

DATE IN 10/31/12	SUSPENSE	ENGINEER E. Panyun	LOGGED IN 11/1/12	TYPE PLC	APP NO. PKVR1230657843
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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



*Dugan Production Corp*  
*Jeffers Federal Z #23*  
*Encana's Lybrook*

**ADMINISTRATIVE APPLICATION CHECKLIST**

*102-2308#11*

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 <sup>+</sup> 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

*Attachment No. 4 presents copies of Notification to interest owners - All, Sent Certified - return Receipt upon receiving receipts, copies will be sent to NMOC.*

[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	<i>John D. Roe</i>	Engineering Manager	10/29/12
Print or Type Name	Signature	Title	Date

*PLC-365*

*johnroe@duganproduction.com*  
e-mail Address



# dugan production corp.

RECEIVED OGD

2012 OCT 31 P 12:35

October 29, 2012

Ms. Jami Bailey, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Mr. Larry Roybal  
Oil, Gas & Minerals Division  
New Mexico State Land Office  
P O Box 1148  
Santa Fe, NM 87504

Mr. Dave Evans, District Manager  
Bureau of Land Management  
6251 College Blvd., Suite A  
Farmington, NM 87402

Re: Application for proposed  
Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Dear Ms. Bailey, Mr. Evans & Mr. Roybal,

We are writing to request your administrative approvals for a new gas gathering system to be installed and operated by Dugan Production and to be known as our Jeffers Federal Gas Gathering System (JFGS). This will require the surface commingling of gas plus off-lease measurement and sale of produced natural gas. There will not be any commingling of oil or condensate. There is no Indian acreage associated with any of the wells to be added. Initially there will be two wells authorized for the JFGS; Dugan's Jeffers Federal 2 well No. 23 (currently completed in the Basin Fruitland Coal Gas Pool) and the Nageezi Gallup Oil Pool located upon Federal Lease NM-29560; plus Encana Oil & Gas (USA) Inc.'s proposed Lybrook 102-2308 No. 1H (which is a proposed horizontal well in the Nageezi Gallup Oil Pool and to be drilled from a surface location upon State Lease V-7843). The well to be operated by Encana Oil & Gas (USA) Inc. is located upon leases currently held by Dugan Production and will be jointly owned by Dugan Production and Encana Oil & Gas. Encana has requested and Dugan Production has agreed to add their well to the JFGS. **Attachment No. 6** presents a copy of the Participation Statement by Encana Oil & Gas (USA) Inc. to include the gas production from their well in Dugan's JFGS. Gas produced from Encana's well will be treated the same as the gas produced from all other wells, i.e., it will be measured by Dugan Production prior to entering the JFGS and the allocation procedures used for other wells will be used.

Gas well

**Attachment No. 1** presents the well and lease information for each of the two wells (three completions) initially proposed for the JFGS. Dugan's Jeffers Federal 2 No. 23 is currently shut in, having recently been completed in the Basin Fruitland Coal and upon installing the proposed JFGS we plan to return this well to production initially to continue testing of the Fruitland Coal and then as approved for downhole commingled Basin Fruitland Coal and Nageezi Gallup oil (NMOCD DHC-4505-A). Note No. 1 for Attachment No. 1 provides a detailed description of each completion.

**Attachment No. 2** presents a map of the JFGS. In addition, Dugan Production's leasehold interest is also presented. Dugan Production is the operator of the Jeffers Federal 2 No. 23 and Encana Oil & Gas (USA) Inc. will operate the Lybrook 102-2308 No. 1H which is currently proposed as a horizontal Nageezi Gallup oil well. The proposed JFGS line is also presented which will require installing approximately 4750' of line from the gathering system compressor to be located on the Jeffers Federal 2 No. 23 location

to the CDP gas sales meter in the NWSE of Section 3, T-23N, R-8W located on Elm Ridge Resource's system. Elm Ridge will operate and maintain the CDP sales meter.

We do not anticipate commingling oil or condensate. Each well producing oil or condensate will be equipped with separation equipment and all oil or condensate will be separated, stored, and sold on the lease. Each well will be equipped with a continuous recording gas allocation meter (or some form of approved alternative measurement) operated and maintained by Dugan. Prior to converting any gas measurement from a conventional allocation meter to an alternative measurement method, we will seek formal approvals. The charts from each allocation meter are integrated monthly by a commercial integration service and the volumes recorded utilized to determine factors for allocating CDP volumes, BTU's and revenues to the individual wells. The allocation procedures are presented on **Attachment No. 5**.


**Attachment No. 3** presents a summary of the interest owners in the wells proposed for the JFGS. In addition to Dugan Production, Encana is the only other working interest owner. The royalty interest is federal and state. There is no Indian or fee royalty. In addition, there are five overriding royalty interest owners. As required by OCD rules, all interest owners have been given notice of this application.

**Attachment No. 4** includes a copy of the notice sent to the 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. Also included in Attachment No. 4 is a copy of the legal notice which published in The Farmington Daily Times on October 28<sup>th</sup>, 2012 to further provide notice to all interest owners, anticipating that there will invariably be some receipts not returned. As provided by Rule 19.15.12.10C(4)(g)(i&ii), 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, provided 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 effort necessary to add future wells to the JFGS.

In summary, Dugan Production Corp. is requesting approval to install and operate a new gas gathering system to be called the Jeffers Federal Gas Gathering System, which will require surface commingling plus off-lease measurement and sale of produced gas. In addition, we are requesting the NMOCD to include a provision in the order for notice requirements should additional wells be added in the future such that only the interest owners in the wells being added are required to receive notice of our application.

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

attachments

xc: NMOCD – Aztec  
Encana Oil & Gas (USA) Inc.

District I  
1625 N. French Drive, Hobbs, NM 88240  
District II  
811 S. First St., 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 August 1, 2011

### 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

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
Basin Fruitland Coal (71629)	1050 btu	Only gas to be		Only gas to be	7 mcf/d
Nageezi Gallup (47540)	45° API/1450 btu	commingled		Commingled	5 to 500 mcf/d
		Btu = 1217 to 1450		Value = ±\$2.75/ mmbtu	+ 2.1 to 400 BOPD

- (2) Are any wells producing at top allowables? ☐ Yes ☒ No - upon completion, one well may  
(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.  
(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)

#### (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  
(2) Include proof of notice to all interest owners.

#### (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. 2  
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved. Attachment No. 2  
(3) Lease Names, Lease and Well Numbers, and API Numbers. See Attachment No. 1

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: 10/29/12

TYPE OR PRINT NAME John D. Roe TELEPHONE NO.: 505-325-1821

E-MAIL ADDRESS: johnroe@duganproduction.com

ATTACHMENT NO. 1  
DUGAN PRODUCTION CORP.  
JEFFERS FEDERAL GAS GATHERING SYSTEM (10-29-12)  
CENTRAL DELIVERY SALES METER (ELM RIDGE METER TO BE INSTALLED) NWSE 3-T23N-R8W  
SAN JUAN COUNTY, NEW MEXICO

WELL NAME	API No. 30-045-	Well Location	Well Location		CA#	Pool	Completion Date	Well Status ①	Current Prod. ②			Spacing Unit	Dates for SC, OLM & S ③			
		UL-Sec-Twn-Rng	Lease No.	Lse Type					BOPD	MCFD	BWPD		Application	BLM Approval	NMSLO Approval	NMOCD Approval
		WELLS TO BE ADDED TO CDP (2 WELLS 3 COMPLETIONS)														
Jeffers Federal 2 #23 - Gallup	52443	NESW-2-23N-8W	NM29560	F	N/A	Nageezi Gallup	10/17/1980	Note 1	2.1	5	0.4	NE/4 SW/4 - 40A	10/29/2012			
Jeffers Federal 2.#23 - FR Coal	52443	NESW-2-23N-8W	NM29560	F	NMNM112659	Basin Fruitland Coal	9/1/2011	Note 1	0	7	3	S/2 - 320A	10/29/2012			
Encana's Lybrook 102-2308 #1H	pending	NESE-2-23N-8W	V7843	S	pending	Nageezi Gallup	LOC	Note 2				N/2 S/2 - 160A	10/29/2012			

Notes:  
N/A - Not applicable or not needed

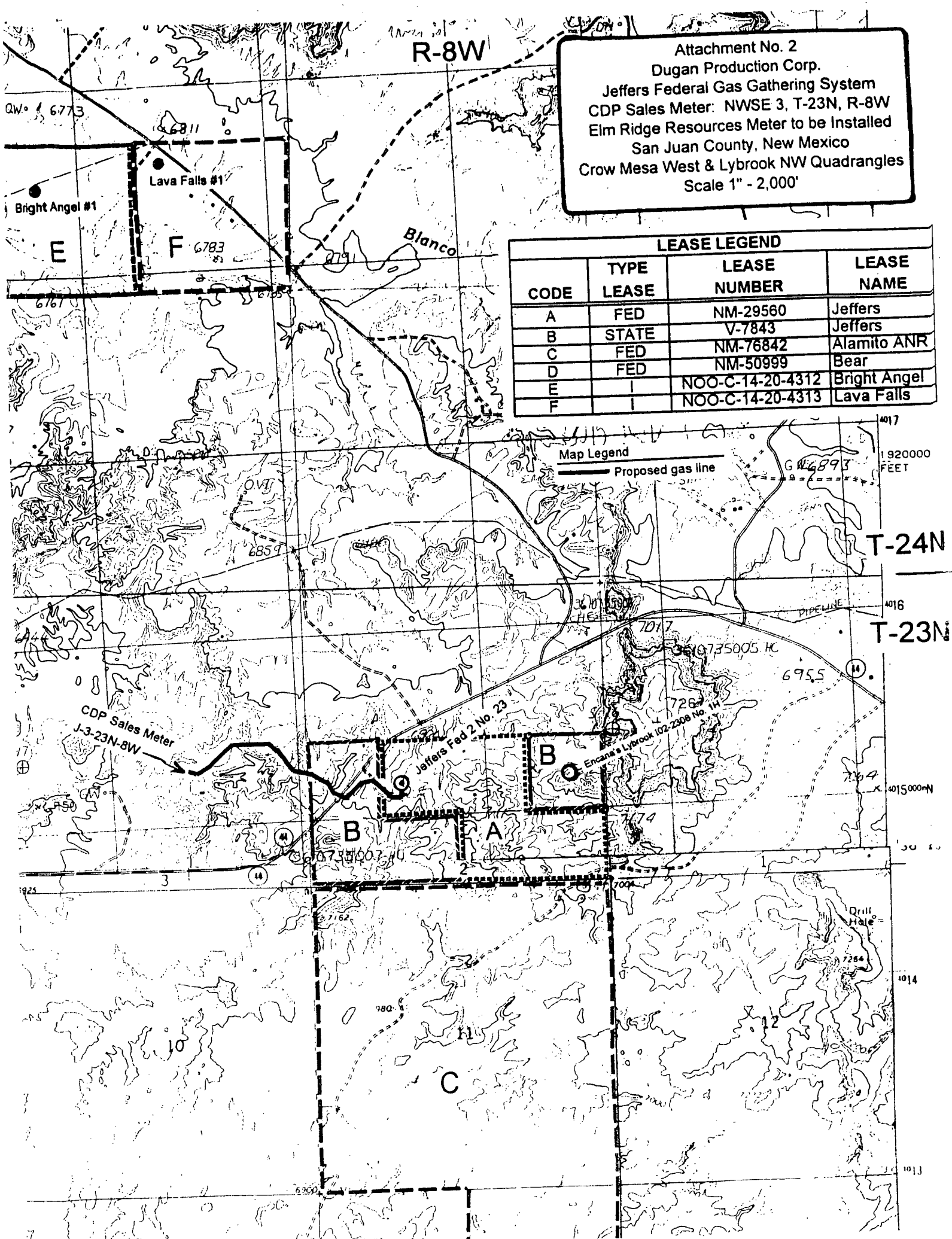
Note 1 - The **Nageezi Gallup completion** has produced for approximately 30 years and as of shutting in on 8/15/11, had produced 24,025 bbl oil and 49,466 mcf of gas. Production comes from 24 fine grained, low permeability tight sandstone/siltstone reservoir intervals perforated between 4763' & 5349' (a 586' interval). Due to low permeability and large reservoir thickness, low production rates are anticipated to exist as long as operating economics warrant continued operations. An average production rate is very difficult to determine, but using a fairly stable five year period 2006 thru 2010, production did average 2.1 BOPD, 0.35 BWPD, and 5 mcf/d (of which 2.70 mcf/d was used to fuel the pumping unit engine and ±2.3 mcf/d was vented). The associated gas has an average heating value of 1450 btu/cf. The **Basin Fruitland Coal completion** is in a coal approximately 6' thick and during completion tested a rate of 7 mcf/d + 3 BWPD on 12/1/11 with a flowing tubing pressure of 25 psia. The perforations have been broken down and acidized and upon obtaining a pipeline connection for gas sales, we plan to continue testing and evaluate the feasibility/need for additional stimulation. To date, we have not frac'd the Fruitland Coal. The Fruitland Coal in this general area has not been developed and within the eight adjacent sections, there is only one other Fruitland Coal completion which is the South Blanco Coal 36 well No. 1 (API No. 30-045-30516) operated by Elm Ridge Exploration in Unit L, Section 36, T24N, R8W, approximately 1¼ mile to the northeast. This well was completed 12/27/01 and to date has produced 60.6 mmcf gas with a peak gas of 42 mcf/d during May, 2004. Production during May and June 2011 averaged 21 mcf/d with no water. The Fruitland Coal gas in this area has a heating value of 1050 ctu/cf. The Jeffers Federal 2 No. 23 well has been approved for downhole commingling of the Basin Fruitland Coal gas and Nageezi Gallup oil (DHC-4505-A).

Note 2 - Encana's Lybrook 102-2308 #1H is proposed as a horizontal well in the Nageezi Gallup oil pool extending from a surface location in Unit I to a bottom hole location in Unit L. As presented in Note No. 1, the Nageezi Gallup oil pool has good potential for horizontal well development. There are many variables influencing production which will only be known upon completion and testing.

R-8W

Attachment No. 2  
 Dugan Production Corp.  
 Jeffers Federal Gas Gathering System  
 CDP Sales Meter: NWSE 3, T-23N, R-8W  
 Elm Ridge Resources Meter to be Installed  
 San Juan County, New Mexico  
 Crow Mesa West & Lybrook NW Quadrangles  
 Scale 1" = 2,000'

LEASE LEGEND			
CODE	TYPE LEASE	LEASE NUMBER	LEASE NAME
A	FED	NM-29560	Jeffers
B	STATE	V-7843	Jeffers
C	FED	NM-76842	Alamito ANR
D	FED	NM-50999	Bear
E	I	NOO-C-14-20-4312	Bright Angel
F	I	NOO-C-14-20-4313	Lava Falls



ATTACHMENT NO. 3  
Interest Ownership  
San Juan County, New Mexico

Jeffers Federal 2 #23  
Unit K, Section 2, T23N, R8W

Lybrook I02-2308 #1H  
Unit I, Section 2, T23N, R8W  
Nageezi Gallup  
160A Spacing Unit – N/2 S/2

**INTEREST OWNER**

**Working Interest**

Dugan Production Corp.

Encana Oil & Gas (USA) Inc.

**Royalty Interest**

State of New Mexico  
P. O. Box 1148

Santa Fe, NM 87504-1148

USA – c/o BLM  
1235 La Plata Highway  
Farmington, NM 87401

**Overriding Royalty Interest**

Ruth Ann Jeffers Calvert  
P O Box 65  
Artesia, NM 88211-0065

Georgie E. Johnson  
P O Box 1473  
Artesia, NM 88211-1473

Mazzola & Company  
14624 Fenton Street  
Broomfield, CO 80020-6116

Prudential Bache Energy Production  
One Seaport Plaza\*  
199 Water Street  
New York, NY 10292

Prudential Insurance Capital Marketing  
One Seaport Plaza  
199 Water Street  
New York, NY 10292

**TOTAL WELL**

**Basin Fruitland Coal**  
**320A Spacing Unit – S/2**

<b><u>Gross</u></b>	<b><u>Net</u></b>
100.00	82.397617

-0-	-0-
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-0-	8.333333
-----	----------

-0-	6.250000
-----	----------

-0-	1.750000
-----	----------

-0-	0.750000
-----	----------

-0-	0.375000
-----	----------

-0-	0.072025
-----	----------

-0-	0.072025
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<b><u>100.00</u></b>	<b><u>100.00000</u></b>
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**Nageezi Gallup**  
**40A Spacing Unit – NESW**

<b><u>Gross</u></b>	<b><u>Net</u></b>
100.00	81.461900

-0-	-0-
-----	-----

-0-	-0-
-----	-----

-0-	12.500000
-----	-----------

-0-	3.500000
-----	----------

-0-	1.500000
-----	----------

-0-	0.750000
-----	----------

-0-	0.144050
-----	----------

-0-	0.144050
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<b><u>100.00</u></b>	<b><u>100.000000</u></b>
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<b><u>Gross</u></b>	<b><u>Net</u></b>
50.00	41.198809

50.00	41.198809
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-0-	8.333333
-----	----------

-0-	6.250000
-----	----------

-0-	1.750000
-----	----------

-0-	0.750000
-----	----------

-0-	0.375000
-----	----------

-0-	0.072025
-----	----------

-0-	0.072024
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<b><u>100.00</u></b>	<b><u>100.000000</u></b>
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\*Last known address (P O Box 62731, New Orleans, LA 70162) is not current. Until resolved, address for Prudential Insurance Capital Marketing is believed to be correct.

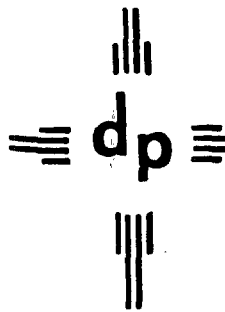
**Attachment No. 4**  
**Interest Ownership Notification**  
**Dugan Production Corp.'s Application dated 10/29/12**  
**Proposing the Jeffers Federal**  
**Gathering System**

As evidence that all interest ownership in the subject wells have been given notice of Dugan's application, attached is:

1. A copy of Dugan's transmittal letter dated 10/29/12 used to send copies of the subject application to Encana Oil & Gas (USA) Inc. which is the only working interest owner in addition to Dugan Production. The letter was sent by certified mail with a return receipt requested. Upon receiving the receipt, a copy will be sent to the NMOCD.
2. Since all royalty interest is either federal or State of New Mexico, and since the BLM (for federal leases), and New Mexico State Land Office (for state leases) are receiving this application requesting their respective approvals, a separate notice letter was not sent to the royalty interest owners. Applications to the BLM & NMSLO were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD.
3. Copy of Dugan's letter dated 10/29/12 used to send notice and a detailed description of the subject application to the 5 overriding royalty interest owners (ORRI). Complete copies of the application were offered to any of the ORRI owners desiring to receive a copy. All letters were sent by certified mail with a return receipt requested. Upon receiving the receipts, copies will be sent to the NMOCD.
4. Copy of the legal ad published in the 10/28/12 issue of the Farmington Daily Times regarding the subject application. This publication was made in anticipation that of the notices mailed to interest owners, there will be at least one either returned for some reason or the return receipt will be lost in the mail.

*Note: A tabulation presenting the interest ownership for all wells is presented on Attachment No. 3.*





# dugan production corp.

Attachment  
No. 4  
pg 2 of 5

October 29, 2012

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

Encana Oil & Gas (USA) Inc.  
Attn: Brenda Linster  
370 17<sup>th</sup> Street, Suite 1700  
Denver, CO 80202

Re: Dugan Production's application for the  
Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Dear Ms. Linster,

Attached for your information, review and file is a complete copy of Dugan's application to the New Mexico Oil Conservation Division (NMOCD), Bureau of Land Management (BLM), and New Mexico State Land Office (NMSLO), requesting their approvals for Dugan Production's proposed Jeffers Federal Gas Gathering System (JFGS). This will require surface commingling of gas production from the subject wells, plus the off-lease measurement and sale of gas at a central delivery sales meter (CDP) to be operated by Elm Ridge Resources. Dugan Production will obtain the necessary rights-of-way and will install, operate and maintain the gathering system. Initially, Dugan Production's Jeffers Federal 2 well No. 23 will be connected to the JFGS and upon completion, Encana's proposed Lybrook I02-2308 No. 1H will be connected to the JFGS.

All wells will be equipped with individual gas measurement equipment for allocation purposes and will benefit from central compression which should keep wellhead operating pressures as low as possible. 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 (those in the existing system and those being added) receive notice of proposed future additions to gathering systems. 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 10/30/12. 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,

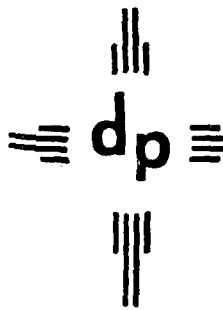
*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachments

xc New Mexico Oil Conservation Division-Aztec, Bureau of Land Management, State Land Office



dugan production corp.

Afterburner  
NO. 4  
Pg. 3 of 5

October 29, 2012

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

Overriding Royalty Interest Owners  
Wells to be connected to  
Dugan Production's proposed Jeffers Federal Gas Gathering System  
(Address List Attached)

Re: Proposed Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Dear Interest Owner,

According to our records, you have an overriding royalty interest in the two wells that are proposed to be connected to Dugan's Jeffers Federal Gas Gathering System. The wells and interest owners are listed on the attached address list. Dugan Production is currently preparing an application to the New Mexico Oil Conservation Division (NMOCD), Bureau of Land Management (BLM) and the State Land Office (SLO), requesting their approvals for this new Gas Gathering System. This will require surface commingling of gas production from the subject wells, plus the sale of gas at an off-lease central delivery sales meter (CDP). Dugan Production will install all equipment and will operate and maintain the gathering system and central battery facilities. Since your interest in these wells is an overriding royalty, there are no costs chargeable to you. This proposal will allow for optimum operations on both wells and will allow both wells to benefit from central compression which should keep wellhead operating pressures as low as possible. This method of operation will help to keep our operating expenses as low as possible, and will allow for the recovery of 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 (those in the existing system and those being added) receive notice of proposed future additions to gathering systems. 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 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, desire to receive a complete copy of our application, or have any concern as to our proposal, please let me know. Should you have an objection to our proposal, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 1220 South St. Francis Drive, Santa Fe, NM 87505, and we would appreciate receiving a copy of your objection. Objections should be filed within 20 days after the NMOCD receives our application which will be approximately 10-30-12.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

Attachments

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

**Jeffers Gas Gathering System Interest Owners Address List**

*(wells with ownership interest in parentheses)*

A = Jeffers Federal 2 #23; B = Encana's Lybrook 102-2308 #1H

Attachment  
No. 4  
Pg 4 of 5

**Working Interest Owners**

Dugan Production Corp. (A & B)  
P O Box 420  
Farmington, NM 87499-0420

Encana Oil & Gas (USA), Inc. (B)  
Attn: Brenda Linster  
370 17<sup>th</sup> Street, Suite 1700  
Denver, CO 80202

**Royalty Interest Owners**

Bureau of Land Management (A & B)  
6251 College Blvd, Suite A  
Farmington, NM 87402

NM State Land Office (A & B)  
P. O. Box 1149  
Santa Fe, NM 87504

**Overriding Royalty Owners**

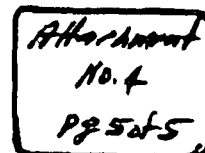
Ruth Ann Jeffers Calvert (A & B)  
P O Box 65  
Artesia, NM 88211-0065

Georgie E. Johnson (A & B)  
P O Box 1473  
Artesia, NM 88211-1473

Mazzola & Company (A & B)  
14624 Fenton Street  
Broomfield, CO 80020-6116

Prudential Bache Energy Production (A & B)  
One Seaport Plaza  
199 Water Street  
New York, NY 10292

Prudential Insurance Capital Marketing (A & B)  
One Seaport Plaza  
199 Water Street  
New York, NY 10292



Please place in the legal ads for the Sunday, October 28<sup>th</sup> publication of the Farmington Daily Times. Once the ad has been run, please send Affidavit of Publication to Dugan Production Corp., Attn: John Roe, P. O. Box 420, Farmington, NM 87499-0420.

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to establish a new gas gathering system to be known as the Jeffers Federal Gas Gathering System. This will require the surface commingling of produced natural gas plus the off-lease measurement and sale of natural gas. There will not be any commingling of oil or condensate. The wells to be included in the gathering system are Dugan Production's Jeffers Federal 2 No. 23 (located in the NESW of Section 2, T-23N, R-8W on Federal Lease NM-29560), plus Encana Oil & Gas (USA) Inc.'s Lybrook I02-2308 No. 1H (to be drilled in the NESE of Section 2, T-23N, R-8W on State of New Mexico Lease V-7843) all located in San Juan County, New Mexico. The central delivery gas sales meter (CDP) will be located in the NWSE of Section 3, T-23N, R-8W and will deliver gas to Elm Ridge Resources. The Jeffers Federal 2 No. 23 is completed in the Nageezi Gallup oil pool (#47540) and the Basin Fruitland Coal gas pool (#71629) and is approved for downhole commingling (NMOCD DHC-4505-A). Encana's Lybrook I02-2308 No. 1H will be drilled as a horizontal well in the Nageezi Gallup oil pool (#47540) with a 160A spacing unit comprising the N/2 S/2 of Section 2, T-23N, R-8W. Dugan Production is also requesting that the NMOCD approval include notice provisions that will allow future additions to the gathering system following notice only to the interest owners being added, provided it is reasonably certain that the proposed additions will not affect the wells previously authorized for the gathering system. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection, Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

**ATTACHMENT NO. 5**  
**Allocation Procedures**  
**Dugan Production Corp.'s**  
**Jeffers Federal Gas Gathering System**  
**CDP Gas Sales Meter: NWSE 3-23N-8W (Elm Ridge Resources Meter to be Installed)**  
**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 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 =  $(U / \text{Sum } U) \times V$ .

## ATTACHMENT NO. 6

Participation Statement of Encana Oil & Gas (USA) Inc.  
Dugan Production's Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Encana Oil & Gas (USA) Inc. is the operator of one well to be drilled in the vicinity of Dugan Production's Jeffers Federal Gas Gathering System and desires to use this gas gathering system to transport natural gas produced from our well to a central delivery sales meter for the gathering system.

We have reviewed Dugan's proposed allocation procedures and believe the described operation and allocation procedures are consistent with standard industry practices and are acceptable to Encana Oil & Gas (USA) Inc.

We request that approval of Dugan's application for the Jeffers Gas Gathering System and the associated surface commingling and the off-lease measurement and sale of produced natural gas also be an approval for the following well to be operated by Encana Oil & Gas (USA) Inc.:

<u>Well</u>	<u>Location</u>	<u>API No.</u>	<u>Type Lease &amp; No.</u>	<u>Pool</u>
Lybrook 102-2308 No. 1H	NESE 2, T23N, R8W	30-045-	State V-7843	Nageezi Gallup Oil (47540)

Signed by:

Powanda Zinsler  
for Encana Oil & Gas (USA) Inc.

Title:

Regulatory Lead

Date:

08 02 12



dugan production corp.

RECEIVED OOD

2012 DEC -3 P. 1: 30

November 30, 2012

Ms. Jami Bailey, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Re: Dugan Production's Application dated 10/29/12  
Proposed Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Dear Ms. Bailey,

Attached for your consideration of the captioned application are copies of approvals from the State Land Office (dated 11/19/12), and the Bureau of Land Management (dated 11/30/12).

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

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachments



**Ray Powell, M.S., D.V.M.**  
**COMMISSIONER**

*State of New Mexico*  
*Commissioner of Public Lands*

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

**COMMISSIONER'S OFFICE**

Phone (505) 827-5760

Fax (505) 827-5766

[www.nmstatelands.org](http://www.nmstatelands.org)

November 19, 2012

Dugan Production Corporation  
P.O. Box 420  
Farmington, New Mexico 87499-0420

Attention: Mr. John D. Roe

Re: Request Surface Commingle  
Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

Dear Mr. Roe:

We are in receipt of your application of October 29, 2012 requesting to surface commingle gas plus off lease measurement and sale of produced natural gas in San Juan County, New Mexico at the Jeffers Federal Gas Gathering System.

Since it appears that all the New Mexico Oil Conservation Division's rules and regulations have been complied with, and there will be no loss of revenue to the State of New Mexico as a result of your proposed operation, your request is hereby approved. Our approval is subject to like approval by the New Mexico Oil Conservation Division. Please submit a copy of the NMOCD's approval to this office.

Our approval is contingent upon Dugan Production Corporation submitting a communitization agreement covering the N/2S/2 for the Encana Oil and Gas Lybrook I02-2308 Well No. 1H.

Our approval does not constitute the granting of any right-of-way or construction rights not granted by the lease instrument.


Please submit a \$30.00 dollar filing fee.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS

BY

  
Larry J. Roybal, Director

RP/LR/jm

cc: Reader File,

OCD-Mr. Ed Martin

NOV 20 2012





# 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

Jeffers Federal Gathering System (JFGS)

November 30, 2012

Dugan Production Corporation

Mr. John Roe

P.O. Box 420

Farmington, NM 87499

Dear Mr. Roe:

Reference is made to your application dated October 29, 2012, requesting approval for off-lease measurement and surface commingling at the Jeffers Federal Gathering System (JFGS). Your application proposes measuring and selling only gas from the following wells:

Jeffers Federal 2 No. 23, located in K, Section 2, T.23N., R. 8W., on Federal oil and gas lease NMNM29560. This well is commingled down hole in the Gallup and Fruitland Coal Formation. The Fruitland Coal is communitized under agreement NMNM112659.

The proposed Encana Oil and Gas (USA) Lybrook 102-2308 No. 1H, to be located in I, Section 2, T.23N., R.8W. on State of New Mexico lease V7843. This well is scheduled to be completed in the Gallup Formation and will require a Federal communitization agreement (CA).

Gas will be measured and sold to Elm Ridge Resources utilizing their pipeline system at the following Central Delivery Point (CDP) location:

**Unit J, Section 3, T.23N., R.8W., on Federal Oil and Gas lease NMNM18463.**

**Elm Ridge Resources will operate and maintain the sales meter (meter no. pending).**

Encana will independently operate their well where oil sales will take place at the well site and on lease. The produced gas will be delivered to the JFGS where Dugan will operate and maintain the gathering system. Encana will participate in the JFGS under a formal Participation Agreement. Although the Encana well has not yet been drilled and completed for production, including this well in a common gathering system is considered to be in the public interest based on the following:

- Inclusion will maximize the resource recovery while eliminating waste.

NOV 30 2012

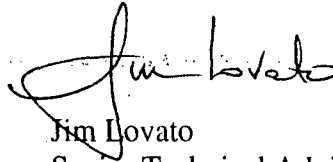
- Environmental impacts would be minimized by installing one instead of two separate systems thereby limiting traffic, noise, air quality, wildlife and surface disturbance impacts.

After considering the merits of your application and the mutual benefits of a combined system, your application for off-lease measurement and surface commingling is hereby authorized. This measurement system will hereafter be referenced as the Jeffers Federal Gathering System (JFGS). The following are conditions of this approval:

- Post a Facility sign at the sales meter listing the following information:
  - Operator Name
  - Facility Name (i.e. Jeffers Federal Gathering System CDP)
  - UL, S-T-R
- Liquid hydrocarbons produced at the CDP must be allocated back to each well in proportion to the well's allocated gas production. Fuel used at the CDP must also be allocated back to each contributing well in proportion to each well's allocated gas production.
- Allocation 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, Onshore Order No. 5, Gas Measurement and NM NTL 2008-01, Electronic Flow 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 the JFGS without the prior authorization from this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the CDPs.
- This office reserves the right to require audit records of all wells contributing to this CDP.

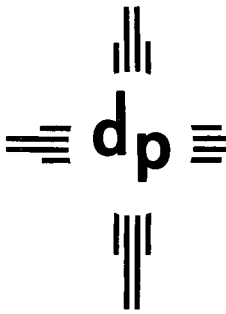
Failure to operate this facilities in accordance with the conditions outlined above and in accordance with your application will subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate lost or reduced royalties. If you have any questions regarding the above, please contact me at (505) 564-7735.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lovato". The signature is fluid and cursive, with the first name "Jim" and last name "Lovato" clearly distinguishable.

Jim Lovato  
Senior Technical Advisor  
Petroleum Management Team

cc:  
NMOCD, Aztec



# dugan production corp.

November 13, 2012

Ms. Jami Bailey, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505

Re: Dugan Production's Application dated 10/29/12  
Proposed Jeffers Federal Gas Gathering System  
San Juan County, New Mexico

RECEIVED OGD  
2012 NOV 14 P 4:25

Dear Ms. Bailey,

Attached for your consideration of the captioned application are copies of the certified mail return receipts for our notice given to interest owners in the wells to be added to the proposed captioned gas gathering system. We have received receipts from all working, and royalty interest plus three of the five overriding royalty interest owners. The two overriding royalty interest owners with no return receipts, Prudential Bach Energy Production, and Prudential Insurance Capital Marketing hold a combined interest of 0.144% to 0.288% and share a common address. Attached are copies of reports from the US Postal Service tracking of certified mailing and both reports show our notices to have been delivered on 11/6/12, but both are unclaimed by recipients on 11/13/12. The mailing address used is believed to be current and valid. In addition, also attached is the "Affidavit of Publication" for our legal advertisement presented in the Sunday, 10/28/12 publication of the Farmington Daily Times.

To date, we have not had any comment or objection from any interest owner.

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

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachments

**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:**

*Onlines Gas Gathering System*  
*Chenault + Gas (USA) Inc.*  
*Attn: Brenda Luster*  
*370 17th St, Suite 1700*  
*Denver, CO 80202*

**2. Article Number**

(Transfer from service label)

7011 2970 0003 7599 0745

**COMPLETE THIS SECTION ON DELIVERY**

**A. Signature**

X *[Signature]*

☐ Agent

☐ Addressee

**B. Received by (Printed Name)**

*M. L. Luster*

**C. Date of Delivery**

*11-2*

**D. Is delivery address different from item 1?**

☐ Yes

If YES, enter delivery address below:

☒ No

**3. Service Type**

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

**4. Restricted Delivery? (Extra Fee)**

☐ Yes

*Working Interest*

Delivers and both sections

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Bureau of Land Mgmt.  
6251 College Blvd, Suite A  
Farmington, NM 87402

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

*[Signature]*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*[Signature]*

C. Date of Delivery

10-31-12

- D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

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

(Transfer from service label)

7011 2970 0003 7599 0752

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

Royalty  
Interest

Delivers and both sections

**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:

NM State Land Office  
P.O. Box 1149  
Santa Fe, NM 87504

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

*[Signature]*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*[Signature]*

C. Date of Delivery

- D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

87501

NOV - 1 2012

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

(Transfer from service label)

7011 2970 0003 7599 0769

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

*Artesia Bathing Station*

**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:

*Ruth Ann Jeffere Calvert*  
*P.O. Box 65*  
*Artesia, NM 88211-0065*

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

*X Ruth Ann Calvert*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*LA-SCHWEIT*

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

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

(Transfer from service label)

7011 2970 0003 7599 0776

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

*over Riding  
Royalty  
Interest*

**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:

*Georgie E. Johnson*  
*P.O. Box 1473*  
*Artesia, NM 88211-1473*

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

*X G. Johnson*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*G. Johnson*

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

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

(Transfer from service label)

7011 2970 0003 7599 0783

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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:

*Mazzeola + Company*  
*14624 Sexton Street*  
*Bloomfield, NM 80020-6116*

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

*X Keith R. Mazzeola*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*Keith R. Mazzeola*

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

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

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7011 2970 0003 7599 0790

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STATUS OF YOUR ITEM	DATE & TIME	LOCATION	FEATURES
Unclaimed	November 13, 2012, 5:53 am	NEW YORK, NY	Certified Mail™
Forward Expired	November 09, 2012, 8:34 am	NEW YORK, NY	
Arrival at Unit	November 08, 2012, 9:48 am	NEW YORK, NY 10004	
Processed through USPS Sort Facility	November 03, 2012, 3:58 am	NEW YORK, NY 10199	

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Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 5.75

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 10/30/12

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 Prudential Energy Group, Inc.  
 Street, Apt. No., P.O. Box or PO Box No.  
 199 West 4th St.  
 City, State, ZIP+4®  
 New York NY 10292

PS Form 3800, August 2006 See Reverse for Instructions

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70112970000375990813

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STATUS OF YOUR ITEM

DATE &amp; TIME

LOCATION

FEATURES

Unclaimed

November 13, 2012, 5:53 am

NEW YORK, NY

Certified Mail™

Forward Expired

November 09, 2012, 8:34 am

NEW YORK, NY

Arrival at Unit

November 08, 2012, 9:48 am

NEW YORK, NY 10004

Processed through  
USPS Sort Facility

November 03, 2012, 3:56 am

NEW YORK, NY 10199

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Postage	\$ .45	Postmark Here  10/30/12
Certified Fee	2.95	
Return Receipt Fee (Endorsement Required)	2.35	
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$ 5.75	

Sent To: Prudential Insurance Capital Mkty  
Street, Apt. No.: One Season's Place  
or PO Box No. 199 Water Street  
City, State, ZIP+4: New Rochelle NY 10292

PS Form 3800, August 2006 See Reverse for Instructions

ORRI

## AFFIDAVIT OF PUBLICATION

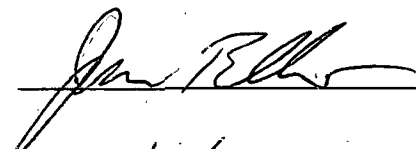
Ad No. 68255

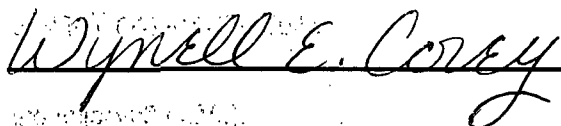
### STATE OF NEW MEXICO County of San Juan:

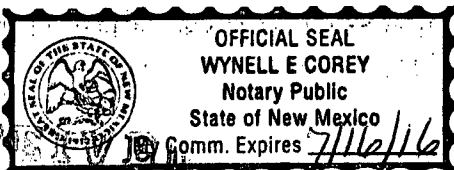
JOHN ELCHERT, being duly sworn says:  
That HE is the PUBLISHER of THE DAILY TIMES, a daily newspaper of general circulation published in English at Farmington, said county and state, and that the hereto attached Legal Notice was published in a regular and entire issue of the said DAILY TIMES, a daily newspaper duly qualified for the purpose within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico for publication and appeared in the Internet at The Daily Times web site on the following day(s):

Sunday, October 28, 2012

And the cost of the publication is \$109.80

  
ON 10/31/12 JOHN ELCHERT  
appeared before me, whom I know personally  
to be the person who signed the above  
document.





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## COPY OF PUBLICATION

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD), the Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO), for regulatory approvals to establish a new gas gathering system to be known as the Jeffers Federal Gas Gathering System. This will require the surface commingling of produced natural gas plus the off-lease measurement and sale of natural gas. There will not be any commingling of oil or condensate. The wells to be included in the gathering system are Dugan Production's Jeffers Federal 2 No. 23 (located in the NESW of Section 2, T-23N, R-8W on Federal Lease NM-29560), plus Encana Oil & Gas (USA) Inc.'s Lybrook 102-2308 No. 1H (to be drilled in the NESE of Section 2, T-23N, R-8W on State of New Mexico Lease V-7843) all located in San Juan County, New Mexico. The central delivery gas sales meter (CDP) will be located in the NWSE of Section 3, T-23N, R-8W and will deliver gas to Elm Ridge Resources. The Jeffers Federal 2 No. 23 is completed in the Nageezi Gallup oil pool (#47540) and the Basin Fruitland Coal gas pool (#71629) and is approved for downhole commingling (NMOCD DHC-4505-A). Encana's Lybrook 102-2308 No. 1H will be drilled as a horizontal well in the Nageezi Gallup oil pool (#47540) with a 160A spacing unit comprising the N/2 S/2 of Section 2, T-23N, R-8W. Dugan Production is also requesting that the NMOCD approval include notice provisions that will allow future additions to the gathering system following notice only to the interest owners being added, provided it is reasonably certain that the proposed additions will not affect the wells previously authorized for the gathering system. Any person holding an interest in any of these leases or wells may contact Dugan Production Corp. for additional information. Inquiries should be directed to John Roe at 505-325-1821 or by mail at P. O. Box 420, Farmington, NM 87499. Any objection or request for a formal hearing should be filed in writing with the NMOCD's Santa Fe Office within 20 days from the date of this publication. In the absence of objection, Dugan Production Corp. is requesting that the NMOCD approve its application administratively. The NMOCD's address is 1220 South St. Francis Drive, Santa Fe, NM 87505.

Legal No. 68255 published in The Daily Times on October 28, 2012.