

8.29.05 DATE IN	SUSPENSE	Catlanach ENGINEER	8.30.05 LOGGED IN	CTB TYPE	Dem0524248381 APP NO.
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ABOVE THIS LINE FOR DIVISION USE ONLY

**NEW MEXICO OIL CONSERVATION DIVISION**  
 - Engineering Bureau -  
 1220 South St. Francis Drive, Santa Fe, NM 87505



560

**ADMINISTRATIVE APPLICATION CHECKLIST**

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

**Application Acronyms:**

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]  
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]  
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]  
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]  
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]  
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

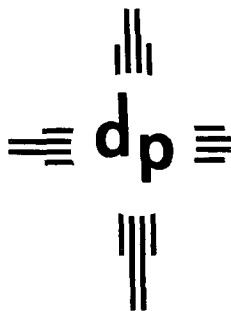
- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]  
 [A] Location - Spacing Unit - Simultaneous Dedication  
☐ NSL ☐ NSP ☐ SD
- Check One Only for [B] or [C]  
 [B] Commingling - Storage - Measurement  
☐ DHC ☒ CTB ☐ PLC ☐ PC ☐ OLS ☒ OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery  
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
- [D] Other: Specify \_\_\_\_\_
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or ☐ Does Not Apply  
 [A] ☒ Working, Royalty or Overriding Royalty Interest Owners  
 [B] ☐ Offset Operators, Leaseholders or Surface Owner  
 [C] ☐ Application is One Which Requires Published Legal Notice  
 [D] ☒ Notification and/or Concurrent Approval by BLM or SLO  
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office  
 [E] ☒ For all of the above, Proof of Notification or Publication is Attached, and/or,  
 [F] ☐ Waivers are Attached
- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

**Note:** Statement must be completed by an individual with managerial and/or supervisory capacity.

John D. Roe Print or Type Name	<u>John D. Roe</u> Signature	Engineering Manager Title	08/26/05 Date
		johnroe@duganproduction.com e-mail Address	

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 AUG 29 2005  
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 DIVISION



# dugan production corp.

August 26, 2005

Mr. Mark Fesmire, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Mr. Jim Stockbridge  
Farmington Indian Minerals Office  
1235 La Plata Highway, Suite B  
Farmington, NM 87401

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

Re: Application to Surface Commingle and for the Off-lease Measurement and Sale of Produced Natural Gas – Thirteen wells to be connected to Dugan Production's proposed Sesamee Street Gathering System  
San Juan County, New Mexico

Dear Mr. Fesmire, Mr. Henke and Mr. Stockbridge,

We are writing to request your administrative approvals for the surface commingling, plus off-lease measurement and sale of natural gas produced from 13 wells to be connected to Dugan Production's proposed Sesamee Street Gathering System (SSGS). The 13 wells are all to be completed in the Basin Fruitland Coal gas pool (NMOCD Pool No. 71629), seven of which will be the initial well in the standard 320A Fruitland Coal spacing unit and six of which will be infills to the spacing units. To date, eleven of the wells have been drilled and are waiting to be completed. Two of the wells have APD's submitted, one of which is approved. The leasehold interest includes three federal and 3 Navajo Allotted leases. Dugan Production will operate all 13 wells, having a working interest ranging from 99.7% to 100%. There is no state or fee acreage within any of the seven spacing units. The Fruitland Coal in this area is 1300' to 1600' in depth and production is anticipated to average 150 mcf/d plus 150 bwpd per well. The produced gas will be similar in all wells and will average  $\pm 930$  BTU/cf. The central delivery gas sales meter (CDP) for the SSGS will be located in the SW/4 NE/4 of Section 36, T-25N, R-11W and will deliver gas to Enterprise Field Services (previously El Paso Field Services) at a meter to be set and maintained by them.

NMOCD Form 107-B is attached in support of this application. Attachment No. 1 presents a map of the SSGS along with Dugan Production's leasehold interest. The wells and associated leases are also presented on Attachment No. 2. It is anticipated that these wells will produce large volumes of water and the proposed gathering system will include a separate pipeline for the water which will be collected at the Herry Monster No. 3 (SWD) well for disposal into the Entrada formation. The Herry Monster No. 3 (SWD) well has an approved APD to be drilled as a water disposal well and an application for disposal is being prepared.

Since the proposed surface commingling only involves production from the Basin Fruitland Coal gas pool, we do not anticipate any commingling of oil or condensate. Each well will be equipped with a continuous recording dry flow gas allocation meter (or some form of approved alternative measurement) operated and maintained by Dugan Production. Prior to converting any gas measurement from a conventional gas meter to an alternative measurement method, we will seek formal approvals. The charts from each allocation meter will be integrated by a commercial integration service and the volumes recorded utilized

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to determine factors for allocating CDP volumes, BTU's and revenues to the individual wells. The proposed allocation procedures are presented on Attachment No. 4.

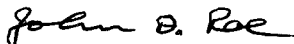
Attachment No. 3 presents a summary of the interest owners in the wells to be connected to the SSGS. There are two working interest owners, two types of royalty interest (federal and Navajo Allotted) plus 2 overriding royalty interest owners. As required by OCD Rule 19.15.5.303B.(4)(3)(iii) all interest owners in these wells are receiving a complete copy of this application as their notice of our proposed gathering system. Attachment No. 5 includes a copy of the notice letter sent to the interest owners. Complete copies of the application are also being sent to the Bureau of Land Management and the Farmington Indian Minerals Office seeking approvals on behalf of the royalty interest owners. All notice letters have been sent by certified, return receipt mail and upon receiving the receipts, copies will be forwarded to the NMOCD. As provided by Rule 19.15.5.303B.(4)(d)(vii), Dugan Production is requesting that the NMOCD Order issued for this application also include a provision that for future additions to the gathering system, only the interest owners in the wells being added need to be notified, providing that in reasonable probability the proposed additions will not adversely affect the interest owners in the wells already approved for the system. Our letters to each of the interest owners did include a notice of this request. This provision will be very helpful and will greatly reduce the work effort necessary to add wells to the SSGS in the future.

Attachment No. 6 presents a drawing of the central battery site at the Herry Monster No. 3 (SWD) well for collecting and disposing of the water being produced. As indicated above, the gathering system being installed will consist of two separate lines; one for natural gas which is typically produced from the casing-tubing annulus at each well, and one line for water which is typically produced up the tubing using a rod pump artificial lift. The water is collected at a central location and any gas that may also be in the water stream is removed using a conventional 2 Phase Separator. All gas recovered from the water will be metered and then delivered to the gas gathering line for sale. The metered volumes at the separator will then be used to allocate CDP gas volumes back to the separator using the same allocation procedure used for all other wells. The gas volumes allocated to the separator will then be allocated to each well delivering water to the separator based upon the water volumes delivered and the percentage of all water delivered to the separator. Attachment No. 6 also presents the gathering system compression facilities located at the Ernie Corn No. 90S. The system compressor will hopefully provide a gas gathering system pressure of 10 to 15 psi and will deliver gas into Enterprises system which is currently averaging  $\pm 100$  psi. All lines installed will initially be pressure tested and upon placing the system in service, the lines will be monitored for leaks using Dugan Production's portable gas leak detection equipment.

In summary, Dugan Production Corp. is requesting approval to connect 13 wells to our proposed Sesamee Street Gathering System which will require surface commingling of natural gas and water plus the off-lease measurement and sale of gas.

Should you need additional information or have questions regarding any of this information, please feel free to contact me at the letterhead address.

Sincerely,

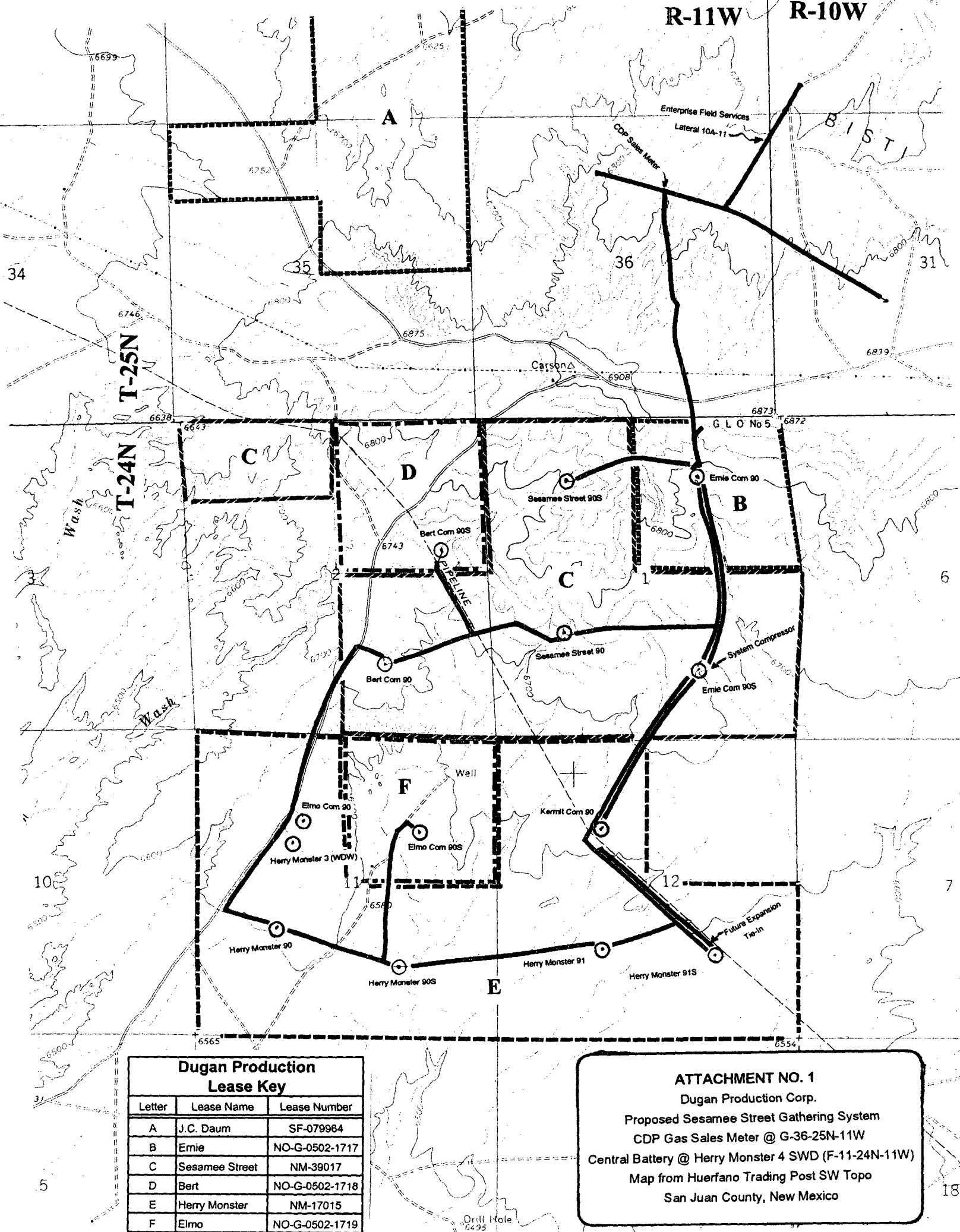


John D. Roe  
Engineering Manager

JDR/tmf

enclosures

cc: NMOCD – Aztec  
All interest owners  
Coleman Oil & Gas



District I  
1625 N. French Drive, Hobbs, NM 88240  
District II  
1301 W. Grand Ave, Artesia, NM 88210  
District III  
1000 Rio Brazos Road, Aztec, NM 87410  
District IV  
1220 S. St Francis Dr, Santa Fe, NM  
87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-107-B  
Revised June 10, 2003

**OIL CONSERVATION DIVISION**  
1220 S. St Francis Drive  
Santa Fe, New Mexico 87505

Submit the original  
application to the Santa Fe  
office with one copy to the  
appropriate District Office.

**APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)**

OPERATOR NAME: Dugan Production Corp.

OPERATOR ADDRESS: P. O. Box 420, Farmington, NM 87499-0420

APPLICATION TYPE:

☐ Pool Commingling ☒ Lease Commingling ☐ Pool and Lease Commingling ☒ Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: ☐ Fee ☐ State ☒ Federal & Navajo Allotted

Is this an Amendment to existing Order? ☐ Yes ☒ No If "Yes", please include the appropriate Order No. \_\_\_\_\_

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling

☒ Yes ☐ No

**(A) POOL COMMINGLING**

Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production		Calculated Value of Commingled Production	Volumes

(2) Are any wells producing at top allowables? ☐ Yes ☐ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No.

(4) Measurement type: ☐ Metering ☐ Other (Specify) See Attachment No. 4

(5) Will commingling decrease the value of production? ☐ Yes ☐ No If "yes", describe why commingling should be approved

**(B) LEASE COMMINGLING**

Please attach sheets with the following information

(1) Pool Name and Code. Basin Fruitland Coal (71629)

(2) Is all production from same source of supply? ☒ Yes ☐ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☒ Yes ☐ No

(4) Measurement type: ☒ Metering ☒ Other (Specify) Each well will be equipped with an allocation meter or an approved method of alternative measurement.

**(C) POOL and LEASE COMMINGLING**

Please attach sheets with the following information

(1) Complete Sections A and E.

**(D) OFF-LEASE STORAGE and MEASUREMENT**

Please attached sheets with the following information

(1) Is all production from same source of supply? ☒ Yes ☐ No See Attachment No. 2

(2) Include proof of notice to all interest owners. See Attachment No. 3 & 5

**(E) ADDITIONAL INFORMATION (for all application types)**

Please attach sheets with the following information

(1) A schematic diagram of facility, including legal location. See Attachment No. 1 & 6

(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved. Attachment No. 1

(3) Lease Names, Lease and Well Numbers, and API Numbers. See Attachment No. 2

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: John D. Roe

TITLE: Engineering Manager

DATE: 8/26/05

TYPE OR PRINT NAME John D. Roe

TELEPHONE NO.: 505-325-1821

E-MAIL ADDRESS: johnroe@duganproduction.com

**ATTACHMENT NO. 2**  
**DUGAN PRODUCTION CORP.**  
**PROPOSED SESAMEE STREET GATHERING SYSTEM 8-26-05**  
**CENTRAL DELIVERY SALES METER (ENTERPRISE FIELD SERVICES METER TO BE SET) G-36-25N-11W**  
**SAN JUAN COUNTY, NEW MEXICO**

Well Name	API Number	Well Location		Lease No.	Lse. Type	CA Number	Pool	Completion Date @	Current Prod. @		Spacing Unit
		UI-Sec-Twn-Rng							MCFD	BW/D	
WELLS TO BE ADDED TO SYSTEM (13 wells)											
Bert Com No. 90	32714	O-2-24N-11W		NM-39017	Federal	pending	Basin Fruitland Coal	WOCT	150	150	E/2-321.22A
Bert Com No. 90S	32924	H-2-24N-11W		NO-G-0502-1718	Nav. Altd.	pending	Basin Fruitland Coal	WOCT	150	150	E/2-321.22A
Elmo Com No. 90	32704	F-11-24N-11W		NM-17015	Federal	pending	Basin Fruitland Coal	WOCT	150	150	N/2-320A
Elmo Com No. 90S	32925	G-11-24N-11W		NO-G-0502-1719	Nav. Altd.	pending	Basin Fruitland Coal	Loc. A	150	150	N/2-320A
Ernie Com No. 90	32919	B-1-24N-11W		NO-G-0502-1717	Nav. Altd.	pending	Basin Fruitland Coal	WOCT	150	150	E/2-321.72A
Ernie Com No. 90S	32703	O-1-24N-11W		NM-39017	Federal	pending	Basin Fruitland Coal	WOCT	150	150	E/2-321.72A
Herry Monster No. 90	32708	K-11-24N-11W		NM-17015	Federal	N/A	Basin Fruitland Coal	WOCT	150	150	S/2-320A
Herry Monster No. 90S	32713	O-11-24N-11W		NM-17015	Federal	N/A	Basin Fruitland Coal	WOCT	150	150	S/2-320A
Herry Monster No. 91	32706	K-12-24N-11W		NM-17015	Federal	N/A	Basin Fruitland Coal	WOCT	150	150	S/2-320A
Herry Monster No. 91S	32709	J-12-24N-11W		NM-17015	Federal	N/A	Basin Fruitland Coal	WOCT	150	150	S/2-320A
Kermit Com No. 90 @	32707	F-12-24N-11W		NM-17015	Federal	pending	Basin Fruitland Coal	WOCT	150	150	N/2-320A
Sesamee Street No. 90	32702	L-1-24N-11W		NM-39017	Federal	N/A	Basin Fruitland Coal	WOCT	150	150	W/2-332.48A
Sesamee Street No. 90S	pending	C-1-24N-11W		NM-39017	Federal	N/A	Basin Fruitland Coal	Loc. B	150	150	W/2-332.48A
SWD WELL											
Herry Monster No. 3 SWD	33217	F-11-24N-11W		NM-17015	Federal	N/A	Undes. Entrada	Loc. A	---	---	N/A

**Notes:**

N/A - Not applicable or not needed.

① - All wells are either undrilled or recently drilled and are waiting to be completed. Production information represents average anticipated production rates.

② - Well status as of 8/26/05 if not completed:

Loc A = APD approved and ready to drill

Loc B = proposed location - APD submitted

WOCT =

Well Name	Spud Date	Status as of 8/26/05
Bert Com No. 90	7/7/05	5 1/2" casing cemented @ 1493' - Waiting to be completed
Bert Com No. 90S	8/20/05	5 1/2" casing cemented @ 1584' - Waiting to be completed
Elmo Com No. 90	7/18/05	5 1/2" casing cemented @ 1445' - Waiting to be completed
Ernie Com No. 90	7/29/05	5 1/2" casing cemented @ 1662' - Waiting to be completed
Ernie Com No. 90S	6/20/05	5 1/2" casing cemented @ 1541' - Waiting to be completed
Herry Monster No. 90	5/4/05	5 1/2" casing cemented @ 1410' - Waiting to be completed
Herry Monster No. 90S	5/24/05	5 1/2" casing cemented @ 1325' - Waiting to be completed
Herry Monster No. 91	4/26/05	5 1/2" casing cemented @ 1356' - Waiting to be completed
Herry Monster No. 91S	6/6/05	5 1/2" casing cemented @ 1355' - Waiting to be completed
Kermit Com No. 90	6/13/05	5 1/2" casing cemented @ 1402' - Waiting to be completed
Sesamee Street No. 90	6/27/05	5 1/2" casing cemented @ 1582' - Waiting to be completed

③ - Dugan Production APD dated 11/21/04 and revised 2/23/05 to drill Kermit Com No. 90S (A-12-24N-11W) as the NE/4 infill well was withdrawn 8/19/05. The NE/4 infill well for the N/2 spacing unit will be drilled and operated by Coleman Oil & Gas as their Juniper Corn Well No. 32-12 under NMOC Order No. R-12352. The N/2 spacing unit for the Fruitland Coal will be simultaneously dedicated to Dugan's Kermit Com No. 90 (NW/4) and Coleman's Juniper Corn 32-12 (NE/4). Coleman's well will be connected to their Juniper West gathering system and will not deliver gas or water into Dugan's Sesamee Street Gathering System.

## Interest Ownership Summary

## Dugan Production Corp.'s Sesamee Street Gathering System

	Bert Com No. 90 & 90S (details on Pg. No. 2)	Elmo Com No. 90 & 90S (details on Pg. No. 3)	Ernie Com No. 90 & 90S (details on Pg. No. 4)	Herry Monster No. 90 & 90S (details on Pg. No. 5)	Herry Monster No. 91 & 91S (details on Pg. No. 6)	Kermit Com No. 90 (details on Pg. No. 7)	Sesamee Street No. 90 & 90S (details on Pg. No. 8)	Coleman's Juniper 32-12* (details on Pg. No. 7)
	WI	NI	WI	NI	WI	NI	WI	NI
<b>Microfilm Interest</b>								
Dugan Production Corp.	100.000	82.918	99.830	82.769	100.000	82.500	0.000	0.000
Coleman Oil & Gas	0.000	0.000	0.000	0.000	0.000	0.000	0.000	85.417
James B. Fullerton			0.170	0.140	0.333	0.275	0.000	0.000
<b>Fidelity Interest</b>								
USA - Federal	0.000	6.226	0.000	6.361	0.000	12.500	0.000	6.250
Navajo Allotted	0.000	8.365	0.000	8.186	0.000	0.000	0.000	8.333
<b>Overriding Fidelity Interest</b>								
Number of Owners	1	1	1	1	1	1	1	0
Total ORRI	2.491	2.544	5.000	5.000	5.000	5.000	5.000	0.000
<b>TOTALS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

\* - Coleman's well will be connected to their Juniper West gathering system and will not deliver gas or water into Dugan's Sesamee Street Gathering System. See Page No. 7 for details

**ATTACHMENT NO. 3 – PAGE 2 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Bert Com No. 90	Basin Fruitland Coal	SWSE 2-24N-11W	E/2-321.22A
Bert Com No. 90S	Basin Fruitland Coal	SENE 2-24N-11W	E/2-321.22A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.918249
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.226263
Navajo Allotted Farmington Indian Minerals Office c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.364983
<u>Overriding Royalty Interest</u>		
Guadalupe R. & Eloy P. Sanchez, et vir P. O. Box 1244 Santa Fe, NM 87505	-0-	2.490505
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>



**ATTACHMENT 3 – PAGE 3 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Elmo Com No. 90	Basin Fruitland Coal	SENE 11-24N-11W	N/2-320A
Elmo Com No. 90S	Basin Fruitland Coal	SWNE 11-24N-11W	N/2-320A

**INTEREST OWNERS**

	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	99.830386	82.769367
James B. Fullerton 1645 Court Place, Suite 406 Denver, CO 80202	0.169614	0.139932
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.360511
Navajo Allotted Farmington Indian Minerals Office c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.185986
<u>Overriding Royalty Interest</u>		
John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	-0-	2.544204
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>

**ATTACHMENT NO. 3 – PAGE 4 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Ernie Com No. 90	Basin Fruitland Coal	NWNE 1-24N-11W	E/2-321.72A
Ernie Com No. 90S	Basin Fruitland Coal	SWSE 1-24N-11W	E/2-321.72A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.500000
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u>		
John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	-0-	5.000000
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>

**ATTACHMENT 3 – PAGE 5 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Herry Monster No. 90	Basin Fruitland Coal	NESW 11-24N-11W	S/2-320A
Herry Monster No. 90S	Basin Fruitland Coal	SWSE 11-24N-11W	S/2-320A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	99.666667	82.225000
James B. Fullerton 1645 Court Place, Suite 406 Denver, CO 80202	0.333333	0.275000
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u>		
John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	-0-	5.000000
<b><u>TOTAL WELL</u></b>	<b><u>100.000000</u></b>	<b><u>100.000000</u></b>

**ATTACHMENT NO. 3 – PAGE 6 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Herry Monster No. 91	Basin Fruitland Coal	NESW 12-24N-11W	S/2-320A
Herry Monster No. 91S	Basin Fruitland Coal	NWSE 12-24N-11W	S/2-320A

**INTEREST OWNER**

**INTEREST%**

	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u> Dugan Production Corp.	99.666667	82.225000
 James B. Fullerton 1645 Court Place, Suite 406 Denver, CO 80202	 0.333333	 0.275000
 <u>Royalty</u> USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	 -0-	 12.500000
 <u>Overriding Royalty Interest</u> John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	 -0-	 5.000000
 <b><u>TOTAL WELL</u></b>	 <u>100.000000</u>	 <u>100.000000</u>

**ATTACHMENT NO. 3 – PAGE 7 OF 8**

<u>Operator Name</u>	<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Dugan Production Corp.	Kermit Com No. 90	Basin Fruitland Coal	SE 1/4 12-24N-11W	S/2 - 320A*
Coleman Oil & Gas, Inc.	Juniper Com No. 32-12	Basin Fruitland Coal	NE 1/4 12-24N-11W	S/2 - 320A*

<u>INTEREST OWNER</u>	<u>DUGAN'S KERMIT COM NO. 90</u>		<u>COLEMAN'S JUNIPER COM 32-12</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>				
Dugan Production Corp.	99.666667	80.141667	-0-	-0-
Coleman Oil & Gas, et al P. O. Box 3337 Farmington, NM 87499-3337	-0-	-0-	100.000000	85.416670
James B. Fullerton 1645 Court Place, Suite 406 Denver, CO 80202	0.333333	0.275000	-0-	-0-
<u>Royalty</u>				
USA-Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.250000	-0-	6.250000
Navajo Allotted c/o USA-Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.333333	-0-	8.333333
<u>Overriding Royalty Interest</u>				
John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	-0-	5.000000	-0-	-0-
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>	<u>100.000000</u>	<u>100.000000</u>

\* - Under NMOCD Order No. R-12352 dated 5/18/05, the N/2 spacing unit for the Basin Fruitland Coal will be simultaneously dedicated to Dugan Production's Kermit Com No. 90 (located in the NW/4) and Coleman Oil & Gas, Inc.'s proposed Juniper Com Well No. 32-12 which will be in the NE/4. Dugan Production will operate the NW/4 and Coleman Oil & Gas will operate the NE/4 independently of each other. Royalty from both wells will be reported and disbursed based upon the N/2 - 320 acre spacing unit. Coleman's well will be connected to their Juniper West gathering system and will not deliver gas or water into Dugan's Sesamee Street Gathering System.

**ATTACHMENT 3 – PAGE 8 OF 8**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Sesamee Street No. 90	Basin Fruitland Coal	NWSW 1-24N-11W	W/2-332.48A
Sesamee Street No. 90S	Basin Fruitland Coal	NENW 1-24N-11W	W/2-332.48A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.500000
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u>		
John N. & Mary Lou Clawson, et ux 2534 Wilshire Circle Salt Lake City, UT 84109	-0-	5.000000
 <b><u>TOTAL WELL</u></b>	 <u>100.000000</u>	 <u>100.000000</u>

**ATTACHMENT NO. 4**  
**Proposed Allocation Procedures**  
**Dugan Production Corp.'s**  
**Sesamee Street Gathering System**  
**CDP Gas Sales Meter: SWNE 36-25N-11W (Enterprise Field Services Meter to be set)**  
**San Juan County, New Mexico**

**Base Data:**

U = Water Volume (BWPD) from Periodic Well Test x days operated during allocation period.

V = Water Volume (bbl) at Central Battery during allocation period.

W = Gas Volume (MCF) from allocation meters at individual wells and central battery separator during allocation period.

X = Gas Volume (MCF) from CDP Sales Meter during allocation period.

Y = BTU's from CDP Sales Meter during allocation period.

Allocation Period is typically a calendar month and will be the same for all wells.

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

A = Allocated Sales Volume, MCF =  $(W / \text{SUM } W) \times X$

B = On lease fuel usage, MCF. Determined from equipment specification and operating conditions.

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  $W / \text{SUM } W$  for the wells involved.

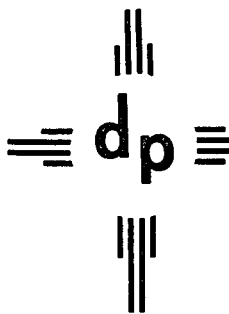
E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by  $W / \text{SUM } W$ .

F = Allocated gas sales volume (MCF) associated with water production = (A) in mcf for the central battery separator multiplied by a factor of  $(U / \text{SUM } U)$  for wells delivering gas and water to the central battery separator.

2. Allocated Individual Well BTU's =  $((W \times \text{Individual well BTU}) / \text{Sum } (W \times \text{individual well BTU})) \times Y$ .

Individual well gas heating values to be determined in accordance with BLM regulations (currently Onshore Order No. 5).

3. Individual Well Water Production = Allocated production volume, bbl =  $(U / \text{Sum } U) \times V$ .



# dugan production corp.

Attachment  
No.  
5  
pg 1 of 3

August 26, 2005

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Interest Owners (Address list attached)

Re: Wells to be connected to  
Dugan Production's proposed  
Sesamee Street Gathering System  
San Juan County, New Mexico

Dear Interest Owner,

According to our records, you have an interest in one or more of the wells that is proposed to be connected to Dugan's proposed Sesamee Street Gathering System. The wells in which you have an interest are listed on the attached address list and your interest, as included in our records, is presented on Attachment No. 3 to our application. Attached for your information and review is a complete copy of Dugan's application to the NMOCD, BLM and Farmington Indian Minerals Office, requesting their approvals. This will require surface commingling of gas and water production, plus the sale of gas at an off-lease central delivery sales meter (CDP). Dugan Production will install, operate and maintain the gathering system and will pay all costs associated with this proposal. As a working interest owner, your only costs associated with the gathering system will be a production based fee charged for gathering and compression. You will not be billed for any costs associated with installing the gathering system (including the allocation meters). Dugan Production's current company-wide gathering system fee is \$0.27/MMBTU, and our compression fee is \$0.09/MMBTU. These fees will be used until operating economics indicate the need for revisions. Royalty and overriding royalty interest owners will have no costs.

This proposal should not affect your interest in these wells and should allow for optimum operations on all wells. All wells will benefit from central compression which should keep wellhead operating pressures as low as possible. In addition, the produced water gathering system and onsite water disposal well will help to insure water handling costs are kept to a minimum. This method of operation will help to keep our operating expenses as low as possible, which will allow all interest owners to recover more of the gas reserves from each well.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners receive notice of our application. Included in Dugan's application is a request that for future additions to the gathering system, only the interest owners in the wells to be added will require notification provided that the proposed additions will not adversely affect the existing wells. This will greatly simplify adding wells to the gathering system and should not affect the interests previously authorized to operate on the gathering system. Should you have any questions, need additional information, or have any concern as to our application, please let me know. Should you have an objection to our application, please let me know and you should contact the New Mexico Oil Conservation Division directly within 20 days from the date the NMOCD receives our application which will be approximately 8/29/05. The mailing address for the NMOCD is 1220 South St. Francis Drive in Santa Fe, New Mexico 87505. We would appreciate receiving a copy of your objection.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

Attachments

xc: New Mexico Oil Conservation Division, Bureau of Land Management



**Wells to be Connected to  
Dugan Production Corp.'s Proposed Sesamee Street Gathering System  
Interest Owners Address List**

a = Bert Com 90 & 90S; b = Elmo Com 90 & 90S; c = Ernie Com 90 & 90S; d = Herry Monster 90 & 90S;  
e = Herry Monster 91 & 91S; f = Kermit Com 90; g = Sesamee Street 90 & 90S

**Working Interest Owners**

Dugan Production Corp. (a thru g)  
P. O. Box 420  
Farmington, NM 87499-0420

James B. Fullerton (b,d,e,f)  
1645 Court Place, Suite 406  
Denver, CO 80202

**Royalty Interest Owners**

USA - Bureau of Land Management (a thru g)  
1235 LaPlata Hwy, Suite A  
Farmington, NM 87401

Navajo Allotted (a,b,f)  
c/o Bureau of Land Management  
1235 La Plata Highway  
Farmington, NM 87401

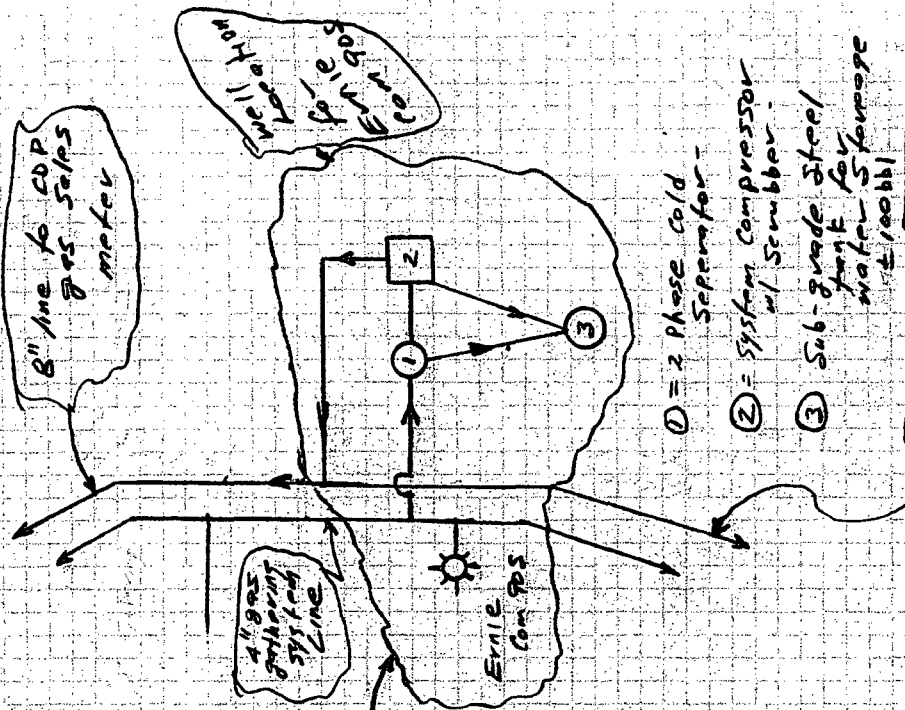
**Overriding Royalty Interest Owners**

John N. & Mary Lou Clawson, et ux (b thru g)  
4352 S. Zarahemla  
Salt Lake City, UT 84124

Guadalupe R. & Eloy P. Sanchez, et vir (a)  
P. O. Box 1244  
Santa Fe, NM 87504

Dugan Production Co. v. P  
Attachment No. 6

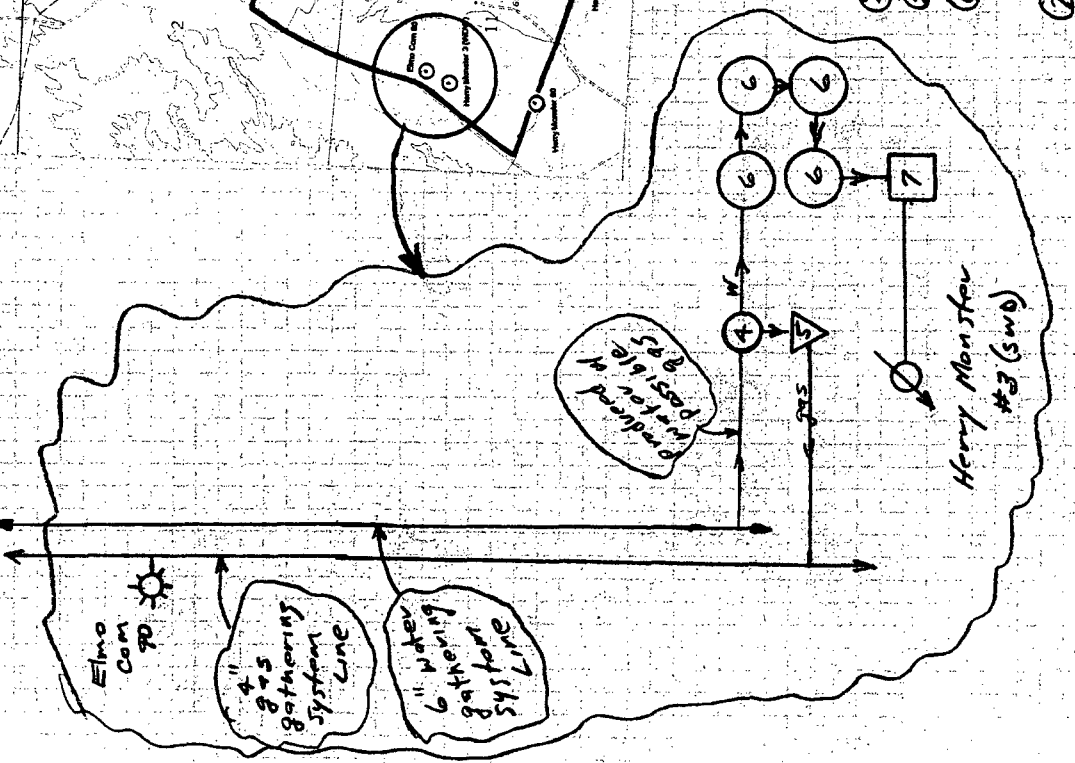
Sesamee Street Gathering System Compressor



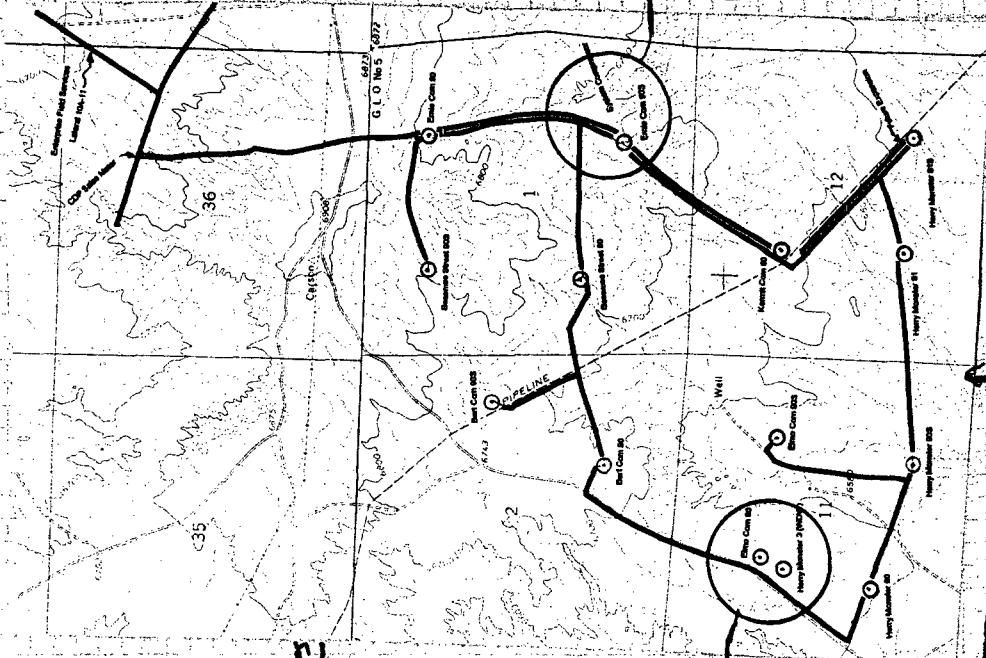
6" line installed to receive future additions - valve closed + Blind Plated

- ① = 2 phase cold Separator
- ② = System Compressor w/ scrubber
- ③ = Sub-grade steel joint for water storage ±100 bbl

Sesamee Street gathering system water disposal facility



- ④ = 2 phase Cold Separator
- ⑤ = dry flow Gas meter
- ⑥ = water storage tanks - Above grade tanks 4 to 6 ±100 bbl tanks
- ⑦ = water injection pump



gathering system c 502

**dugan production corp.**

**RECEIVED**

AUG 31 2005

OIL CONSERVATION  
DIVISION

August 29, 2005

Mr. Mark Fesmire, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Mr. Jim Stockbridge  
Farmington Indian Minerals Office  
1235 La Plata Highway, Suite B  
Farmington, NM 87401

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

Re: Supplemental Information to Dugan's Application dated 8/26/05  
Application to Surface Commingle and for the Off-lease Measurement and  
Sale of Produced Natural Gas – Thirteen wells to be connected to  
Dugan Production's proposed Sesamee Street Gathering System  
San Juan County, New Mexico

Dear Mr. Fesmire, Mr. Henke and Mr. Stockbridge,

Attached for your information and use in processing the subject application is a copy of revised Page No. 7 from Attachment No. 3. The spacing unit for the Kermit Com No. 90 and Juniper Com 32-12 on the initial copy was presented to be the S/2 which is not correct. The attached revised page has been corrected to show the spacing unit as being the N/2.

Sorry for any inconvenience this may cause. Should you have any questions, please let me know.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

enclosure

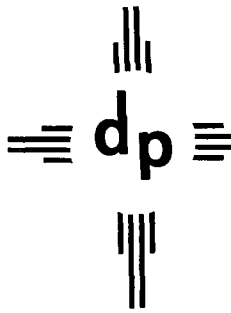
cc: NMOCD - Aztec

**ATTACHMENT NO. 3 – PAGE 7 OF 8 (Revised 8/29/05)**

<u>Operator Name</u>	<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Dugan Production Corp.	Kermit Com No. 90	Basin Fruitland Coal	SENW 12-24N-11W	N/2 - 320A*
Coleman Oil & Gas, Inc.	Juniper Com No. 32-12	Basin Fruitland Coal	NE 12-24N-11W	N/2 - 320A*

<u>INTEREST OWNER</u>	<u>DUGAN'S KERMIT COM NO. 90</u>		<u>COLEMAN'S JUNIPER COM 32-12</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>				
Dugan Production Corp.	99.666667	80.141667	-0-	-0-
Coleman Oil & Gas, et al P. O. Box 3337 Farmington, NM 87499-3337	-0-	-0-	100.000000	85.416670
James B. Fullerton 1645 Court Place, Suite 406 Denver, CO 80202	0.333333	0.275000	-0-	-0-
<u>Royalty</u>				
USA-Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.250000	-0-	6.250000
Navajo Allotted c/o USA-Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.333333	-0-	8.333333
<u>Overriding Royalty Interest</u>				
John N. & Mary Lou Clawson, et ux 4352 S. Zarahemla Salt Lake City, UT 84124	-0-	5.000000	-0-	-0-
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>	<u>100.000000</u>	<u>100.000000</u>

\* - Under NMOCDC Order No. R-12352 dated 5/18/05, the N/2 spacing unit for the Basin Fruitland Coal will be simultaneously dedicated to Dugan Production's Kermit Com No. 90 (located in the NW/4) and Coleman Oil & Gas, Inc.'s proposed Juniper Com Well No. 32-12 which will be in the NE/4. Dugan Production will operate the NW/4 and Coleman Oil & Gas will operate the NE/4 independently of each other. Royalty from both wells will be reported and disbursed based upon the N/2 - 320 acre spacing unit. Coleman's well will be connected to their Juniper West gathering system and will not deliver gas or water into Dugan's Sesamee Street Gathering System.



dugan production corp.

2005 SEP 16 PM 1 22

September 2, 2005

Mr. Mark Fesmire, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Mr. Jim Stockbridge  
Farmington Indian Minerals Office  
1235 La Plata Highway, Suite B  
Farmington, NM 87401

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

Re: Supplemental Information No. 2 to Dugan's Application dated 8/26/05  
To Surface Commingle and for the Off-lease Measurement and  
Sale of Produced Natural Gas – Thirteen wells to be connected to  
Dugan Production's proposed Sesamee Street Gathering System  
San Juan County, New Mexico

Dear Mr. Fesmire, Mr. Henke and Mr. Stockbridge,

Attached for your information and file regarding the subject application is a copy of revised Pages No. 1, 4 & 8 from Attachment No. 3. The initial copies incorrectly presented John N. & Mary Lou Clawson as having the overriding royalty interest. The correct overriding royalty interest owner is Guadalupe R. and Eloy F. Sanchez. In addition, the net interest factors presented on Page No. 4 for the Ernie Com No. 90 & 90S were not correct and did not include the royalty for Navajo Allotted lease NO-G-0502-1717. In addition, Page No. 2 of Attachment No. 3 and Page No. 2 of Attachment No. 5 have been revised to reflect these interest owner changes along with changing Eloy P. to Eloy F. Sanchez.

Sorry for any inconvenience this may cause. Should you have any questions, please let me know.

Sincerely,

John D. Roe  
Engineering Manager

JDR/tmf

enclosure

cc: NMOCD - Aztec

## Interest Ownership Summary

## Dugan Production Corp.'s Sesamee Street Gathering System

	Bert Com No. 50 & 90S (details on Pg. No. 2)		Eimo Com No. 90 & 90S (details on Pg. No. 3)		Ernie Com No. 90 & 90S (details on Pg. No. 4)		Herry Monster No. 90 & 90S (details on Pg. No. 5)		Herry Monster No. 91 & 91S (details on Pg. No. 6)		Kermit Com No. 90 (details on Pg. No. 7)		Sesamee Street No. 90 & 90S (details on Pg. No. 8)		Coleman's Juniper 32-12" (details on Pg. No. 7)	
	WI	NI	WI	NI	WI	NI	WI	NI	WI	NI	WI	NI	WI	NI	WI	NI
<b>Working Interest</b>																
Dugan Production Corp.	100.000	82.918	99.830	82.769	100.000	82.919	99.667	82.225	99.667	82.225	99.667	80.142	100.000	82.500	0.000	0.000
Coleman Oil & Gas	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	100.000	85.417
James B. Fullerton			0.170	0.140			0.333	0.275	0.333	0.275	0.33	0.275	0.000	0.000	0.000	0.000
<b>Royalty Interest</b>																
USA - Federal	0.000	6.226	0.000	6.361	0.000	6.217	0.000	12.500000	0.000	12.500	0.000	6.250	0.00	12.500	0.000	6.250
Navejo Allotted	0.000	8.365	0.000	8.186	0.000	8.378	0.000	0.000	0	0.000	0.000	8.333	0.000	0.000	0.000	8.333
<b>Overriding Royalty Interest</b>																
Number of Owners	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
Total ORRI	2.491	2.491	2.544	2.487	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	0.000
<b>TOTALS</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

\* - Coleman's well will be connected to their Juniper West gathering system and will not deliver gas or water into Dugan's Sesamee Street Gathering System. See Page No. 7 for details

**ATTACHMENT NO. 3 – PAGE 2 OF 8 (Revised 9/2/05)**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Bert Com No. 90	Basin Fruitland Coal	SWSE 2-24N-11W	E/2-321.22A
Bert Com No. 90S	Basin Fruitland Coal	SENE 2-24N-11W	E/2-321.22A

**INTEREST OWNER**

**INTEREST%**

	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.918249
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.226263
Navajo Allotted Farmington Indian Minerals Office c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.364983
<u>Overriding Royalty Interest</u>		
Guadalupe R. & Eloy F. Sanchez, et vir P. O. Box 1244 Santa Fe, NM 87504	-0-	2.490505
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>

**ATTACHMENT NO. 3 – PAGE 4 OF 8 (Revised 9/2/05)**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Ernie Com No. 90	Basin Fruitland Coal	NWNE 1-24N-11W	E/2-321.72A
Ernie Com No. 90S	Basin Fruitland Coal	SWSE 1-24N-11W	E/2-321.72A

**INTEREST OWNER**

	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.918894
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	6.216586
Navajo Allotted Farmington Indian Minerals Office c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	8.377886
<u>Overriding Royalty Interest</u>		
Guadalupe R. & Eloy F. Sanchez, et vir P. O. Box 1244 Santa Fe, NM 87504	-0-	2.486634
<b><u>TOTAL WELL</u></b>	<u>100.000000</u>	<u>100.000000</u>



**ATTACHMENT 3 – PAGE 8 OF 8 (Revised 9/2/05)**  
**Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Sesamee Street No. 90	Basin Fruitland Coal	NWSW 1-24N-11W	W/2-332.48A
Sesamee Street No. 90S	Basin Fruitland Coal	NENW 1-24N-11W	W/2-332.48A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.000000	82.500000
<u>Royalty</u>		
USA – c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u>		
Guadalupe R. & Eloy F. Sanchez, et vir P. O. Box 1244 Santa Fe, NM 87504	-0-	5.000000
 <b>TOTAL WELL</b>	 <u>100.000000</u>	 <u>100.000000</u>

Attachment

No. 5

pg 2 of 2

**Wells to be Connected to  
Dugan Production Corp.'s Proposed Sesamee Street Gathering System  
Interest Owners Address List (Amended 9/2/05)**

a = Bert Com 90 & 90S; b = Elmo Com 90 & 90S; c = Ernie Com 90 & 90S; d = Herry Monster 90 & 90S;  
e = Herry Monster 91 & 91S; f = Kermit Com 90; g = Sesamee Street 90 & 90S

**Working Interest Owners**

Dugan Production Corp. (a thru g)  
P. O. Box 420  
Farmington, NM 87499-0420

James B. Fullerton (b,d,e,f)  
1645 Court Place, Suite 406  
Denver, CO 80202

**Royalty Interest Owners**

USA - Bureau of Land Management (a thru g)  
1235 LaPlata Hwy, Suite A  
Farmington, NM 87401

Navajo Allotted (a,b,c,f)  
c/o Bureau of Land Management  
1235 La Plata Highway  
Farmington, NM 87401

**Overriding Royalty Interest Owners**

John N. & Mary Lou Clawson, et ux (b,d,e,f)  
4352 S. Zarahemla  
Salt Lake City, UT 84124

Guadalupe R. & Eloy F. Sanchez, et vir (a,c,g)  
P. O. Box 1244  
Santa Fe, NM 87504