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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

November 21, 2003

Lori Wrotenbery
Director

Oil Conservation Division

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

Attention: Kurt H. Fagrelius
Geologist

Re: *Administrative application for an exception to the well location provisions of the Basin-Fruitland Coal (Gas) Pool (71629) for Dugan Production Corporation's proposed Sly Slav Com. Well No. 90-S (API No. 30-045-31958) to be drilled at an unorthodox coal gas well location within the E/2 of Section 13, Township 30 North, Range 15 West, NMPM, San Juan County, New Mexico, being a standard 320-acre stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool, 866 feet from the South line and 237 feet from the East line (Unit P) of Section 13 (administrative application reference No. pMES0-330148058).*

Dear Mr. Fagrelius:

My review of your application filed with the Division in Santa Fe on October 27, 2003 indicates that the information provided in your application is not sufficient to process an administrative order at this time. It appears that your application is incomplete with respect to notice. Please refer to: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," as promulgated by Division Order No. R-8768, as amended; and (ii) Division Rule 1207.A (2), see copies attached. Division Rule 1207.A (2) (a) states:

"In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit".

The two offsetting Basin-Fruitland coal spacing units that will be affected by the proposed unorthodox coal gas well location are Dugan Production Company's operated:

(i) S/2 of Section 18, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico, comprising two Federal leases (NM-21463 and NM-19163), is currently dedicated to the Turks Toast Com. Well No. 92 (API No. 30-045-30730), located at a standard coal gas well location 805 feet from the South line and 2195 feet from the West line (Unit N) of Section 18; and

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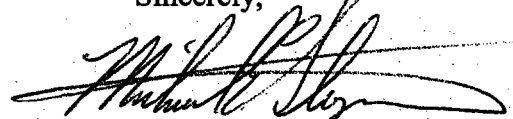
(ii) N/2 of Section 19, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico, comprising a single Federal lease (NM-19163), is currently dedicated to the Turks Toast Well No. 93 (API No. 30-045-30719), located at a standard coal gas well location 1495 feet from the North line and 1570 feet from the East line (Unit G) of Section 19.

From the information provided no conclusion can be made that Dugan Production Company control 100 percent of the working interest in both these units.

Furthermore, this application is for an unorthodox gas well location in the Basin-Fruitland Coal (Gas) Pool. You state in your cover letter that *"a copy of this application and request for administrative approval has been sent to all Fruitland Sand and Pictured Cliffs offsetting operators."* Two different zones all together then the Basin-Fruitland Coal (Gas) Pool.

Your application for administrative approval for the above-described unorthodox coal gas well location is deemed incomplete; is hereby **denied** and is being returned to you at this time.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington
William F. Carr, Legal Counsel for Dugan Production Corporation - Santa Fe

(e) At the request of any interested person or upon the division's own initiative, any pooling application submitted shall be set for full hearing with oral testimony by the applicant.

(2) Unorthodox Well Locations:

(a) Definition: "affected persons" are the following persons owning interests in the adjoining spacing units:

- (i) the division-designated operator;
- (ii) in the absence of an operator, any lessee whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application is filed; and
- (iii) in the absence of an operator or lessee, any mineral interest owner whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application was filed.

In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit.

(b) If the proposed location is unorthodox by being located closer to the outer boundary of the spacing unit than permitted by Rule, notice shall be given to the affected persons in the adjoining spacing units towards which the unorthodox location encroaches.

(c) If the proposed location is unorthodox by being located in a different quarter-quarter section or quarter section than provided in special pool orders, notice shall be given to all affected persons.

not be closer than 660 feet to the outer boundary of its spacing unit.

(3) *The operator filing an Application for Permit to Drill ("APD") for any well within a federal exploratory unit area that is closer to the outer boundary of its assigned spacing unit than 660 feet shall provide proof in the form of a participating area plat that such well meets the requirements of Rule 7 (a).*

RULE 7 (b): ADMINISTRATIVE EXCEPTIONS

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well location requirements of Rule 7 (a) upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see Division Rule 1207.A (2)].

**RULE 7 (c): ESTABLISHMENT OF
THE "HIGH PRODUCTIVITY AREA" AND
"LOW PRODUCTIVITY AREA"**

(1) *High Productivity Area: There is established within the consolidated boundaries of the Basin Fruitland Coal (Gas) Pool a "High Productivity Area" consisting of the following-described acreage in San Juan and Rio Arriba Counties, New Mexico:*

Township 29 North, Range 6 West, NMPM

Sections 2 through 8: All
Sections 11 and 12: All
Sections 17 and 18: All

Township 29 North, Range 7 West, NMPM

Section 1: All
Sections 12 and 13: All

Township 30 North, Range 5 West, NMPM

Sections 19 through 21: All
Sections 29 through 31: All

Township 30 North, Range 6 West, NMPM

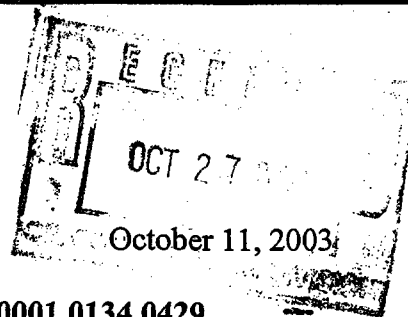
Sections 5 through 35: All

Township 30 North, Range 7 West, NMPM

Sections 1 through 18: All
Sections 22 through 26: All
Section 36: All

Township 30 North, Range 8 West, NMPM

dugan production corp.



Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Certified - 7002 2410 0001 0134 0429

Re: Application for Administrative Approval of Unorthodox Location for
Dugan Production Corp.'s Sly Slav Com #90-S
Unit P, Section 13, T30N, R15W 866' FSL & 237' FEL (E/2 - 320)

Dear Mr. Stogner:

Dugan Production hereby requests approval for an unorthodox location for the referenced well. Attached for your reference are the following exhibits:

1. Well location and acreage dedication plat (NMOCD Form C-102)
2. Topographic map
3. Offsetting operator map

The unorthodox location is necessary due to topographic conditions. Existing and future underground mine plan developments occupy all favorable topographic and orthodox areas within the proration unit.

The subject well is located on existing oil gas leases issued to Dugan Production that coincide with San Juan Coal Company coal leases. Under the terms of a pending, cooperative agreement with the Bureau of Land Management, San Juan Coal Company and Dugan Production, Dugan will make application for, drill and complete as expeditiously as possible a Fruitland Coal well at the referenced location.

By certified mail, a copy of this application and request for administrative approval has been sent to all ~~Fruitland Coal Company and San Juan Coal Company~~ offsetting operators, the Bureau of Land Management and San Juan Coal Company.

Please contact me if you have any questions or need additional information.

Sincerely,

Kurt Fagrelus
Geologist

Attachments



dugan production corp.

Cc:

Bureau of Land Management – 1235 La Plata Hwy., Farmington, NM 87401
(Certified Return Receipt Requested – 7002 2410 0001 0134 0412)

NMOCD - 1000 Rio Brazos Road, Aztec, NM 87410
(Certified Return Receipt Requested – 7002 2410 0001 0134 0436)

San Juan Coal Company- 300 West Arrington, Suite 200, Farmington, NM 87401
(Certified Return Receipt Requested – 7002 2410 0001 0134 0450)

San Juan Coal Company- P.O. Box 155, Fruitland, NM 87416
(Certified Return Receipt Requested – 7002 2410 0001 0134 0467)

Richardson Operating Company – 501 Airport Drive, Suite 119, Farmington, NM 87401
(Certified Return Receipt Requested – 7002 2410 0001 0134 0474)