of gas production from the subject well.

The above named company is hereby authorized to meter gas production from the subject well at the off-lease connection to the EPFS transportation system in Unit Letter M, Section 3, Township 25 North, Range 10 West,.

PROVIDED THAT:

- 1) All flow lines shall be maintained in a safe and adequate condition and any leaks or failures must be reported to the Division, and;
- 2) All separation and liquids and storage facilities shall be located on the originating lease, and;
- 3) The meters shall be read and maintained by the transporter, and;
- 4) It is the responsibility of the operator to notify the transporter of this approval.

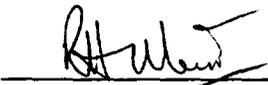
FURTHER: All production, storage, transportation, sales and other operations shall comply with applicable Division Rules and Regulations not inconsistent herewith.

NOTE: The operator shall notify the Aztec district office upon implementation of off-lease measurement operations.

*Division Order OLM-15*  
*Dugan Production Corporation*  
*September 11, 1996*  
*Page 2*

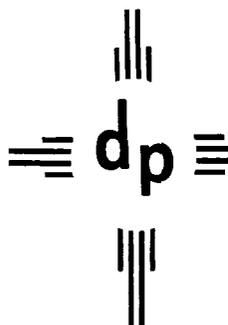
---

DONE at Santa Fe, New Mexico on this 11th day of September, 1996.

by  Deputy Director  
William J. LeMay, Director

WJL/DRC

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



# dugan production corp.

August 7, 1996

Mr. Mike Pool  
Bureau of Land Management  
1235 LaPlata Highway  
Farmington, NM 87401

Mr. Bill LeMay  
New Mexico Oil Cons. Div.  
2040 So. Pacheco St.  
Santa Fe, NM 87505

**Re: Off-lease Measurement & Sale  
Dugan Production's Latex No. 1  
Federal Lease No. NM-86080  
NE NE (Unit A), Section 9, T-25N, R-10W, NMPM  
San Juan County, New Mexico**

Dear Mr. Pool and Mr. LeMay:

We are writing to request approval for the off-lease measurement and sale of produced natural gas from the captioned well. We do not anticipate that there will be any liquid hydrocarbon production, however should there ever be, all liquid hydrocarbons, along with water, will be separated, stored and sold on the lease at the well site.

This request for off-lease measurement and sale is the result of our connection to El Paso Field Services' (EPFS) gas gathering system being located in the SESW of Section 3, T-25N, R-10W; approximately 1600' removed from our lease. This is the closest pipeline connection available for this well and will require that we install ±2900' of line to deliver gas to the sales meter located on EPFS' line. Attachment No. 1 is reproduced from the Huerfano Trading Post, NW quadrangle map and presents the subject well, Dugan's Lease NM-86080, along with our proposed gas sales line and sales meter/tie-in to El Paso's line. The proposed meter site is located on EPFS' existing line and is approximately 53' from the south and 1688' from the west line of Section 3. At this time, this meter will only measure gas produced from Dugan's Latex No. 1 well. Should additional development occur on our lease, the subject meter might be considered for use as a CDP, however prior to that occurring, we will seek the appropriate approvals.

The Latex No. 1 was completed on 5-10-96 from perforations 1822-1830' in the Basin Fruitland Coal Pool. The perforated interval was fracture stimulated using 33,800 gallons 70Q foam and 44,000 pounds sand and has tested rates up to 285 MCFD. It is estimated that production into EPFS' system, which ranges from 95 to 130 psi, will average 50 to 100 MCFD with no liquid hydrocarbon and hopefully very little water. The well is equipped with a 2 phase, 750 psi working pressure separator manufactured by Enertek, Inc. It is anticipated that the separator's catalytic heater, which has a calculated fuel consumption of 0.18 MCFD, will only be used during the winter months (approx. November through April). There is no other anticipated lease fuel consumption at this time.

however should it become necessary to install a compressor, dehydrator or other equipment needed to produce the well, all lease fuel will be accounted for and reported along with all gas sales. At the meter site, there is also no lease equipment other than the meter and meter run which will be operated and maintained by EPFS. Should it ever be necessary to vent the well to unload wellbore fluid accumulations, all volumes vented will be accounted for using volumetric methods taking wellbore pressures into account. This is a procedure we use on all wells which require periodic purging in order to maintain production from being impaired by accumulated wellbore fluids (primarily water).

The gas line from the Latex No. 1 well to the meter/tie-in will be buried 4" fiberglass which will be regularly monitored for line integrity using Dugan's gas leak detector. Should there ever be gas lost from the gas line prior to measurement as the result of leaks and/or line breaks, we will account for the volumes using the appropriate procedures considering the circumstances and any such volumes will be reported along with gas sales and lease use.

We have not obtained a gas analysis from the Latex No.1 well, however do anticipate that the produced natural gas will have a composition similar to other Fruitland Coal wells in the general vicinity. Attachment No. 2 is a copy of a recent gas analysis taken from Dugan's Western Federal No. 7 well (located in Unit M, Section 7, T-26N, R-11W) which has a gravity of 0.568 and a dry heating value of 1021 BTU/cf and should be fairly similar to the gas produced from the Latex No. 1.

The spacing unit for the Latex No. 1 well comprises 320 acres in the N/2 of Section 9, T-25N, R-10W and includes only 1 lease, Federal Lease NM-86080. Dugan Production is the only working interest owner and there are no overriding royalty interest owners. Thus, with this application to the BLM, all interest owners have been notified as to our proposed off-lease measurement of natural gas produced from Dugan's Latex No. 1 well.

In summary, we request approval for the off-lease measurement and sale of natural gas produced from our recently completed Latex No. 1 well. Off-lease measurement is necessary in order to deliver gas into El Paso Field Services' gas gathering system at their meter site provided for this well. Any liquids produced will be separated, stored and sold on the lease at the well site.

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

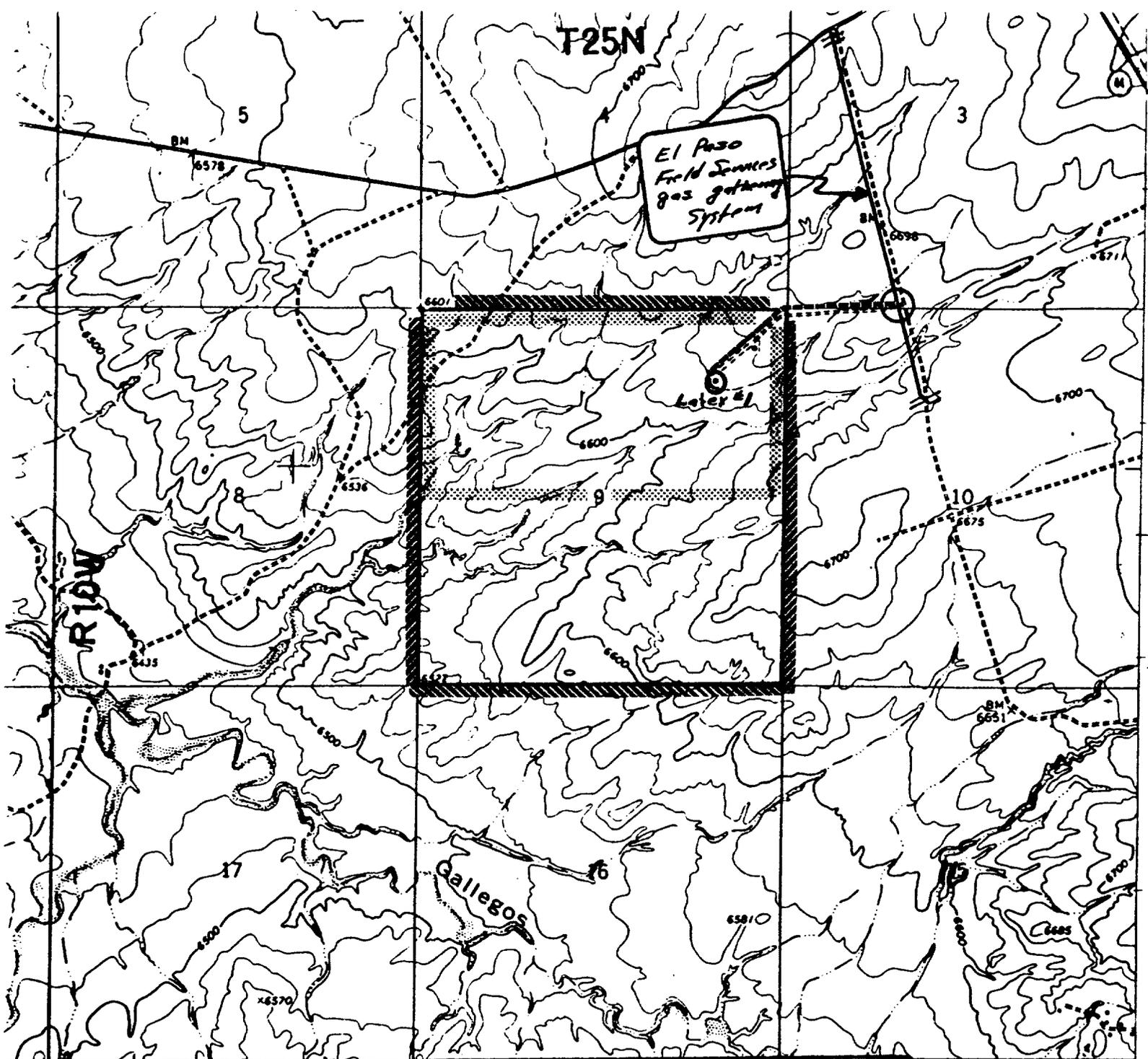
Sincerely,

*John D. Roe*

John D. Roe  
Manager of Engineering

JDR/cg

cc: Frank Chavez - NMOCD, Aztec



ATTACHMENT NO. 1

Dugan Production Corp. - Latex Well No. 1  
 990' FNL & 990' FEL, Section 9, T-25N, R-10W

- Proposed gas sales line
- ▨ Basin Fruitland Coal spacing unit
- ▩ Federal Lease NM-86080
- Proposed Tie-in & Sales Meter -  
 El Paso Field Service Sys.  
 53' FSL & 1688' FWL, 3-25N-10W

EL PASO NATURAL GAS COMPANY  
 VOLUME ACCOUNTING DEPARTMENT  
 MEASUREMENT DIVISION  
 POST OFFICE BOX 1482  
 EL PASO, TEXAS 79878  
 PHONE: (818) 841-2888

*Attachment*  
 No. 2  
 PS 1-51

DATE 2/08/88

CHROMATOGRAPHIC GAS ANALYSIS REPORT

MAILED  
 26730

DUGAN PRODUCTION CORPORATION  
 P O BOX 420  
 FARMINGTON, NH 87488-0420

*Basin Foothold Coal  
 M-7-26N-11W*

**ILLEGIBLE**

METER NUMBER 80188 - WESTERN FEDERAL #7  
 OPERATOR 1882 - DUGAN PRODUCTION CORP

ANALYSIS DATE 1/11/88 TYPE CODE 2 - ACTUAL  
 SAMPLE DATE 1/10/88 H2S GRAINS 0  
 EFFECTIVE DATE 2/01/88 LOCATION 0 - DANIELS FM  
 EFFECTIVE FOR 6 MONTHS

COMPONENTS	NORMALIZED MOL %	GPM
CO2	.24	.000
H2S	.00	.000
N2	.40	.000
METHANE	88.18 <i>- 98.19</i>	.000
ETHANE	.83 <i>- 0.83</i>	.222
PROPANE	.20	.088
ISO-BUTANE	.04	.013
NORM-BUTANE	.03	.008
ISO-PENTANE	.01	.004
NORM-PENTANE	.01	.004
HEXANE PLUS	<u>.08</u>	<u>.022</u>
	100.00	0.328

SPECIFIC GRAVITY .888 *- .562*  
 MIXTURE HEATING VALUE (BTU @ 14.73 DRY) 1021  
 RATIO OF SPECIFIC HEATS 1.308  
 NO TEST SECURED FOR H2S CONTENT