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Request for Surface Comming

dugan production corp.

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December 1, 1999

Ms. Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

Mr. Ray Powell
New Mexico State Land Office
P. O. Box 1148
Santa Fe, NM 87504-1148

Mr. Lee Otteni, District Manager
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

G-07-24N-09W

Re: Addition of one well to existing approvals for Surface Commingling, Off-lease Measurement, Storage, and Sale of Produced Natural Gas plus Gathering System Drip Accumulations
Dugan Production's Goodtimes Gas Gathering System
San Juan County, New Mexico

Dear Ms. Wrotenbery, Mr. Powell, and Mr. Otteni:

We are writing to request your approvals for the addition of one well to Dugan's Goodtimes Gas Gathering System (GGGS) which will require the surface commingling, plus off-lease measurement and sale of natural gas production along with a small amount of liquid hydrocarbons (drip) that may accumulate in the gathering system drip traps. This application is the thirteenth expansion to the GGGS which was initially approved by the BLM on 1-18-84 and was most recently approved (Dugan's 6-22-98 application) by the NMSLO on 7-20-98, the NMOCD on 12-4-99 (Commingling Order PLC-149), and the BLM on 8-12-99.

The well to be added is Dugan Production's Sixteen G's No. 90 (API No. 30 045 29709) which was spudded on 6-21-99 and completed in the Basin Fruitland Coal Pool on 10-6-99. The Fruitland Coal perforations 1705'-1715' were stimulated using a foam frac and testing to date has been limited to the recovery of frac fluids. The well was shut in on 10-18-99 after swab testing 65 bbl of highly gas cut water and a shut in surface pressure of 340 psig. We are encouraged by our testing to date and prior to further testing and venting of produced natural gas, we propose to connect this well to our GGGS so that the produced natural gas can be sold.

Based upon our experience with the other Fruitland Coal wells in this area, we anticipate gas production to average ±50 MCFD with a heating value of ±1020 BTU/cf. The gas is believed to be compatible with other gasses in the GGGS. Water production will probably average ±70 BWPD initially and hopefully will decrease as production continues. We do not anticipate any liquid hydrocarbons will be produced, however should there be some, they will be separated, stored and sold at the well. It is possible that there

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may be some drip, condense from the gas stream and accumulate in the GGGS system drip traps. If this occurs, the drip will be allocated back to the wells producing the drip based upon individual well gas stream liquid content (GPM's) as outlined in the allocation procedures presented as Attachment No. 6 of our application dated 6-22-98. Gas production from the Sixteen G's No. 90 will flow through GGGS drip traps No. 3 and 4 and the Goodtimes and Mountain Spur System Compressors.

The Sixteen G's No. 90 is located in SW NE (Unit G) of Section 7, T-24N, R-9W and the 320.64 acre spacing unit comprises the north half of Section 7. Federal Lease No. NM-25433 makes up the entire spacing unit and the working interest is held 100% by Dugan Production Corp. Attachment A is a copy of a portion of Map No. 2 from our 6-22-98 application. On Attachment A, we've indicated the Sixteen G's No. 90 along with the pipelines necessary to connect this well to the GGGS. Also indicated are the pipelines which will connect the Phillips No. 1, the Sanchez O'Brien No. 90 and the Mo Valley No. 90 to the GGGS. All three of these wells were included in our 6-22-98 application, however none of the lines were installed at the time of our 6-22-98 application. All new lines subsequent to our 6-22-98 application are highlighted in blue.

The Sixteen G's No. 90 will be operated and production allocated as set out in our detailed application dated 6-22-98. The addition of the Sixteen G's No. 90 will bring the total number of wells approved for the GGGS to 180 (188 completions), 176 of which are operated by Dugan Production and 4 of which are operated by Questar Exploration & Production Co. (successor to Universal Resources Corp.). Attachment No. 1 to our 6-22-98 application was a participation statement by Universal Resources Corp. We have discussed this proposed addition of Dugan's Sixteen G's No. 90 to the GGGS with Questar and it is our understanding that Questar has no objections. We will provide a copy of this application to Questar and should there be a problem, we will work with Questar to resolve any concerns that might exist.

Should there be any questions, or if additional information is needed, please let us know.

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

JDR/tmf

attachments

xc: NMOCD - Aztec
Questar Exploration & Production Co.