



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:

3162.7-3

Pinon Mesa Gas Gathering System

October 31, 2002

Dugan Production Corporation
Attn.: John Roe
P.O. Box 420
Farmington, New Mexico 87499-0420

PLC-219

Dear Mr. Roe:

Reference is made to your application for surface commingling and off-lease measurement and sales of gas from the Pinon Mesa Gas Gathering System (PMGGS). You propose to measure gas production from the attached list of wells at the El Paso Field Services meter at the following well location:

SENE Section 14, T. 30N., R. 14W., San Juan County, New Mexico at the Molly Pitcher No. 1 well site (El Paso Field Services Meter No. 90018)

Your application indicates that measurement at a central delivery point is necessary to effectively and economically operate these wells and extend the economic life of the properties. This application does not include liquid hydrocarbons in the proposed measurement and allocation however, any hydrocarbons associated with the water production from the wells will be allocated back to each well in proportion to the amount of water each well produces. This gas will be separated from the water stream and measured at the Molly Pitcher No. 4 central tank battery. Your application also seeks to discontinue central delivery point (CDP) measurement for the Big Field No. 1 and No. 5 wells and also the Mucho Deal No. 1 and 14 well facilities. These previously approved CDPs will now be incorporated into the PMGGS.

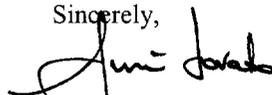
We have reviewed your application and concur with your findings. As such, you are hereby authorized to measure natural gas in accordance with the procedures outlined in your application. The following are conditions of this approval:

- Allocation methodology must be made on an MMBTU basis.
- Measurement of gas at the CDP must be conducted in accordance with the requirements outlined in Onshore Order No. 3, Site Security, Onshore Order No. 4, Oil Measurement, and Onshore Order No. 5, Gas Measurement.
- In order to prevent waste and conserve natural gas, periodic review of each well's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the central delivery point.

Failure to operate this facility in accordance with the conditions outlined above may subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that Federal royalties would be reduced.

Attached is a list of the wells recognized as contributing to the PMGGS. If you have any questions regarding the above contact me at (505) 599-6367.

Sincerely,

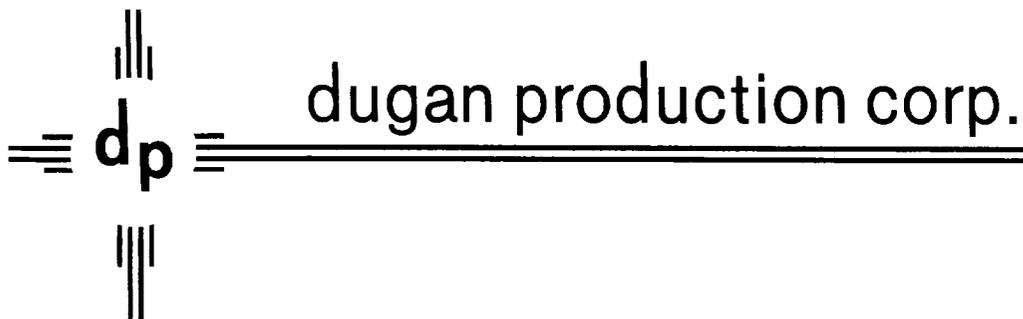
A handwritten signature in black ink, appearing to read "Jim Lovato". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Jim Lovato
Senior Technical Advisor,
Petroleum Management Team

Cc:
NMOCD: Santa Fe
Attachment (List of Contributing wells)

**Pinon Mesa Gas Gathering System CDP
Well List**

Well Name and No.	API No.	Lease #	Formation	Location
Big Field No.1	3004522763	NM-10561	Basin Dakota	SESE 10-30N-14W
Big Field No. 5	3004530182	NM-10561	FR Sand/PC	NESE 10-30N-14W
Big Field No. 6	3004530917	NM-10561	FR Sand/PC	NESE 15-30N-14W
Big Field No. 90	3004530914	NM-10561	Basin FC	NENE 10-30N-14W
Big Field No. 91Y	300431208	NM-10561	Basin FC	NESW 10-30N-14W
Humble Kirtland No. 2	3004530931	SF-079070	FR Sand/PC	SESE 13-30N-14W
Humble Kirtland Com No. 90	3004530921	SF-079070	Basin FC	NWNE 13-30N-14W
Lisbon No. 2	3004530924	NM-71716	FR Sand/PC	SWNW 11-30N-14W
Lisbon No. 90	3004530923	NM-71716	Basin FC	NWSW 11-30N-14W
Molly Pitcher No. 1	3004522084	NM-628	Basin Dakota	SENE 14-30N-14W
Molly Pitcher No. 1E	3004523612	NM-628	Basin Dakota	NESE 14-30N-14W
Molly Pitcher No. 3	3004530915	NM-628	FR Sand/PC	NWSE 14-30N-14W
Molly Pitcher No. 90	3004530930	NM-628	Basin FC	SWNE 14-30N-14W
Mucho Deal No. 1	3004522570	NM-26052	Basin Dakota	SENE 14-30N-14W
Mucho Deal No. 1E	3004522571	NM-2555	Basin Dakota	NESW 14-30N-14W
Mucho Deal No. 14	3004530179	NM-26052	FR Sand/PC	SENE 14-30N-14W
Mucho Deal Com No. 90	3004530916	NM-2555	Basin FC	NESW 14-30N-14W
Pan American Fed No. 1E	3004523675	SF-081231B	Basin Dakota	NWNW 24-30N-14W
Pan American Fed No. 2	3004530918	SF-081231B	FR Sand/PC	NWNW 24-30N-14W
Pinon No. 1	3004520956	NM-6899	Basin Dakota	SENE 13-30N-14W
Pinon No. 1E	3004524186	NM-6899	Basin Dakota	NWSW 13-30N-14W
Pinon No. 2	3004530920	NM-6899	FR Sand/PC	SENE 13-30N-14W
Pinon Com No. 90	3004530919	NM-6899	Basin FC	NWSW 13-30N-14W



November 7, 2002

Mr. Will Jones
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

FAX & MAIL
Fax No. (505) 476-3462

Re: Dugan's Application dated 10-11-02
Proposed Surface Commingling and Off-Lease Measurement
Proposed Piñon Mesa Gathering System
San Juan County, New Mexico

Dear Mr. Jones,

Attached for your consideration in the captioned application is a copy of the return receipt card for the interest of Mary C. Hagood Royalty Trust. With this card, we have provided notice to all but one overriding royalty interest owner, and as explained in my letter of 11-01-02, Dugan Production has not had contact with Ms. Jennifer Jones Black since 1992, and we have been escrowing royalty revenues accruing to her interest since 06/92. Ms. Black has a 1.50% overriding royalty interest in five wells. Thus, we have notified 98.5% of the interest ownership in 5 wells, plus 100% of the interest ownerships in 18 wells.

Sincerely,

John D. Roe
Engineering Manager

JDR:sh

Attachment

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:

Mary C. Hagood Royalty Trust
 Patrick S. Hagood, Trustee
 P.O. Box 8078
 La Verne, CA 91750-8078

COMPLETE THIS SECTION ON DELIVERY

- A. Signature *[Handwritten Signature]* Agent Addressee
- B. Received by (Printed Name) *PA TRICK S. HAGOOD* C. Date of Delivery *SEP 15 1999*
- D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

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 **7001 1940 0003 1548 4933**
 (Transfer from service label)

*ORRI owner
 Dugan Production's
 proposed Pinon Mesa Gathering
 System*