dugan production corp.

August 2, 1999 *HAND DELIVERED*

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

Re: Amendment and clarification to
Dugan's 6-22-98 application for
Surface commingling and off-lease measurement
Goodtimes Gas Gathering System
San Juan County, New Mexico

Dear Mr. Spencer,

As we've discussed regarding the captioned application, attached is an amended Attachment No. 6 which replaces the Attachment No. 6 initially included in our application.

Also, as a matter of clarification, for all wells on the gathering system (excluding wells on Navajo Allotted leases), we intend to determine individual well gas heating values annually in accordance with the requirements of Onshore Order No. 5. For wells on Navajo Allotted leases, the gas heating values will be determined semiannually as stipulated in the "Guidelines for Surface Commingling and/or Off-lease Sales, Storage, Usage and Measurement - Navajo Allotted Leases".

It is my understanding that this clarification and amendment will resolve the remaining issues and allow final BLM approval of our application. Should there be additional issues or questions, please let me know as I am very anxious to get a formal approval prior to your move to Denver.

Thanks for your help in this matter.

Sincerely,

John D Roe

John D. Roe
Engineering Manager

JDR/tmf

attach.

xc: NMOCD (Aztec & Santa Fe)
NMSLO

709 E. MURRAY DR. • P. O. BOX 420 • FARMINGTON, N.M. 87499-0420 • PHONE: (505) 325-1821 • FAX# (505) 327-4613

Attachment No. 6 (Amended 8-2-99)
Allocation Procedures
Dugan Production Corp.'s
Goodtimes Gas Gathering System
CDP #1 = Elm Ridge Resources - SE SE 22, T24N, R8W
CDP #2 = El Paso Field Services - SE NE 12, T24N, R10W
San Juan County, New Mexico

Base Data for Gas Allocations:

W=Gas Volume (MCF) from Well or Battery Allocation Meter
X=Total Gas Volume (MCF) from CDP Sales Meters (CDP1 + CDP2)
Y=Total BTU's from CDP Sales Meters (CDP1 + CDP2)
Y1=BTU's from CDP1 Sales Meter
Y2=BTU's from CDP2 Sales Meter

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

   A = Allocated Sales Volume, MCF.
   = (W/SUM W) x 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 / 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 / Sum W).

2. Individual Well Allocated BTU's =((W x Individual well BTU) / Sum (W x individual well BTU)) x Y.
   Individual well gas heating values to be determined in accordance with BLM's Onshore Order No. 5. Wells on Navajo Allotted leases will be sampled as stipulated in the current guidelines for surface commingling and off-lease measurement on Navajo Allotted leases.. Computations to be based upon dry BTU @ 14.73 psi.

3. Individual Well Allocated Drip Volumes & Revenues. All liquid hydrocarbon volumes and revenues recovered from system drip traps will be allocated to the individual wells producing gas through the drip trap from which the hydrocarbons were recovered using a factor to be determined by dividing the individual well's theoretical liquids by the total theoretical liquids from all wells producing into the system from which liquids were recovered. The theoretical liquids will be calculated by multiplying the individual well's produced gas volumes by the individual wells gas stream liquids content (GPM) of isobutane and heavier. This allocation is to be made at the time the liquids are removed and will be based upon the most recent annual gas volumes produced from the wells involved and an average GPM during the same period. Using annual gas production rather than actual months of production will simplify this calculation and will not significantly affect the accuracy or validity of this factor.

Base Data for Drip Allocations:

S = Volume of drip (bbl) removed from system drip storage tank.

T = Revenue resulting from multiplying the volume of drip by the existing posted oil price in the field at the time of drip removal.

U = GPM (gallons per MCF) of isobutane and heavier from a current individual well gas analysis.

V = Most recent calendar year of gas production from the individual well - MCF. If a full 12 months is not available, an annual volume will be determined using an average production rate from the data available.

F = Individual Well Allocated Drip Volume, bbl

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

G = Individual Well Allocated Drip Revenues, $

G = F x current posted oil price

dp dugan production corp.

709 E. MURRAY DR. • P. O. BOX 420 • FARMINGTON, N.M. 87499-0420 • PHONE: (505) 325-1821
• FAX # (505) 327-4613

FAX TRANSMITTAL

DATE: 10-15-99 TIME: _____

TO: Ben Stone
NMOCD @ 505-827-1389

You should receive 1 pages including this cover sheet. If you did not receive all pages or are unable to read any pages, please contact:

FROM: Tom Roe TELEPHONE NO. (505) 325 - 1821

Ben - Re our Goodtimes Gas Gathering System + Commingling order PLC-149,

Thanks for your help in correcting

The subject commingling order was issued with two provisions that we respectfully request be changed. First, only one of the two system CDP sales meters identified in our application was listed in the order. The CDP sales meter on El Paso's system in the SE/4 NE/4 of Section 12, T-24N, R-10W is actually CDP No. 2. The other CDP sales meter, CDP No. 1, is located in the SE/4 SE/4 of Section 22, T-24N, R-8W and delivers gas to Elm Ridge Resources. We suggest that Note No. 2 of the order be changed to read: "The commingled natural gas production shall be delivered to one of two CDP sales meter sites. CDP No. 1 sales meter delivers gas to Elm Ridge Resources and is located in the SE/4 SE/4 of Section 22, T-24N, R-8W. CDP No. 2 sales meter is on El Paso Field Service's pipeline in the SE/4 NE/4 of Section 12, T-24N, R-10W, NMPM, San Juan County, New Mexico.

The second change requested is in the formula for Individual Well Gas Production (Allocation Procedure No. 1) presented on Exhibit "B" to the order. The formula presented in the order is:

$$\textit{Individual Well Gas Production} = A + B + C + D + E = (w/(sumW))$$

This formula should be changed to:

$$\textit{Individual Well Gas Production} = A + B + C + D + E$$

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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

IN REPLY REFER TO:
Goodtimes Gas Gathering System (CDP File)
3162.7-3

AUG 12 1999

Mr. John Roe
Dugan Production Corporation
P.O. Box 420
Farmington, NM 87499-0420

Dear Mr. Roe:

Dugan Production Corporation (Dugan) has submitted an application to add 58 wells and/or meter sites to the previously approved Goodtimes Gas Gathering System Central Delivery Point (CDP). In support of your application, you submitted data to address the issues covered in the Farmington Field Office Federal and Navajo Allotted "Guidelines for Surface Commingling and/or Off-lease Sales, Storage, Usage and Measurement".

We have reviewed Attachment No. 4 in your application and concur that all fuel uses occurring on the Goodtimes Gas Gathering System, both on lease and system use, are properly accounted for. Attachment No. 6 of your application also clearly documents the allocation procedure used on the Goodtimes Gas Gathering System to allocate both produced and sold volumes. Because the Goodtimes Gas Gathering System, collects gas from a large number of low volume, economically marginal wells, the benefits to the Allottees and Federal government are clearly served by adding the additional wells and meter sites to the gathering system.

Dugan is therefore approved to add the 58 wells and/or meter sites listed in Attachment 1 to the Goodtimes Gas Gathering System. In addition, Dugan is approved for off-lease storage and subsequent allocation of hydrocarbon drip from any drip trap on the system. As a condition of this approval, you are required to comply with all applicable provisions of Onshore Orders No. 3, 4, and 5. In addition, all Allotted wells are to be reported in accordance with the FFO Navajo Allotted "Guidelines for Surface Commingling and/or Off-lease Sales, Storage, Usage and Measurement". Approval is required to add any additional wells or meter sites to this gas gathering system.

If you have any questions concerning this approval, please call either Jim Lovato at (505) 599-6367 or Mark Kelly at 599-6380.

Sincerely,

Lee Otteni
Field Manager

1 Enclosure
1 - Approved additional wells

cc:
NM (93000, Steve Salzman)
FIMO

AUG 1999
RECEIVED

ATTACHMENT NO. 1
APPROVED ADDITIONAL WELLS TO BE CONNECTED
DUGAN PRODUCTION CORP'S GOOD TIMES GAS GATHERING SYSTEM

Well Name	API # 30-045	Well Location ¼ ¼	Sec-Twn-Rng	Lease No. For Well Loc.	Lease Type	Communitization Agreement No. (If Established)	Pool
WELLS TO BE ADDED TO SYSTEM							
Adobe A 1	21872	SE NW	29-24N-8W	SF078868	FED		CUERVO GALLUP
Angel's Gate 90	29394	SW NE	21-24N-8W	NM93774	FED	NMNM97674	BASIN FR COAL
April Surprise 2 GA	23892	NW SW	30-24N-9W	NM4958	FED		BISTI LOWER GA
April Surprise 7	29293	NW NE	31-24N-9W	NM4958	FED		BISTI LOWER GA
April Surprise 8	29419	SE SE	30-24N-9W	NM4958	FED		BISTI LOWER GA
April Surprise 9		NW SE	30-24N-9W	NM4958	FED		BISTI LOWER GA
April Surprise 90	29188	NW SW	19-24N-9W	NM4958	FED		BASIN FR COAL
August 90	20184	NW SW	35-24N-10W	NM43443	FED		BASIN FR COAL
Blanco Wash 1 MV	22473	NW SE	2-24N-9W	142006031404	I		WHITE WASH MV
Bowers 90	29194	SW SE	17-24N-8W	NM26047	FED		BASIN FR COAL
Buddha Temple 90	29239	NE NE	30-24N-8W	NM54980	FED	NMNM94042	BASIN FR COAL
Champ 8	28637	SW SW	5-23N-10W	NM42059	FED		BISTI GALLUP SO.
Champ 9	29287	SW SE	1-23N-10W	NM42059	FED		BISTI GALLUP SO.
Champ 10		NE SE	1-23N-10W	NM42059	FED		BISTI GALLUP SO.
December Dream 2	29360	SW NW	7-23N-9W	NM19816	FED		BISTI GALLUP SO.
December Dream 3	29408	NE SW	7-23N-9W	NM19816	FED		BISTI GALLUP SO.
Elwood P. Dowd Com 90		SE SW	12-24N-9W	NM9520	FED	COM W/NM-100303	BASIN FR COAL
Flo-Jo 4	28645	NE SE	1-23N-11W	NM36952	FED		BISTI GALLUP SO.
Flo-Jo 5	29133	SW SE	1-23N-11W	NM36952	FED		BISTI GALLUP SO.
Flo-Jo 6	29288	NE SW	1-23N-11W	NM36952	FED		BISTI GALLUP SO.
Flo-Jo 7	29368	SW SW	1-23N-11W	NM36952	FED		BISTI GALLUP SO.
Harvey 2 GA	24420	SE NW	20-24N-9W	NM10755	FED		BISTI LOWER GA
Hoss 1	29376	SE NE	11-23N-11W	NM96800	FED		BISTI GALLUP SO.
Kaibab Trail 90	29393	SE SW	20-24N-8W	NOOC14204310	I	NMNM97673	BASIN FR COAL
Largo Federal B 90	29428	NE NE	25-24N-9W	SF078860	FED		BASIN FR COAL
Lee's Ferry 90	29338	NW SE	19-24N-8W	NM41650	FED	NMNM96767	BASIN FR COAL
Luna 3	29215	NE NW	16-23N-9W	LG9801	ST		BISTI GALLUP SO.
Mary Anne 3	25050	NW SW	9-24N-9W	NM10089	FED		BISTI LOWER GA
McDougall 2	28619	NE SE	9-23N-10W	NM51005	FED		BISTI GALLUP SO.
Merry Chase Com 90	29650	SE SW	10-24N-9W	NM100302	FED	COM W/NM-9520	BASIN FR COAL
Mesa 1	22055	SW NE	16-24N-8W	LG1917	ST		POTWIN PC
Mesa 90	29159	SW SW	16-24N-8W	LG1917	ST		BASIN FR COAL
Mo Valley 90	29549	SW SW	5-24N-9W	NM23742	FED	NMNM99383	BASIN FR COAL
November 24 1	29295	NE SE	27-24N-9W	NM12374	FED		BISTI LOWER GA
November 24 2	28961	NW SW	28-24N-9W	NM12374	FED		BISTI LOWER GA EXT.
Ohwada 1	28981	SW SW	33-24N-9W	NM90843	FED	COM W/SF078862A	W/C BISTI CHACRA
Ohwada 2	29112	NE NW	33-24N-9W	NM90843	FED		BISTI LOWER GA
Okie 2	22304	SE NW	8-24N-8W	NM19567	FED		BASIN FR COAL
Par 1	28968	NE NE	11-23N-10W	NM86485	FED		BISTI GALLUP SO.
Phillips 1	26803	SE NE	5-24N-9W	NM30854	FED	NMNM76431	W/C FR & PC
Pierre 1	29237	NW NW	12-23N-11W	NM80498	FED		BISTI GALLUP SO.
Roadrunner 90	28027	NE SW	36-24N-11W	V2364	ST		BASIN FR COAL
Rodeo Rosie Com 90		SE NE	29-24N-10W	NM15654	FED	COM W/NM-21741	BASIN FR COAL
Sanchez O'Brien 90		SW SW	6-24N-9W	NM97108	FED		BASIN FR COAL
Sapp 1	05095	NE NE	28-24N-8W	SF078868	FED		CUERVO MV
Sapp 2	29243	SE NE	28-24N-8W	SF078868	FED		LYBROOK GALLUP
Sapp 90	29192	NW NE	29-24N-8W	SF078868	FED		BASIN FR COAL
Sapp 91	29238	NE SW	29-24N-8W	SF078868	FED		BASIN FR COAL
Sapp 92	29290	NE SW	28-24N-8W	SF078868	FED		BASIN FR COAL
Sapp 93	29289	SW NE	28-24N-8W	SF078868	FED		BASIN FR COAL
September 15 GA	26518	NE NE	24-24N-10W	NM54983	FED		BISTI LOWER GA
Sheba Temple 1	26802	NE SW	30-24N-8W	NM54981	FED		UNDES FR PC
Sixteen G's 4	29440	NE SW	7-24N-9W	NM25433	FED		BISTI LOWER GA
St. Moritz 1	28584	SW SW	26-24N-10W	NM78060	FED		BISTI GALLUP SO.
Supai Point 1	28996	NE NE	20-24N-8W	NM83507	FED		BASIN FR COAL
Supai Point 91		NW NE	20-24N-8W	NM83507	FED		BASIN FR COAL
Target 90		NE SW	20-24N-10W	NM43442	FED		BASIN FR COAL
WELLS OPERATED BY OTHERS							
Universal Res. Fed. D CDP (4 wells)		NE NE	16-23N-9W	NM8005	FED		BISTI GALLUP SO.
UR - Federal D 3	28455	SW SE	3-23N-9W	NM8005	FED		BISTI GALLUP SO.
UR - Federal D 4	28376	NE NE	10-23N-9W	NM8005	FED		BISTI GALLUP SO.
UR - Federal D 5	28456	SW NW	10-23N-9W	NM8005	FED		BISTI GALLUP SO.
UR - Federal D 6	28377	SW SW	10-23N-9W	NM8005	FED		BISTI GALLUP SO.