

12 N/R 1012
3116
dugan production corp.

June 15, 2000

FEDERAL EXPRESSED

Mr. Mark Ashley
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

Mr. Pete Martinez
New Mexico State Land Office
310 Old Santa Fe Trail
Santa Fe, NM 87501

Re: Add 1 well to Dugan Production's State Com No. 1 CDP
Plus Surface Commingling of Natural Gas
Dugan Production Corp.'s State Com wells No. 1, 1A and 91
Blanco Mesaverde & Basin Fruitland Coal gas pools
San Juan County, New Mexico

Dear Mr. Ashley and Mr. Martinez,

We are writing to request administrative approvals from the New Mexico Oil Conservation Division (NMOCD) and the New Mexico State Land Office (NMSLO) to add Dugan Production Corp.'s (DPC) State Com No. 91 to the central delivery sales meter (CDP) currently authorized for DPC's State Com No. 1 and 1A wells. This will also require the surface commingling of production from all three wells, two of which (the State Com No. 1 and 1A) are completed in the Blanco Mesaverde pool and one (the State Com No. 91) is currently being completed in the Basin Fruitland Coal pool. All three wells plus the CDP sales meter are located on State lease LG-0038 and share a common 320 acre spacing unit which comprises the S/2 of Section 16, T-32N, R-12W. All interest in each of the three wells is common with DPC holding 87.5% of the working interest. The spacing units consist of three State leases all of which are communitized for production from the Mesaverde and a communitization agreement (CA) is being prepared for the Fruitland Coal which will have the same ownership as does the Mesaverde CA.

The State Com No. 1 CDP (located at the State Com No. 1 well site) and the surface commingling of production (gas, condensate and water) was approved for DPC's State Com No. 1 and 1A wells (both completed in the Blanco Mesaverde) by the NMOCD on 8-12-97 and the NMSLO on 9-3-97. Under current operations, these two wells share production facilities located at the State Com No. 1 and production of gas, condensate and water is allocated between the two wells based upon allocation factors derived from annual tests of each well using DPC's portable 3 phase well tester. Under our proposed operations, the State Com No. 1 and 1A will continue to be operated in this manner, however with the addition of the State Com No. 91, the gas passing thru the CDP sales

meter will no longer be just the State Com No. 1 and 1A sales volume, but will also include the State Com No. 91. Under the proposed operations, allocation meters which will consist of continuous recording conventional gas measurement equipment such as Barton Dry Flow meters, will be installed and maintained by DPC at the State Com No. 91 well site and at the State Com No. 1 separator outlet which will measure the commingled gas volumes from the State Com No. 1 and 1A. The charts from these two allocation meters will be commercially integrated on a monthly basis and the volumes used to establish monthly allocation factors to be used for allocating the CDP gas sales volumes and BTU's between the State Com No. 91 and the State Com No. 1 and 1A. The sales and BTU volumes allocated to the State Com No. 1 and 1A will then be allocated between the 1 and 1A wells using the factors derived from production testing.

The State Com No. 91 is not anticipated to produce oil or condensate but will likely produce water, in addition to natural gas. All liquid volumes will be separated, stored and either sold or disposed of from the State Com No. 91 well site. The only commodity from the State Com No. 91 to be surface commingled will be natural gas. Attachment No. 6 presents a sketch of our proposed system and Attachment No. 7 presents our proposed allocation procedures.

The State Com No. 91 was spudded on 5-23-00 and we are currently completing the well in the Basin Fruitland Coal. It is our desire to test this well into the pipeline and we are hopeful that timely approvals of this surface commingling application will allow this to occur. We anticipate production to be between 100 and 1500 MCFD based upon production from four Fruitland Coal wells in adjacent sections. Attachment No. 2 presents current production information for all wells. The State Com No. 1 and 1A currently produce through a common compressor and have well established production histories which are presented in Attachment No. 5. The pipeline pressure in El Paso's system is currently averaging 350 psi and has been as high as 400 psi. It will be necessary to utilize wellhead compression on the State Com No. 91 and it is our proposal to produce all three wells through the compressor currently installed for the State Com No. 1 and 1A wells.

Attachment No. 1 was reproduced from the Adobe Downs USGS Quadrangle Topography map and presents Dugan Production's proposed gathering system. In addition, the subject wells and leases are also identified.

Attachment No. 2 presents individual well and lease information and Attachment No. 3 presents the C-102 for each of the three wells, along with the dedicated spacing units and associated leases. The C-102 for the State Com No. 91 (page no. 1) has been modified to also include the well locations for the State Com No. 1 and 1A. A total of three State leases (B-11571, E-4426 and LG-0038) are involved. DPC is the operator of all three wells and holds 87.5% of the working interest in each well. The ownership for each well is presented on Attachment No. 4 with page no. 1 presenting a summary for all wells, and pages two and three the specific data for each well.

The proposed State Com 1 Gathering System will allow all three wells to be produced using only one compressor, eliminating the need to operate compressors at each well, which will reduce fuel requirements (with a corresponding increase in volumes available for sale) and will reduce compressor noise and exhaust emissions, both of which are becoming increasingly important.

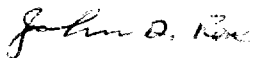
Natural gas from both formations to be surface commingled is compatible and mixing will not create any operational problems. Attachment No. 8 presents copies of representative gas analyses from the Blanco Mesaverde and the Basin Fruitland Coal pools. There is a difference in the BTU content of the Fruitland Coal and Mesaverde gases, however since the CDP volumes and BTU's will be allocated to the individual wells using the individual well BTU's, there will be no loss of value to any one well and since all ownership in the Fruitland Coal and Mesaverde is the same, this isn't a significant issue.

We are sending a complete copy of this application to the working interest owner. In addition, we are sending notice of our application to the overriding royalty interest owners. Attachments No. 9 and 10 present copies of the transmittal letters to the working interest, plus overriding royalty interest owners, respectively. All royalty interest belongs to the State of New Mexico which is receiving notice of our application directly in our request for NMSLO approval.

In summary we are proposing to add one well to Dugan's existing central delivery sales meter for the State Com No. 1 and 1A wells. This will require the surface commingling of production from all three wells. Since all three wells and the CDP sales meter are on the same lease, off-lease measurement is not an issue. This will allow all three wells to utilize one compressor which will result in an increased volume of gas being available for sale which otherwise would have been needed for compressor fuel, had each well required a separate wellhead compressor.

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

Sincerely,



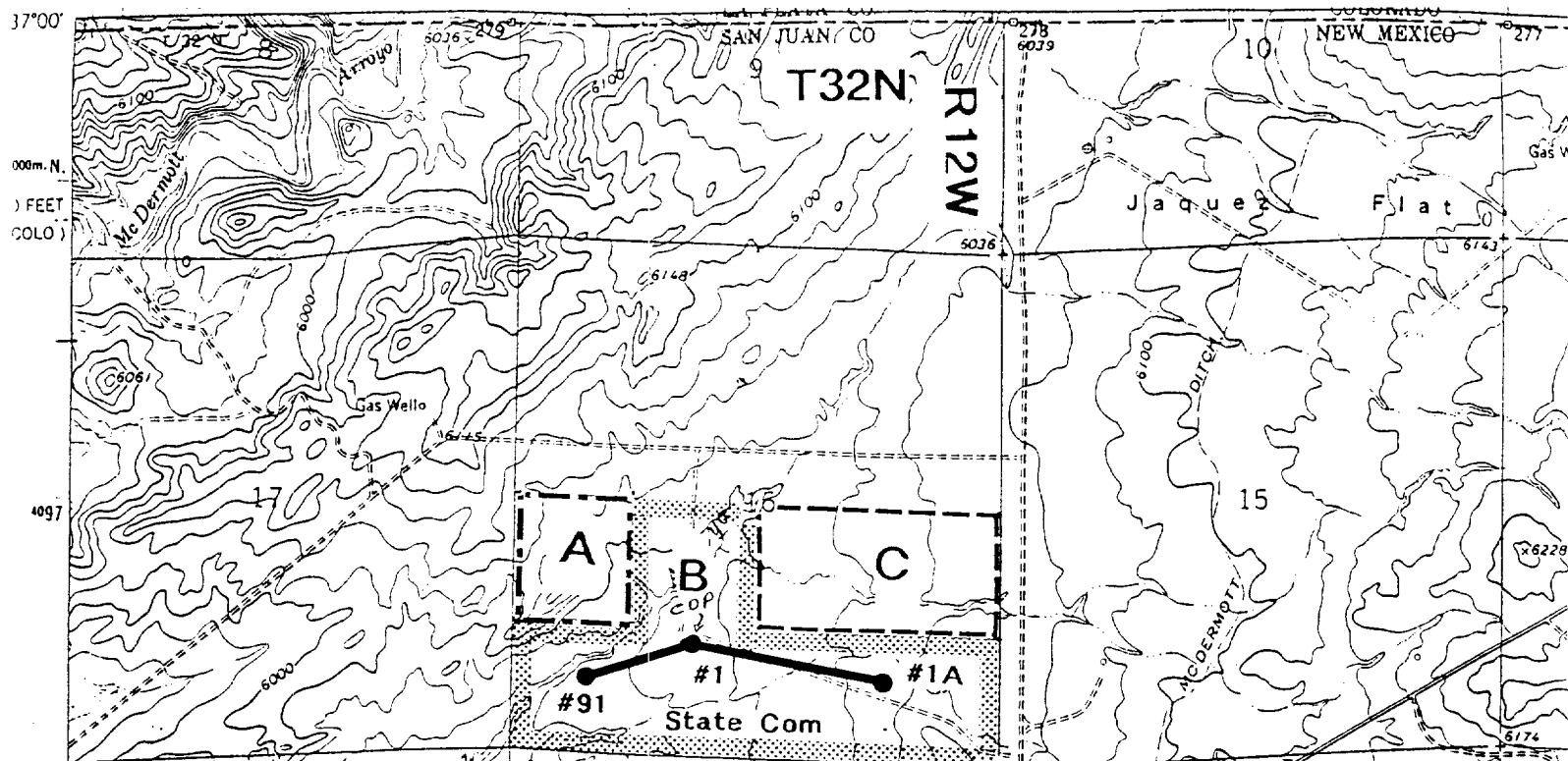
John D. Roe
Engineering Manager

JDT/tmf

xc: All interest owners
NMOCD - Santa Fe (in triplicate)
NMOCD - Aztec

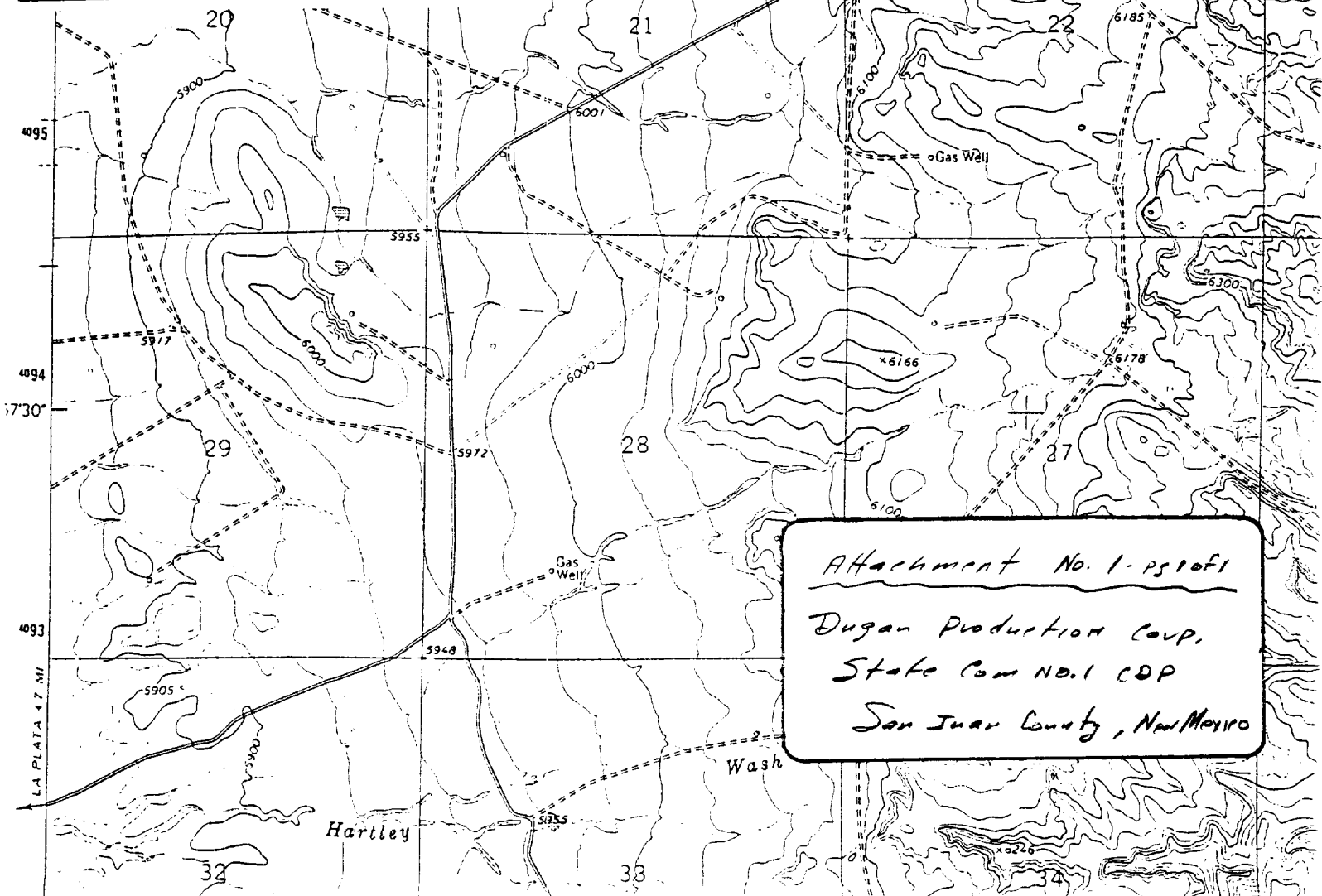
37°00'

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0 FEET
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Lease Key

Letter	Lease Name	Lease No.
A	Merchant Resources	E-4426
B	State Com	LG-0038-1
C	Communitized	B-11571



Attachment No. 1-PS10F1
Dugan Production Corp.
State Com NO.1 CDP
San Juan County, New Mexico

ATTACHMENT NO. 2
DUGAN PRODUCTION CORP.
STATE COM 1 CDP
SAN JUAN COUNTY, NEW MEXICO

Well Name	API Number	Well Location				CA Number	Pool	Completion Date	Current Prod. (2)			Spacing Unit
		Unit	Sec-Twn-Rng	Lease No.	Lease Type				Gas MCFD	Cond. BPD	Water BPD	
WELLS PREVIOUSLY APPROVED FOR SYSTEM												
State Com #1	30-045-21127	N	16-32N-12W	LG-0038	State	State CA	Blanco Mesaverde	9/5/73	97	0.2	1.2	S/2-320A
State Com #1A	30-045-22218	P	16-32N-12W	LG-0038	State	State CA	Blanco Mesaverde	12/28/76	88	0.2	0.7	S/2-320A
WELLS TO BE ADDED TO SYSTEM												
State Com #91	30-045-29681	M	16-32N-12W	LG-0038	State	State CA	Basin Fruitland Coal	Note (1)	0 (3)	0	0	S/2-320A

Notes:

Note (1) - Not completed - well spudded 5-23-2000.

Note (2) - Average during first four months of 2000.

Note (3) - Well is being completed. Anticipate production to initially average 100 MCFD but could be ±1500 MCFD. Fruitland Coal production from offset wells during 11/99 is as follows:

North - Cross Timbers Stanolind Gas Com B #1 (I-9-32N-12W) - 1869 MCFD + 69 BWPD
 North - Dugan's State Com #90 (H-16-32N-12W) - 112 MCFD + 0 BWPD
 South - Burlington's Culpepper Martin #102 (K-21-32N-12W) - SI since 10/98
 Southwest - Cross Timbers Federal Gas Com 1 #2 (B-20-32N-12W) - 570 MCFD + 3 BWPD
 West - Cross Timbers Stanolind Gas Com D #2 (O-17-32N-12W) - 70 MCFD + 0 BWPD

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brazos Rd., Artesia, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies
☐ AMENDED REPORT

Attachment
No. 3
pg 1 of 3

WELL LOCATION AND ACREAGE DEDICATION PLAT

* AIT Number 30 045 29681		* Pool Code 71629	* Pool Name Basin Fruitland Coal
* Property Code 003850	* Property Name State Com		* Well Number 91
* OGRID No. 006515	* Operator Name Dugan Production Corporation		* Elevation 5962' estimated

10 Surface Location


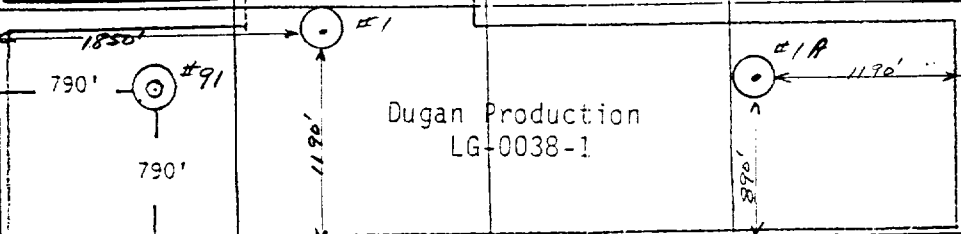
UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
M	16	32N	12W	M	790	South	790	West	San Juan

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County

* Dedicated Acres 320	* Joint or Infill	* Consolidation Code	* Order No. To be communitized
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16		RECEIVED SEP 2 1998 OIL CON. DIV. DIST. 3		17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief Signature: <u>Sherman E. Dugan</u> Printed Name: <u>Sherman E. Dugan</u> Title: <u>Vice-President</u> Date: <u>September 18, 1998</u>	
Section 16		Dugan Production B-11571		18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. Date of Survey: <u>September 1, 1998</u> Signature and Seal of Professional Surveyor:  Certificate Number: <u>5979</u>	
Cross Timbers E-4426		Dugan Production LG-0038-1			
					

State Com #1 & 1A Added to C-102 for #91
for information - All 3 wells share the
S1/2-16-32N-12W RS A SPACING UNIT.

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-4719
District III
1000 Rio Brazos Rd., Aztec, NM 87418
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

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State Lease - 4 Copies
Fee Lease - 3 Copies

Attachment
No. 3
pg 2 of 3

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

* API Number 30 045 21127		* Pool Code 72319	* Pool Name Blanco Mesaverde
* Property Code 003850	* Property Name State Com		* Well Number 1
* OGRID No. 006515	* Operator Name Dugan Production Corp.		* Elevation 5977 GL


¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
N	16	32N	12W		1190	South	1850	West	San Juan

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres 320		¹³ Joint or Infill		¹⁴ Consolidation Code C		¹⁵ Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature John Alexander Printed Name Vice-President Title 6/16/97 Date	
Sec 16					
Amoco E-4426-30		Dugan Prod. B-011571		18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. 9/22/72 Date of Survey Signature and Seal of Professional Surveyor: Original surveyed & signed by James P. Leese 1463 Certificate Number	
1850'		Dugan Prod. LG-0038			
1190'					

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-8719
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
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Santa Fe, NM 87504-2088

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☐ AMENDED REPORT

Attachment
No. 3
Pg 3 of 3

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 22218		2 Pool Code 72319		3 Pool Name Blanco Mesaverde		
4 Property Code 003850		5 Property Name State Com			6 Well Number 1A	
7 OGRID No. 006515		8 Operator Name Dugan Production Corp.			9 Elevation 6027' GL	

10 Surface Location


UL or lot no. P	Section 16	Township 32N	Range 12W	Lot Ida	Feet from the 890	North/South line South	Feet from the 1190	East/West line East	County San Juan
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11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
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12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code C	15 Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature John Alexander Printed Name Vice-President Title 6/16/97 Date	
Sec. 16					
Amoco E-4426-30		Dugan Prod. B-C11571		18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. 10/7/76 Date of Survey Signature and Seal of Professional Surveyor: Original surveyed & signed by James P. Leese 1463 Certificate Number	
		Dugan Prod. LG-0038		1190' 890'	

ATTACHMENT NO. 4 - PAGE 1 OF 3
Interest Ownership Summary
State Com 1 CDP
Dugan Production Corp.
San Juan County, New Mexico

	State Com No. 1 (details on Pg. No. 2)		State Com No. 1A (details on Pg. No. 2)		State Com No. 91 (details on Pg. No. 3)	
	WI	NI	WI	NI	WI	NI
<u>Working Interest</u>						
Dugan Production Corp.	87.50	72.81	87.50	72.81	87.50	72.81
Merchant Resources	12.50	10.94	12.50	10.94	12.50	10.94
<u>Royalty Interest</u>						
State of New Mexico	0	12.50	0	12.50	0	12.50
<u>Overriding Royalty Interest</u>						
Ronald I. Albin		0.08		0.08		0.08
Energren Resources Corp.		1.38		1.38		1.38
Enron Oil & Gas Company		1.38		1.38		1.38
Francine Sue Gold		0.08		0.08		0.08
Rene Parmet		0.17		0.17		0.17
Frances Silverman		0.17		0.17		0.17
Benjamin Stern		0.08		0.08		0.08
Harold Stern		0.17		0.17		0.17
Steven Stern		0.08		0.08		0.08
Roxanne Tuerk		0.17		0.17		0.17
TOTALS	100.00	100.00	100.00	100.00	100.00	100.00

ATTACHMENT 4-PAGE 2 OF 3

Dugan Production Corp.
State Com Well No. 1 & 1A
Blanco Mesaverde

Well Location: No. 1 = N-16-32N-12W; No. 1A = P-16-32N-12W
Spacing Unit: S/2 Sec.16, T-32N, R-12W (320.0A)
San Juan County, New Mexico

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Net</u>	<u>Gross</u>
<u>Working Interest</u>		
Dugan Production Corp.	72.81250	87.500
Merchant Resources P. O. Box 27 Houston, TX 77060	10.93750	12.500
<u>Royalty</u>		
State of New Mexico State Land Office P. O. Box 1148 Santa Fe, NM 87504-1148	12.500	-0-
<u>Overriding Royalty Interest</u>		
Ronald I. Albin 627 Sea Pine Way (D-2) West Palm Beach, FL 33415	0.083325	-0-
Energen Resources Corporation 605 21 st Street North Birmingham, AL 35203-2707	1.375000	-0-
Enron Oil & Gas Company P. O. Box 840321 Dallas, TX 75284-0321	1.375000	-0-
Francine Sue Gold 64 Westminster Road Yorktown Heights, NY 10598	0.083325	-0-
Rene Parmet 2409 Appaloosa Circle 811 Sarasota, FL 34240	0.166680	-0-
Frances Silverman C/O Rene Lippman 899 Jeffery St. 111-1 Boca Raton, FL 33487	0.166650	-0-
Benjamin Stern 27 Congress, Apt. 7 Nashua, NH 03062	0.083330	-0-
Harold Stern 1100 St. Charles Place #0320 Pembroke Pines, FL 33026	0.166680	-0-
Steven Stern 226 Arrowhead Ct. Johnstown, PA 15905-2960	0.083330	-0-
Roxanne Tuerk 14700 N. Beckley Square Davie, FL 33325	0.166680	-0-
TOTAL WELL	100.000000	100.000000

ATTACHMENT 4-PAGE 3 OF 3

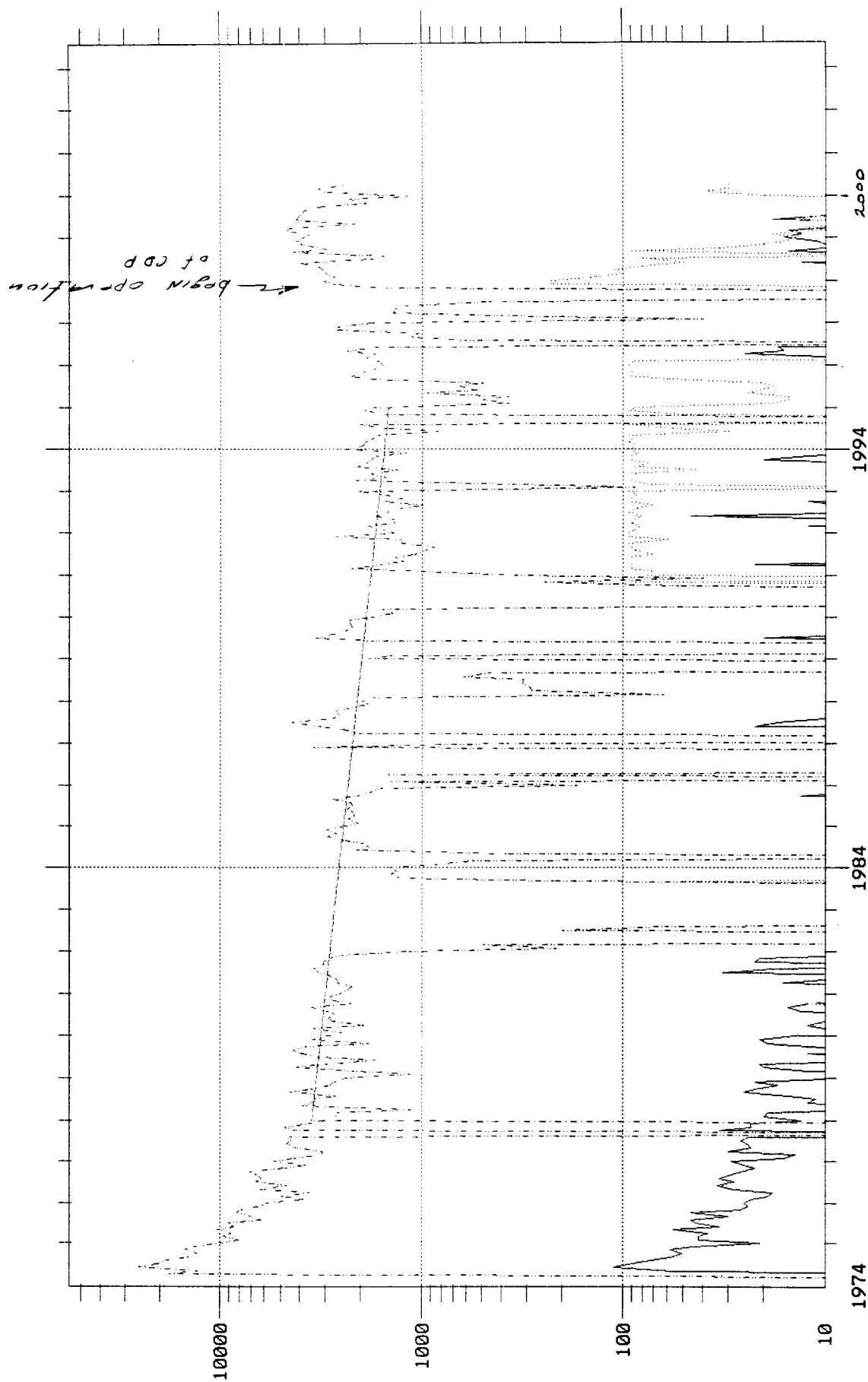
Dugan Production Corp.
State Com Well No. 91
Basin Fruitland Coal
Well Location: M-16-32N-12W
Spacing Unit: S/2 Sec.16, T-32N, R-12W (320.0A)
San Juan County, New Mexico

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Net</u>	<u>Gross</u>
<u>Working Interest</u>		
Dugan Production Corp.	72.81250	87.500
Merchant Resources P. O. Box 27 Houston, TX 77060	10.93750	12.500
<u>Royalty</u>		
State of New Mexico State Land Office P. O. Box 1148 Santa Fe, NM 87504-1148	12.500	-0-
<u>Overriding Royalty Interest</u>		
Ronald I. Albin 627 Sea Pine Way (D-2) West Palm Beach, FL 33415	0.083325	-0-
Energen Resources Corporation 605 21 st Street North Birmingham, AL 35203-2707	1.375000	-0-
Enron Oil & Gas Company P. O. Box 840321 Dallas, TX 75284-0321	1.375000	-0-
Francine Sue Gold 64 Westminster Road Yorktown Heights, NY 10598	0.083325	-0-
Rene Parmet 2409 Appaloosa Circle 811 Sarasota, FL 34240	0.166680	-0-
Frances Silverman C/O Rene Lippman 899 Jeffery St. 111-1 Boca Raton, FL 33487	0.166650	-0-
Benjamin Stern 27 Congress, Apt. 7 Nashua, NH 03062	0.083330	-0-
Harold Stern 1100 St. Charles Place #0320 Pembroke Pines, FL 33026	0.166680	-0-
Steven Stern 226 Arrowhead Ct. Johnstown, PA 15905-2960	0.083330	-0-
Roxanne Tuerk 14700 N. Beckley Square Davie, FL 33325	0.166680	-0-
TOTAL WELL	100.000000	100.000000

Attachment
No. 5
Pg 1 of 2

DUGAN PRODUCTION CORP.
Production Rate vs Time
Bbl/Mo or Mcf/Mo vs Months
STATE COM NO. 1
BLANCO MESAVERDE (N-16-32N-12W)

Production
Oil
Gas
Water



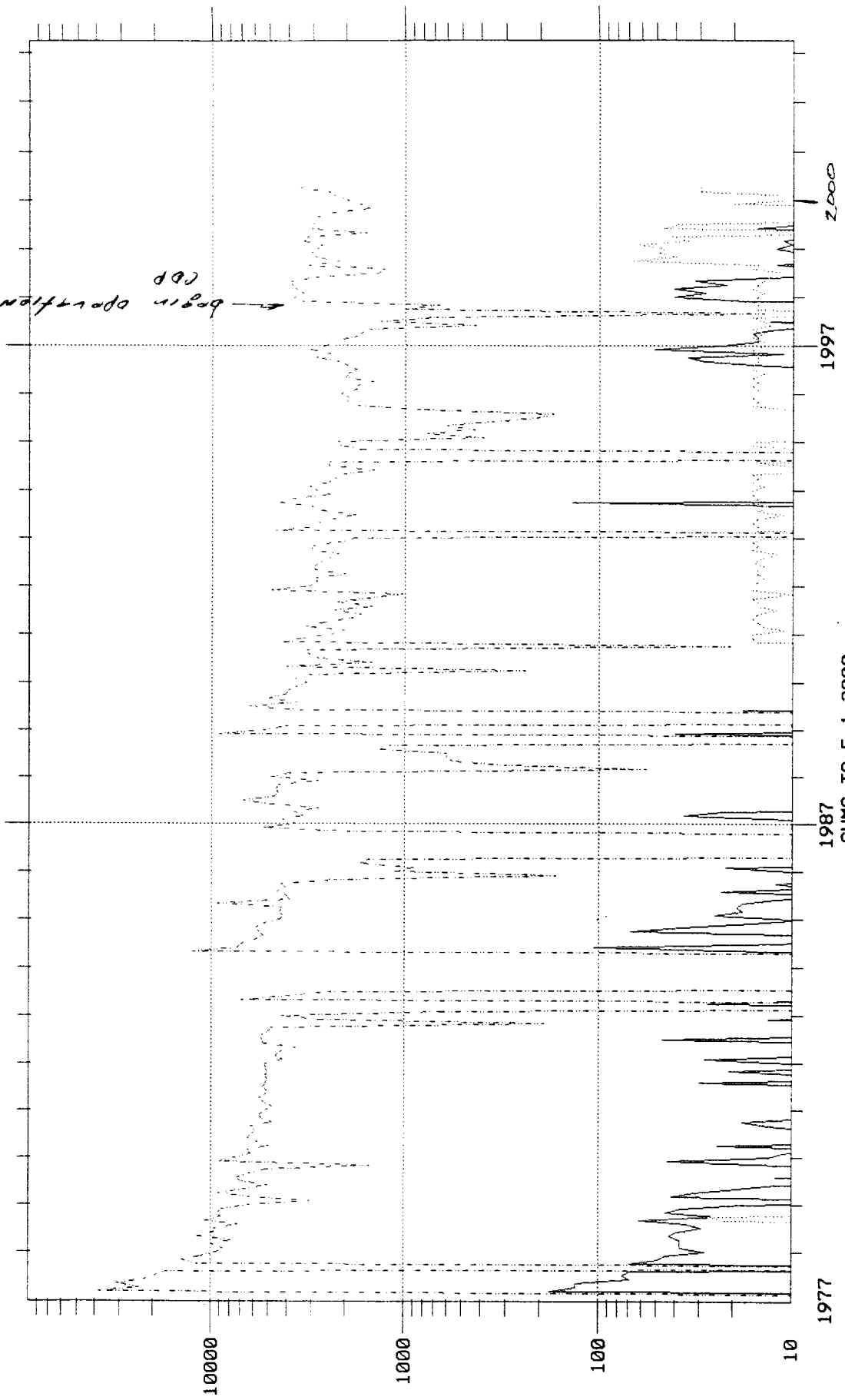
CUMS TO 5-1-2000
Reported Oil Production = 2910 BBLS
Reported Gas Production = 818429 MCF
Reported Water Production = 6101 BBLS

Production
Oil
Gas
Water

DUGAN PRODUCTION CORP.
Production Rate vs Time
Bbl/Mo or Mcf/Mo vs Months
STATE COM NO.1A
BLANCO MESAVERDE (P-16-32N-12W)

Attachment
No. 5
pg 2 of 2

begin operation of
COP

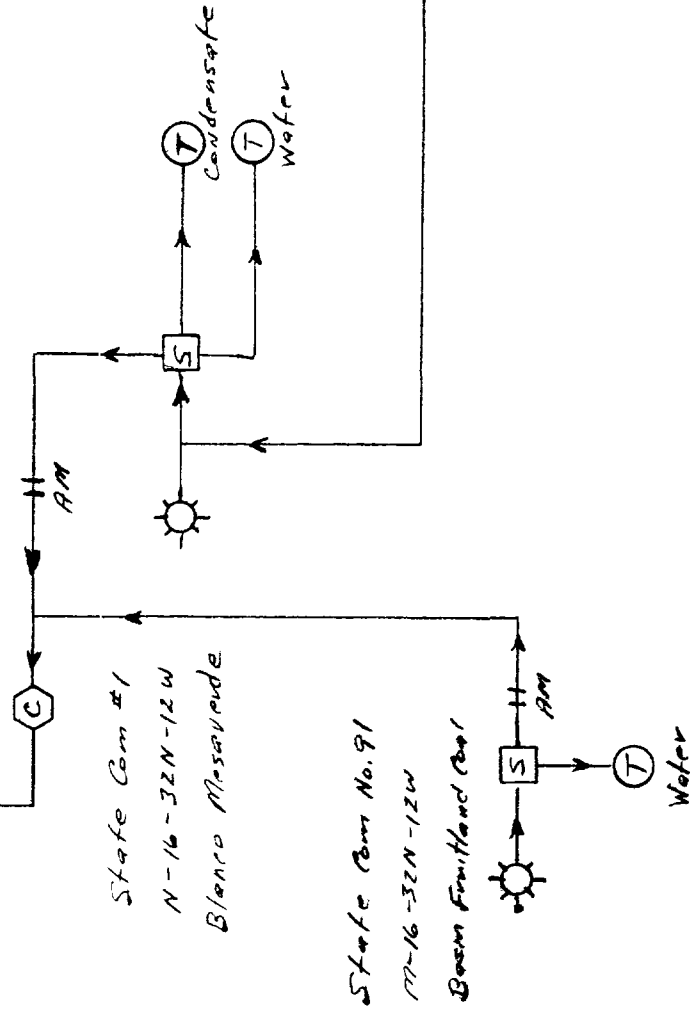


1987
CUMS TO 5-1-2000
Reported Oil Production = 3246 BBLs
Reported Gas Production = 1087833 MCF
Reported Water Production = 1488 Bbls

Gas Sales to
El Paso

CDP Gas Sales Meter @ State Com #1
Currently for Com #1 & 1A
Proposed for Com #1, 1A & 91

Attachment No. 6 pg 1 of 1
Facility Diagram (proposed)
Dugan Production Corp.
State Com No. 1 CDP
- Not Drawn to Scale -



State Com #1A
P-16-32N-12W
Blanco Mesavende

Legend:

- [S] - Separator
- (T) - Water or Condensate Storage Tank
- (C) - Gas Compressor
- ++ Gas Meter - AM = Allocation meter
- SM = Sales Meter

ATTACHMENT No. 7
Allocation Procedures
Dugan Production Corp.'s
State Com 1 CDP
CDP : SESW 16-32N-12W
San Juan County, New Mexico

Base Data:

S = Condensate volume (BCPD) from periodic well test x days operated during allocation period.

T = Condensate volume at Central Battery during allocation period.

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

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

Note: CDP sales volumes to be allocated between the Fruitland Coal (State Com No. 91) and the Blanco Mesaverde (State Com No. 1 & 1A) using factors derived from allocation meters. The Blanco Mesaverde volume will then be allocated to the individual wells (State Com No. 1 & 1A) based upon factors derived from periodic well tests using Dugan Production's portable well tester.

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 benefitting 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 $W / \text{SUM } W$.

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 On shore Order No. 5).

Note: CDP sales BTU's to be allocated between the Fruitland Coal (State Com No. 91) and the Blanco Mesaverde (State Com No. 1 & 1A) using factors derived from allocation meters. The Blanco Mesaverde BTU's will then be allocated to the individual wells (State Com No. 1 & 1A) based upon factors derived from periodic well tests using Dugan's portable well tester.

3. Individual Well Condensate Production = (only for the State Com No. 1 & 1A wells. The State Com No. 91 does not produce condensate). Allocated production volume, bbl = $(S / \text{Sum } S) \times T$.

4. Individual Well Water Production = Allocated production volume, bbl = $(U / \text{Sum } U) \times V$ for State Com 1 & 1A. Water production from State Com No. 91 will not be commingled - all volumes will be separated, stored and accounted for at the State Com No. 91 well site.



2030 AFTON PLACE
FARMINGTON, N.M. 87401
(505) 325-6622

ANALYSIS NO. DUG90740
CUST. NO. 23000- 11140

WELL/LEASE INFORMATION

CUSTOMER NAME DUGAN PRODUCTION CORP.
WELL NAME STATE COM 90
COUNTY/ STATE SAN JUAN NM
LOCATION 16-32N-12W
FIELD
FORMATION FRUITLAND COAL (H-16-32N-12W)
CUST.STN.NO. 202N-998

SOURCE
PRESSURE
SAMPLE TEMP
WELL FLOWING
DATE SAMPLED
SAMPLED BY
FOREMAN/ENGR.

METER RUN
56 PSIG
N/A DEG.F
Y
11/23/99
BILLIE WRIGHT
TOM BLAIR

Attachment
No. 8
Pg 1 of 2

REMARKS LEASE: G-00384

Considered to be
representative for
the State Com No. 91

ANALYSIS

COMPONENT	MOLE %	GPM**	B.T.U.*	SP.GR *
NITROGEN	0.929	0.0000	0.00	0.0090
CO2	3.457	0.0000	0.00	0.0525
METHANE	95.422	0.0000	965.96	0.5286
ETHANE	0.155	0.0415	2.75	0.0016
PROPANE	0.022	0.0061	0.55	0.0003
I-BUTANE	0.008	0.0026	0.26	0.0002
N-BUTANE	0.000	0.0000	0.00	0.0000
I-PENTANE	0.000	0.0000	0.00	0.0000
N-PENTANE	0.000	0.0000	0.00	0.0000
HEXANE PLUS	0.007	0.0031	0.36	0.0002
TOTAL	100.000	0.0532	969.88	0.5924

* @ 14.730 PSIA DRY & UNCORRECTED FOR COMPRESSIBILITY

** @ 14.730 PSIA & 60 DEG. F.

COMPRESSIBILITY FACTOR (1/Z) 1.0021
BTU/CU.FT (DRY) CORRECTED FOR (1/Z) 971.9
BTU/CU.FT (WET) CORRECTED FOR (1/Z) 955.0
REAL SPECIFIC GRAVITY 0.5936

ANALYSIS RUN AT 14.730 PSIA & 60 DEGREES F

DRY BTU @ 14.650 966.6
DRY BTU @ 14.696 969.7
DRY BTU @ 14.730 971.9
DRY BTU @ 15.025 991.4

CYLINDER # K048
CYLINDER PRESSURE 56 PSIG
DATE RUN 12/3/99
ANALYSIS RUN BY DAWN OLDS

CO.CD 23 EL PASO NATURAL GAS
CUSTOMER ACCOUNTING SERVICES DEPARTMENT
VOLUME CALCULATION DIVISION
POST OFFICE BOX 1492
EL PASO, TEXAS 79978

CONTACTS:
EL PASO FIELD SERVICES
(713) 757-5953
EL PASO MAINLINE
(915) 496-2595

DATE 6/05/99

CHROMATOGRAPHIC GAS ANALYSIS REPORT

Attachment
No 8
Pg 2 of 2

MAILEE
26730

DUGAN PRODUCTION CORPORATION
P O BOX 420
FARMINGTON, NM 87499-0420

METER NUMBER 87978 - STATE COM #1 - *Blanco Mesquite (N-16-32 N-12 W)*
OPERATOR 1862 - DUGAN PRODUCTION CORP

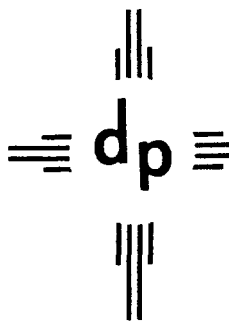
ANALYSIS DATE 4/14/99
SAMPLE DATE 4/12/99
EFFECTIVE DATE 5/01/99
EFFECTIVE FOR 6 MONTHS

TYPE CODE 2 - ACTUAL
H2S GRAINS 0
LOCATION F - FARM BECK

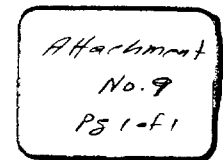
*Considered to be
representative for state
com #1 & 1A
wells*

COMPONENTS	NORMALIZED MOL %	GPM
CO2	.83	.000
H2S	.00	.000
N2	.34	.000
METHANE	80.88	.000
ETHANE	10.35	2.769
PROPANE	4.30	1.185
ISO-BUTANE	.62	.203
NORM-BUTANE	1.22	.385
ISO-PENTANE	.40	.146
NORM-PENTANE	.33	.120
HEXANE PLUS	<u>.73</u>	<u>.318</u>
	100.00	5.126

SPECIFIC GRAVITY .718
MIXTURE HEATING VALUE
(BTU @ 14.73 DRY) 1242
RATIO OF SPECIFIC HEATS .000
NO TEST SECURED FOR H2S CONTENT



dugan production corp.



June 15, 2000

Merchant Resources
P. O. Box 27
Houston, TX 77060-0027

Re: Surface Commingling
Dugan Production Corp.'s
State Com No. 1 (N-16-32N-12W)
State Com No. 1A (P-16-32N-12W)
State Com No. 91 (M-16-32N-12W)
San Juan County, New Mexico

Dear Merchant Resources,

Attached for your information, review and file is a copy of our application to the New Mexico Oil Conservation Division and the New Mexico State Land Office to surface commingle natural gas produced from the captioned wells. This will allow us to place the State Com No. 91 on production upon completion and will allow all three wells to share the cost of operating a central compressor. The State Com No. 1 and No. 1A wells are currently authorized for surface commingling. This application will add the State Com No. 91 to that system.

Our records reflect that you have a 12.500% working interest in all three wells. This proposal should not negatively affect your interest and should increase revenues since less compressor fuel will be used which will increase the volumes of gas available for sale from each well. In addition, our operating expenses will be lowered which will allow all interest owners to recover more of the gas reserves from each well. The installation costs for connecting the State Com No. 91 should not exceed the pipeline installation costs included in the drilling AFE.

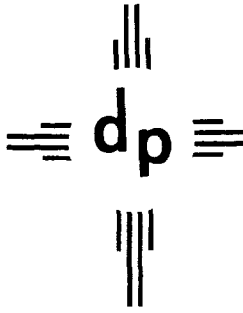
Should you have any questions, need additional information or have any concern as to our proposal, please let me know. Should you have an objection to our proposal, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 2040 South Pacheco Street in Santa Fe, New Mexico 87505, and we would appreciate receiving a copy of your objection.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

c:\TF\Johnroe\statecom1\cdp\intownltr.wpd



dugan production corp.

Attachment
No. 10
pg 1 of 2

June 15, 2000

To: Overriding Royalty Interest Owners (Address list attached)
Dugan Production Corp.'s
State Com No. 1 (N-16-32N-12W)
State Com No. 1A (P-16-32N-12W)
State Com No. 91 (M-16-32N-12W)
San Juan County, New Mexico

Ladies and Gentlemen:

Dugan Production Corp. has filed an application with the New Mexico Oil Conservation Division, and the New Mexico State Land Office to surface commingle natural gas produced from the captioned wells. Our records indicate that you have an overriding royalty interest ownership in each of the subject wells. This will allow us to place the State Com No. 91 on production and will allow all three wells to share the cost of operating a central compressor as opposed to separate facilities at each individual well. The State Com No. 1 and No. 1A wells are currently authorized for surface commingling. This application will add the State Com No. 91 to that system.

This proposal should not negatively affect your interest in these wells and should allow your revenues to increase since less compressor fuel will be used which will increase the volumes of gas available for sale from each well. In addition, our operating expenses will be lowered which will allow all interest owners to recover more of the gas reserves from each well.

Should you desire to receive a copy of the complete application or have any questions, need additional information 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 2040 South Pacheco Street in Santa Fe, New Mexico 87505, and we would appreciate receiving a copy of your objection.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

c:\TF\Johnroe\statecom1\cdp\intownltr.wpd

Interest Owner Address List

Dugan Production Corp.'s
State Com No. 1, State Com No. 1A & State Com No. 91

Attachment
No. 10
Pg 2 of 2

Working Interest Owners

Merchant Resources
P. O. Box 27
Houston, TX 77060-0027

Dugan Production Corp.
P. O. Box 420
Farmington, NM 87499-0420

Royalty Interest Owners

State of New Mexico
State Land Office
Attn: Pete Martinez
P. O. Box 1148
Santa Fe, NM 87504-1148

Overriding Royalty Interest Owners

Ronald I. Albin
627 Sea Pine Way (D-2)
West Palm Beach, FL 33415

Energen Resources Corporation
605 21st Street North
Birmingham, AL 35203-2707

Enron Oil & Gas Company
P. O. Box 840321
Dallas, TX 75284-0321

Francine Sue Gold
64 Westminister Road
Yorktown Heights, NY 10598

Rene Parmet
2409 Appaloosa Circle 811
Sarasota, FL 34240

Frances Silverman
c/o Rene Lippman
899 Jeffery St. 111-1
Boca Raton, FL 33487

Benjamin Stern
27 Congress, Apt. 7
Nashua, NH 03062

Harold Stern
1100 St. Charles Place #0320
Pembroke Pines, FL 33026

Steven Stern
226 Arrowhead Ct.
Johnstown, PA 15905-2960

Roxanne Tuerk
14700 N. Beckley Square
Davie, FL 33325