



dugan production corp.

January 3, 2011

Mr. Charlie Perrin
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410

Re. Application to Downhole Commingle
Dugan Production Corp's
Federal I Com well No. 102S



30.045.3503

Dear Mr. Perrin,

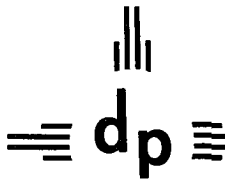
For your consideration of the subject application dated 12-15-10, attached is a copy of our letter dated 12-15-10 providing notice of our application to the interest owners. Also attached is a copy of the "Certified Mail – Return Receipts" for each of the interest owners. To date, we have had no comments or objection from the interest owners.

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

DHC 3500 AZ



dugan production corp.

December 15, 2010

Certified - Return Receipt

Interest Owners (address list attached)
Dugan Production Corp.'s
Federal I Com Well No. 102S
NESE Section 12, T-29N, R-14W
San Juan County, New Mexico

Dear Interest Owners,

According to our records, you have an interest ownership (working, royalty and/or overriding royalty) in the subject well and as such we are writing to advise that we are preparing applications to the New Mexico Oil Conservation Division (NMOCD) and the Bureau of Land Management (BLM) to commingle production from the Basin Fruitland Coal and the Harper Hill Fruitland Sand-Pictured Cliffs gas pools within the wellbore of the Federal I Com No. 102S. This well was spudded on 10/11/10 and 5½" casing cemented at 1252'. The Federal I Com No. 102S is a Fruitland Coal infill well to Dugan's Federal I Com No. 102 which was completed 8/19/05 in similar internals in the NENE of section 12 and was approved for similar downhole commingling using the same factors proposed for the No. 102S. We are now preparing to complete the Federal I Com No. 102S in the Fruitland Coal, Fruitland Sand and Pictured Cliffs intervals. It is a common practice to complete these three intervals together since they are fairly close to each other, the fluids (gas and water) in each interval are compatible and each pool is anticipated to produce water that is more efficiently pumped as a commingled stream as opposed to installing dual sets of production equipment. We are proposing that the commingled production from all intervals be allocated 53% to the Basin Fruitland Coal gas pool which will have a 318.49 acre E/2 spacing unit, and 47% to the Harper Hill Fruitland Sand-Pictured Cliffs gas pool which will have a 159.47 acre SE/4 spacing unit. These allocation factors represent an average of the production from 32 wells (12 Fruitland Coal wells, 13 Fruitland Sand-Pictured Cliffs wells & 7 wells that are similarly downhole commingled) in section 12 and the 8 adjacent sections. Attachment No. 1 presents the individual well data in support of our proposed allocation factors.

Should you have questions, need additional information or desire to receive a copy of our application, please let me know. I can be reached at the letterhead address and phone. Should you have an objection to the proposed downhole commingling, please let me know or you can contact the NMOCD directly by calling 505-334-6178 and speaking to Mr. Charlie Perrin. I would appreciate also being advised of your objection. Any objection you have should be given within 20 days from the date of this letter.

Sincerely,

John D. Roe
Engineer Manager

JDR/jdc

enclosure



INTEREST OWNER LIST
DUGAN PRODUCTION CORP.
FEDERAL I COM #102S
NESE – UNIT I

SEC. 12, T29N, R14W
SAN JUAN COUNTY, NM
SPACING UNITS
HARPER HILL FRUITLAND SAND-PICTURED CLIFFS
SE/4 – 159.47 ACRES
BASIN FRUITLAND COAL
E/2 – 318.49 ACRES

Working Interest Owners

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

XTO Energy, Inc.
Attn: Aaron Austin
810 Houston Street
Fort Worth, TX 76102

XTO Energy, Inc.
Attn: Alec Bridge
382 Road 3100
Aztec, NM 87410

New Mexico Highway Department
Attn: Rob Lopez
P. O. Box 1149
Santa Fe, NM 87504-1149

Royalty/Overriding Royalty Owners

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

E. B. Mann
P. O. Box 1769
Bloomfield, NM 87413

Elliott A. Riggs
P.O. Box 711
Farmington, NM 87499

Navajo Tribe
c/o Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Robert L Bayless Producer, LLC
621 17th Street, #2300
Denver, CO. 80293

R & C Investments
c/o Jean (Cox) Lovell
3505 N. Mesa Verde Ave.
Farmington, NM 87401

Attachment No. 1
Offset Well Production
Dugan Production's Federal I No. 102S
Unit I, Section 12, T-29N, R-14W
San Juan County, New Mexico

Operator ①	Well	Location UL-S-T-R	1st Produced	06/2010 DHC ③ %FC/%PC	Average Production - mcf/mo & (# of mo. if less than 12) Cum. Production-mmcf ②												
					Fruitland Coal					Fruitland Sand-PC							
					1st 12 months	2nd 12 months	3rd 12 months	4th 12 months	5th 12 months	Cum 7/1/2010	1st 12 months	2nd 12 months	3rd 12 months	4th 12 months	5th 12 months	Cum 7/1/2010	
DPC	Federal I #4/4R	C-1-29N-14W	Mar-69														
DPC	Federal I #5/5R	J-1-29N-14W	Dec-70														
DPC	Federal I #6	G-1-29N-14W	Jun-79														
DPC	Federal I #100	B-1-29N-14W	Sept-01		1,435	1,594	1,744	1,614	2,011	182.0							
DPC	Federal I #101	N-1-29N-14W	Dec-05	53.0/47.0④	5764	5,483	4373	2473	2,103(6)	232.2	5,111	4,862	3,878	2,193	1,866(6)	205.9	
DPC	Federal I #101S	I-1-29N-14W	May-08		2,276	3,222(11)				63.6							
DPC	Com # 1	J-2-29N-14W	May-98		4,391	9,315	6,540	5,454	4,050	665.5							
DPC	Com #2/2R	A-2-29N-14W	Mar-79														
DPC	Com #3	J-2-29N-14W	Jun-79														
DPC	Com #4	C-2-29N-14W	Feb-00														
DPC	Com #91	L-2-29N-14W	Jun-00		4,796	2,983	2,133	1,941	1,700	222.5							
DPC	Federal I #8	C-11-29N-14W	Sept-00														
DPC	Federal I #90	E-11-29N-14W	Sept-02		2,663	4,473	4,632	4,082	3,326	279.7							
DPC	King Com #2	J-11-29N-14W	Dec-05	53.0/47.0④	4,184	3,830	3,458	1,994	2,246(6)	175.6	3,710	3,396	3,067	1,768	1,992(6)	155.2	
DPC	King Com #90	B-11-29N-14W	Aug-99		2,050	7,116	7,115	4,201	3,500(11)	319.8							
DPC	Federal I Com #9	C-12-29N-14W	Dec-05														
DPC	Federal I Com #102	A-12-29N-14W	Nov-05	53.0/47.0④	4,219	8,791	7,493	3,923	4,020(6)	319.6	13,533	15,121	13,772	9,744	7,786(6)	667.6	
DPC	Federal I Com #103	E-12-29N-14W	Sep-05		7,852	9,210	6,105	3,734	3,332(8)	349.5	3,742	7,796	6,644	3,479	3,565(6)	283.4	
XTO	Navajo 13 #1	A-13-29N-14W	Nov-02	78.3/21.7⑤	2,827	2,972	3,947	3,212	1,999	245.5	3,083	1,927	1,085	965	727	117.1	
XTO	Navajo 13 #2	E-13-29N-14W	Nov-02								3,220	4,938	4,698	3,060	3,678	302.8	
XTO	NV Navajo 13 #4	O-13-29N-14W	Aug-05		6,663	9,945	9,610	5,910	5,148(11)	442.2							
XTO	Navajo Tribal H #5	M-13-29N-14W	May-00	50.0/50.0⑥	1,972	3,606	2,766	2,602	2,284	231.3	1,972	3,606	2,766	2,602	2,284	227.0	
XTO	Benally 14 #3	K-14-29N-14W	Aug-02	54.0/46.0⑥	377	685	1,172	1,418(6)		35.3	4,064	4,322	3,144	1,671	1,122	184.8	
XTO	WF Navajo 14 #1	I-14-29N-14W	May-01								10,067	8,161	9,919	10,221	11,200	850.0	
XTO	Navajo 14 #2	H-14-29N-14W	Mar-04		3,456	9,084	6,227	6237(6)		264.0	6,245	3,044	6,464	4,345	3,720	293.4	
XTO	Navajo Tribal H #12	E-14-29N-14W	May-01		3,341	6,414	6,247	4,112(6)		219.4							
SOC	Madrid 29 13 6 #111	B-6-29N-13W	Oct-06		6,663	9,225(4)				118.1							
SOC	Madrid 29 13 6 #112	C-6-29N-13W	Oct-06														
XTO	SE Mounds #2	L-6-29N-13W	Dec-08		1,636	9,225(4)											
XTO	RPC 18 #3	N-18-29N-13W	Aug-02	50.0/50.0⑥	1,376	1,588	1,231	1,654	1,893	135.7	1,376	1,588	1,231	1,654	1,893	135.7	
XTO	ROPKO 18 #4	P-18-29N-13W	Jun-04		13,583	10,961	7,890	8,624	9,997	685.5							
ROC	Fawkes #1	P-18-29N-13W	Jan-10														
Total all wells					79,888	110,497	82,683	63,185	47,609	5,187.0							
# wells					19	19	17	17	14	19	#	20	20	20	20	20	20
Average/well					4,205	5,816	4,864	3,717	3,401	273.0							
% of FC & PC					47.5	56.2	52.4	51.0	51.2	42.2							
Avg. 1st 5 yrs											51.7				48.3		
Total excluding DHC wells					59,169	83,542	58,243	45,909	33,064	3,811.0							
# wells					12	12	10	10	7	12	#	13	13	13	13	13	13
Average/well					4,931	6,962	5,824	4,591	4,723	317.7							
% of FC & PC					47.9	58.9	53.2	51.1	54.4	40.1							
Avg. 1st 5 yrs											53.1				46.9		

①DPC=Dugan Production Corp., ROC=Richardson Operating Co., SOC=Synergy Operating LLC, XTO=XTO Energy, Inc.
 ②Production data from HIS Inc. thru June 2010. All data normalized to 1st month of production. Fruitland Coal production from the Basin
 Fruitland Coal pool (71629) and Fruitland Sand-PC production from the Harper Hill (78160) and Twin Mounds (86620) Fruitland Sand-Pictured
 Cliffs pools, plus West Kutz Pictured Cliffs pool (79680).
 ③Downhole commingling factors for June 2010. % of total gas from Fruitland Coal and % of total gas from Fruitland Sand/Pictured Cliffs.
 ④Federal I Well No. 101 (API No. 30-045-31785) - DHC-1947 approved 7/25/05 authorizes downhole commingling of Basin Fruitland
 Coal with Harper Hill Fruitland Sand - Pictured Cliffs using fixed gas allocation factors of 53.0% for Fruitland Coal and 47.0% for
 Fruitland Sand - Pictured Cliffs.
 ⑤King Com Well No. 2 (API No. 30-045-31116) - DHC-1948AZ approved 7/25/05 authorizes downhole commingling of Basin Fruitland
 Coal with Harper Hill Fruitland Sand - Pictured Cliffs using fixed gas allocation factors of 53.0% for Fruitland Coal and 47.0% for
 Fruitland Sand - Pictured Cliffs.

Attachment No. 1
Offset Well Production
Dugan Production's Federal I No. 102S
Unit I, Section 12, T-29N, R-14W
San Juan County, New Mexico

Operator ①	Well	Location UL-S-T-R	1st Produced	06/2010 DHC ③ %FC/%PC	Average Production - mcf/mo & (# of mo. if less than 12) Cum. Production-mmcf ②											
					Fruitland Coal						Fruitland Sand-PC					
					1st 12 months	2nd 12 months	3rd 12 months	4th 12 months	5th 12 months	Cum 7/1/2010	1st 12 months	2nd 12 months	3rd 12 months	4th 12 months	5th 12 months	Cum 7/1/2010

Foot Notes Cont....

- ⑥ Federal I Com Well No. 102 (API No. 30-045-31792) - DHC-1952AZ dated 8/9/05 authorizes downhole commingling of Basin Fruitland Coal with Harper Hill Fruitland Sand - Pictured Cliffs using fixed gas allocation factors of 53.0% for Fruitland Coal and 47.0% for the Fruitland Sand - Pictured Cliffs.
- ⑦ Navajo 13 Well No. 1 (API No. 30-045-30652) - DHC-965AZ approved 11/02 authorizes downhole commingling of Basin Fruitland Coal with West Kutz Pictured Cliffs. Fixed allocation factor of 49% Fruitland Coal and 51% Pictured Cliffs proposed and fixed allocation factor of 50/50 used for production 5/03 thru 9/04. On 11/15/04, Richardson Operating proposed new fixed allocation factors of 78.3% Fruitland Coal and 21.7% Pictured Cliffs, which were used for production 10/04 to current.
- ⑧ Navajo Tribal H No. 5 (API No. 30-045-13101) Administrative Order DHC-2478 dated 10/12/99 authorized downhole commingling of Basin Fruitland Coal with West Kutz Pictured Cliffs. Allocation factors to be based upon an exponential decline of 18%/year for the PC (PC volume=PC base rate x e ^{-4t}) and by subtraction for the Fruitland Coal. A fixed gas allocation factor of 50/50 was used for production 5/00 thru 5/08 and for 6/08 thru 6/10 PC factors ranged from 41% to 50% and coal factors ranged from 59% to 50%.
- ⑨ Benally 14 Well No. 3 (API No. 30-045-30522) - DHC-3084AZ dated 3/24/09 authorizes downhole commingling of Basin Fruitland Coal with West Kutz Pictured Cliffs using fixed gas allocation factors of 54% for Fruitland Coal and 46% Pictured Cliffs.
- ⑩ RPC 18 Well No. 3 (API No. 30-045-30943) - DHC-894AZ dated 9/10/02 authorizes downhole commingling Basin Fruitland Coal with West Kutz Pictured Cliffs using fixed gas allocation factors of 50% for the Fruitland Coal and 50% for the Pictured Cliffs.

Dugan Productions 12/15/10
 Letter to Interest owners
 Federal I Com No. 1025

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.		COMPLETE THIS SECTION ON DELIVERY A. Signature ☒ Agent B. Received by (Printed Name) ☒ Address C. Date of Delivery ☒ D. Is delivery address different from item 1? ☒ Yes If YES, enter delivery address below:	
1. Article Addressed to: XTO Energy, Inc. Attn: Pam Quate 810 Houston Street Fort Worth, TX 76102-		3. Service Type ☒ Certified Mail ☐ Registered ☐ Insured Mail ☐ Return Receipt for Merchandise ☐ C.O.D. ☐ Restricted Delivery? (Extra Fee) ☐ Yes	
2. Article Number (Transfer from service label) 7005 2570 0001 3772 1656 PS Form 3811, February 2004		Domestic Return Receipt 10255-02-M-1540	

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1. Article Addressed to: Navajo Tribe c/o Bureau of Land Management 1235 La Plata Hwy Farmington, NM 87401		3. Service Type ☒ Certified Mail ☐ Registered ☐ Insured Mail ☐ Return Receipt for Merchandise ☐ C.O.D. ☐ Restricted Delivery? (Extra Fee) ☐ Yes	
2. Article Number (Transfer from service label) 7005 2570 0001 3772 1603 PS Form 3811, February 2004		Domestic Return Receipt 10255-02-M-1540	

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1. Article Addressed to: NM Hwy Department Attn: Rob Lopez P.O. Box 1149 Santa Fe, NM 87504-1149		3. Service Type ☒ Certified Mail ☐ Registered ☐ Insured Mail ☐ Return Receipt for Merchandise ☐ C.O.D. ☐ Restricted Delivery? (Extra Fee) ☐ Yes	
2. Article Number (Transfer from service label) 7005 2570 0001 3772 1566 PS Form 3811, February 2004		Domestic Return Receipt 10255-02-M-1540	

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1. Article Addressed to: Bureau of Land Management 1235 La Plata Hwy Farmington, NM 87401		3. Service Type ☒ Certified Mail ☐ Registered ☐ Insured Mail ☐ Return Receipt for Merchandise ☐ C.O.D. ☐ Restricted Delivery? (Extra Fee) ☐ Yes	
2. Article Number (Transfer from service label) 7005 2570 0001 3772 1573 PS Form 3811, February 2004		Domestic Return Receipt 10255-02-M-1540	

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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:
 Robert L. Campbell Industries, LLC
 621 17th Street, #2300
 Denver, CO 80293

2. Article Number (Transfer from service label)
 7005 2570 0001 3772 1610

PS Form 3811, February 2004 Domestic Return Receipt

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 [Signature]

B. Received by (Printed Name)
 [Signature]

C. Date of Delivery
 12/17/10

D. Is delivery address different from item 1? ☐ Yes ☒ No

If YES, enter delivery address below:

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.
☐ Restricted Delivery? (Extra Fee) ☐ Yes

10255-02-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.

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1. Article Addressed to:
 R & C Investments
 Box 724
 Huntington, NM 87499-0724

2. Article Number (Transfer from service label)
 7005 2570 0001 3772 1665

PS Form 3811, February 2004 Domestic Return Receipt

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 [Signature]

B. Received by (Printed Name)
 [Signature]

C. Date of Delivery
 12/17/10

D. Is delivery address different from item 1? ☐ Yes ☒ No

If YES, enter delivery address below:

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.
☐ Restricted Delivery? (Extra Fee) ☐ Yes

10255-02-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.

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1. Article Addressed to:
 E. B. Mann
 Box 1769
 Farmington, NM 87413

2. Article Number (Transfer from service label)
 7005 2570 0001 3772 1580

PS Form 3811, February 2004 Domestic Return Receipt

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 [Signature]

B. Received by (Printed Name)
 [Signature]

C. Date of Delivery
 12/17/10

D. Is delivery address different from item 1? ☐ Yes ☒ No

If YES, enter delivery address below:

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.
☐ Restricted Delivery? (Extra Fee) ☐ Yes

10255-02-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:
 Elliott A. Biggs
 Box 711
 Farmington, NM 87499

2. Article Number (Transfer from service label)
 7005 2570 0001 3772 1597

PS Form 3811, February 2004 Domestic Return Receipt

COMPLETE THIS SECTION ON DELIVERY

A. Signature
 [Signature]

B. Received by (Printed Name)
 [Signature]

C. Date of Delivery
 12/17/10

D. Is delivery address different from item 1? ☐ Yes ☒ No

If YES, enter delivery address below:

3. Service Type
☒ Certified Mail
☐ Registered
☐ Insured Mail
☐ Express Mail
☐ Return Receipt for Merchandise
☐ C.O.D.
☐ Restricted Delivery? (Extra Fee) ☐ Yes

10255-02-M-1540

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