

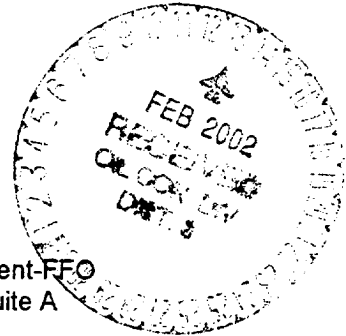
dugan production corp.

15-10-1-12-100

February 11, 2002

Ms. Lori Wrotenbery
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Steve Henke
Bureau of Land Management-FFO
1235 La Plata Highway, Suite A
Farmington, NM 87401



Re: Proposed surface commingling & off-lease measurement
Six wells operated by Dugan Production Corp.
Dugan Production's Proposed Leah Marie Gas Gathering System
San Juan County, New Mexico

A
Dear Ms. Wrotenbery and Mr. Henke:

We are writing to request your approvals for the surface commingling and off-lease measurement of natural gas produced from six wells operated by Dugan Production Corp. Four of the wells are located on Federal Lease NM-55113, and since the proposed CDP sales meter will also be located on this lease, will not require off-lease measurement, but will require approvals for surface commingling. Two of the wells are located on Navajo Allotted Lease NOG-9909-1356 and will require approvals to surface commingle and for off-lease measurement.

Of the six wells, only one, Dugan's Leah Marie #1, has an established producing history. A second well, Dugan's Mitzi No. 1 has recently been completed, but has not been connected to a pipeline. Four of the wells have recently been drilled, but completions have been postponed until the subject gas gathering system is ready to deliver gas. The six wells are all located within Section 23, T-26N, R12W and include two Fruitland Coal completions (Pool No. 71629), plus four WAW Fruitland Sand-Pictured Cliffs completions (Pool No. 87190).

This new gathering system will be known as the Leah Marie Gas Gathering System and will deliver natural gas to a central delivery sales meter (CDP) to be installed, operated, and maintained by El Paso Field Services (EPFS) in the NWSW of Section 23, T-26N, R-12W at the Leah Marie No. 2 well site. Only natural gas will be surface commingled. All liquids will be separated, stored, and disposed of at each individual well. We do not anticipate any liquid hydrocarbon production. Dugan Production holds 100% of the working interest in all wells.

Attachment No. 1 was reproduced from the Carson Trading Post USGS Quadrangle topography map and presents Dugan's proposed Leah Marie Gas Gathering System along, with the six wells proposed to be connected to the system. In addition, Dugan Production's leasehold interest in this area is also presented. This gathering system will consist of approximately 10,200' of buried 2" to 8", 160# working pressure, new polyethylene pipe. To insure the initial system integrity, we will pressure test all lines to approximately 120 psi. To insure continued gathering system integrity, the entire gathering system will be periodically surveyed, using Dugan's portable gas detector. The frequency of our monitoring will primarily be dependent upon the indicated need, but will most likely be at least annually. We anticipate maintaining a system gathering pressure of ± 10 psi and will be using a single-stage compressor located at the CDP to deliver gas into El Paso's pipeline, which is currently averaging 50 to 75 psi. Each well will be equipped with continuous recording allocation meters (Barton dry-flow or similar), which will be maintained by Dugan Production in accordance with state and federal regulations (currently Onshore Order No. 5). The monthly charts from each allocation meter will be integrated by a commercial integration company and the volumes recorded will be used to determine factors for allocating sales volumes, BTU's and revenues from the CDP sales meter to each well.

Attachment No. 2 presents well and lease information for each of the six wells to be connected to the gathering system. Attachment No. 3 presents the C-102's for each of the wells along with the dedicated spacing units and associated leases. Attachment No. 4 presents the ownership for each of the six wells, and Attachment No. 5 presents the proposed allocation procedures.

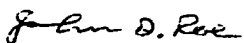
The six wells to be connected to this gathering system are completed, or will be completed, in either the WAW Fruitland Sand-Pictured Cliffs or the Basin Fruitland Coal pools, and the natural gas from each pool is believed to be mutually compatible. Since five of the six wells have no production history (four have been drilled, but not completed; and one has been completed, but not first delivered), we only have actual production data for one well, Dugan's Leah Marie No. 1, which was completed 10/01/90 in the Basin Fruitland Coal. The production history for this well is presented on Attachment No. 6, and as of 01/01/02, a total of 131,802 mcf have been produced. Production currently averages 86 mcf/d plus 11 BWPD. Anticipated production of ± 400 mcf/d for each of the wells to be completed is based upon our experience with similar completions in the general area. Attachment No. 7 presents a copy of a gas analysis from Dugan's Leah Marie No. 1 Fruitland Coal completion, which is believed to be representative for the Fruitland Coal in this area. Also presented in Attachment No. 7 is a copy of a gas analysis from a Fruitland Sand-Pictured Cliffs completion in the SW/4 of Section 26, which is also believed to be representative of production from the WAW Fruitland Sand-Pictured Cliffs in this area. Attachment No. 8 presents a sketch of the Central Delivery Sales Meter site. The equipment at the CDP will consist of a central compressor, a two-phase separator (to recover any water that inadvertently gets into the system), a 100 bbl. steel water storage tank, and El Paso's gas sales meter, which will be an orifice-type meter.

As previously stated, Dugan Production is the operator and holds 100% of the working interest in all six wells. All leasehold interest is either Federal or Navajo Allotted, and there is no overriding royalty interest. A complete copy of this application is being sent to the Farmington Indian Minerals Office (FIMO) for their review and concurrence, as it is our understanding that FIMO will review this application on behalf of the Navajo Allottees and will provide the Allottees with whatever notice and information they need. Copies of this application sent to the BLM and FIMO are being sent by certified return-receipt mail and upon receiving the return receipts, we will provide copies to the NMOCD as evidence of interest owner notification.

In summary, Dugan Production Corp. is proposing to install a new gas gathering system which will gather produced natural gas from six wells and deliver the gas to a CDP sales meter belonging to El Paso Field Services. Dugan Production is the operator of all six wells and will install and operate the Leah Marie Gas Gathering System. A central gathering system compressor will be installed, which will allow all wells to benefit from the operation of one compressor and eliminate the need for individual wellhead compressors (which may not be economically feasible for some wells). A central compressor, as opposed to individual wellhead compressors, will provide an overall more efficient operation, will reduce the volumes of compressor fuel needed, plus will reduce compressor noise and exhaust emissions, which is an important consideration since there are people living in this general area (none close to the CDP site). All gas volumes, BTU's and revenues will be allocated from the CDP to the individual wells using allocation factors determined from gas volumes recorded by allocation meters located at each well and BTU's determined for each well. This should help to insure that the proposed surface commingling and off-lease measurement will not diminish the production value of any one well.

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

Sincerely,



John D. Roe
Engineering Manager

JDR:sh

xc: NMOCD-Aztec
Farmington Indian Minerals Office

ATTACHMENT NO. 2 - PAGE 1 OF 1
DUGAN PRODUCTION CORP.
PROPOSED LEAH MARIE GATHERING SYSTEM AND CDP
SAN JUAN COUNTY, NEW MEXICO

Well Name	API No. 30-045-	Well Location		Lse. Type	CA Number	Pool	Completion Date	Current Prod. ①			Spacing Unit	
		UL-Sec-Twn-Rng	Lease No.					MCFD	BC/D	BW/D		
WELLS TO BE ADDED TO SYSTEM												
Leah Marie No. 1	27126	C-23-26N-12W	NM55113	FED	N/A	Basin Fruitland Coal	10/01/90	86	0	11	W/2-320A	
Leah Marie No. 2	29831	L-23-26N-12W	NM55113	FED	N/A	WAW FR Sand/PC	Note 2	400	0	40	SW/4-160A	
Leah Marie No. 3	30314	E-23-26N-12W	NM55113	FED	N/A	WAW FR Sand/PC	Note 3	400	0	40	NW/4-160A	
Leah Marie No. 4	30315	O-23-26N-12W	NM55113	FED	N/A	WAW FR Sand/PC	Note 4	400	0	40	SE/4-160A	
Mitzi No. 1 (Note 5)	24811	A-23-26N-12W	NOG-9909-1356	Navajo Allotted	N/A	WAW FR Sand/PC	02/08/01	400	0	40	NE/4-160A	
Mitzi Com No. 90	30093	G-23-26N-12W	NOG-9909-1356	Navajo Allotted	Pending	Basin Fruitland Coal	Note 6	400	0	40	E/2-320A	

Notes:

① N/A - Not applicable or not needed.

② Production data for Leah Marie No. 1 is actual average during 11/01 and 12/01. Since all other wells have not produced or have not been completed, production data represents anticipated rates of production.

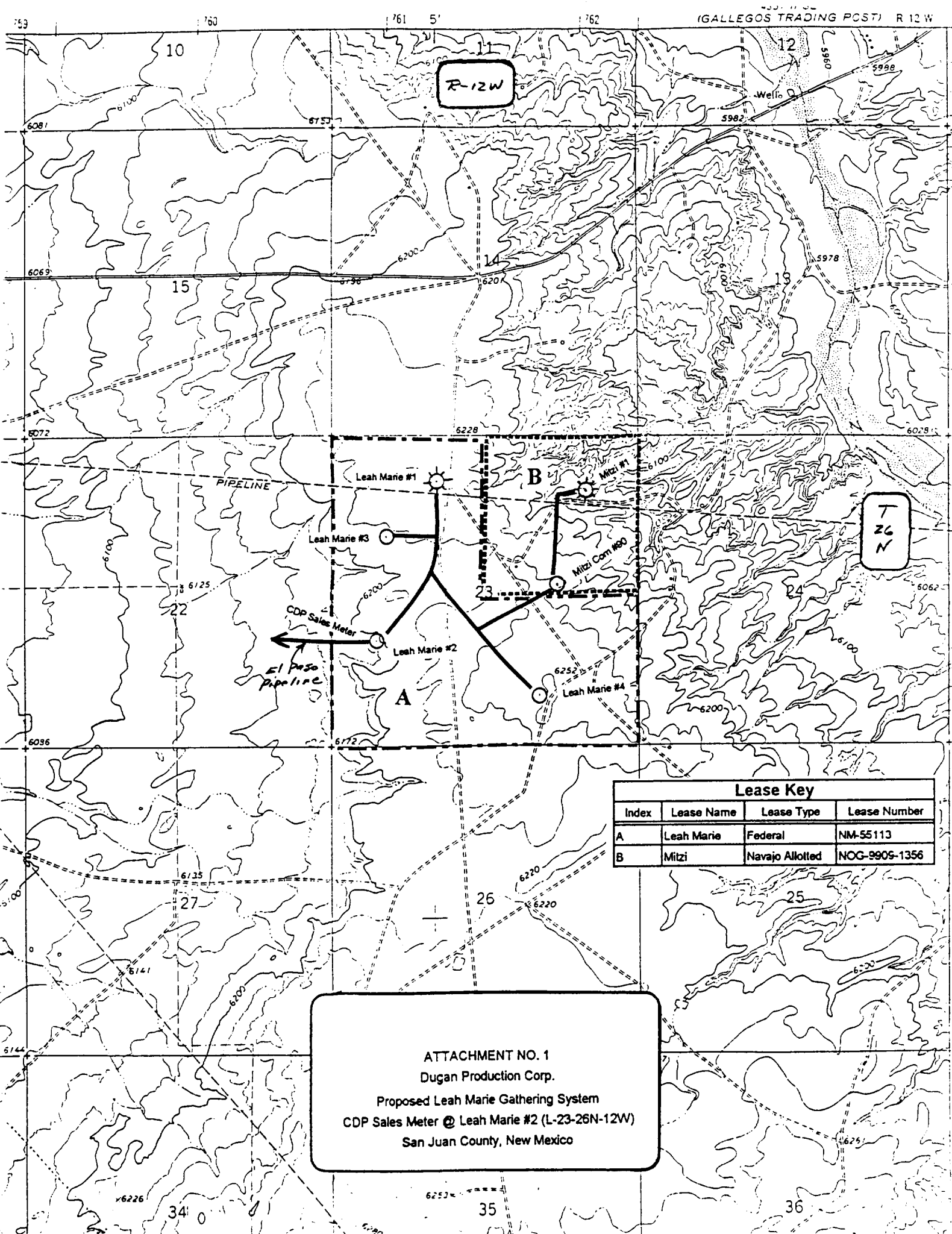
③ Leah Marie No. 2 was spudded on 01/14/02. Drilled TD = 1,405' and 4-1/2" casing is cemented @ 1,400'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on Leah Marie No. 3, 4 and Mitzi Com No. 90.

④ Leah Marie No. 3 was spudded on 01/21/02. Drilled TD = 1,480' and 4-1/2" casing is cemented @ 1,474'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on Leah Marie No. 2, 4 and Mitzi Com No. 90.

⑤ Leah Marie No. 4 was spudded on 01/28/02. Drilled TD = 1,485' and 4-1/2" casing is cemented at 1,476'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on the Leah Marie No. 2, 3 and Mitzi Com No. 90.

⑥ The Mitzi No. 1 completion is a re-entry of an abandoned wellbore (Tenneco's Navajo Yazza No. 1). The Pictured Cliffs formation was completed 02/08/01 and tested a rate of 97 mcf + 140 BWP. The well is currently shut in pending a pipeline connection.

⑦ The Mitzi Com No. 90 was spudded on 05/24/01. Drilled TD = 1,505' and 4-1/2" casing is cemented at 1,482'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on the Leah Marie No. 2, 3 and 4.



(GALLEGOS TRADING POST) R 12 W

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Lease Key			
Index	Lease Name	Lease Type	Lease Number
A	Leah Marie	Federal	NM-55113
B	Mitzi	Navajo Allotted	NOG-9905-1356

ATTACHMENT NO. 1
Dugan Production Corp.
Proposed Leah Marie Gathering System
CDP Sales Meter @ Leah Marie #2 (L-23-26N-12W)
San Juan County, New Mexico