

June 23, 2000

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

Re: NMOCD Commingling Order PC-1012
Surface Commingling & CDP gas sales
Dugan's State Com Wells No. 1, 1A & 91
S/2-16, T-32N, R-12W

Dear Mr. Ashley,

The subject surface commingling order included the stipulation that Dugan also received like approval from the State Land Office (SLO).

Attached for your information and file is a copy of the approval dated 6-19-00 from the SLO.

Please let me know if you have any questions and thank you for your prompt handling of our application (only two days from receipt to approval - Lori should give you a gold star!). Anyway, I appreciate your efforts.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

attachment

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

ADMINISTRATION

Phone (505) 827-5700

Fax (505) 827-5853

GENERAL COUNSEL

Phone (505) 827-5713

Fax (505) 827-4262

PUBLIC AFFAIRS

Phone (505) 827-1245

Fax (505) 827-5766



**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

COMMERCIAL RESOURCES

Phone (505) 827-5724

Fax (505) 827-6157

MINERAL RESOURCES

Phone (505) 827-5744

Fax (505) 827-4739

ROYALTY MANAGEMENT

Phone (505) 827-5772

Fax (505) 827-4739

SURFACE RESOURCES

Phone (505) 827-5793

Fax (505) 827-5711

June 19, 2000

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

Attn: Mr. John D. Roe

Re: Application for Surface Commingling
Dugan Production Corporation
State Com Well No. 1
Unit Letter N, Section 16-32N-12W
State Com Well No. 1A
Unit Letter P, Section 16-32N-12W
State Com Well No. 91
Unit Letter M, Section 16-32N-12W
State Leases B-11571, E-4426 and LG-0038
Blanco Mesaverde and Basin Fruitland Coal Pools
San Juan County, New Mexico



Dear Mr. Roe:

We have received your letter of June 15, 2000 wherein you requested our approval to surface commingling the Blanco Mesaverde and Basin Fruitland Coal production from the above-captioned wells at the State Com Well No. 1 CDP.

It is our understanding that a communitization agreement for the Basin Fruitland Coal will be submitted upon completion of the State Com Well No. 91.

Since it appears that there will be no loss of revenue to the State of New Mexico's beneficiaries as a result of your proposed operation, your request is hereby approved. Our approval is given with the understanding that the Commissioner of Public Lands reserves the right to amend or withdraw his approval, should this operation prove to be unprofitable to the state at any time in the future. Also, our approval is subject to like approval by the New Mexico Oil Conservation Division.

Your \$30.00 filing fee has been received.

Please submit a copy of the New Mexico Oil Conservation Division's approval.

Dugan Production Corporation
June 19, 2000
Page 2

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:

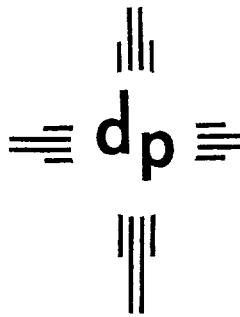


JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

RP/JB/cpm
Enclosure

xc: Reader File

OCD-Mr. David Catanach, Mr. Ben Stone



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.

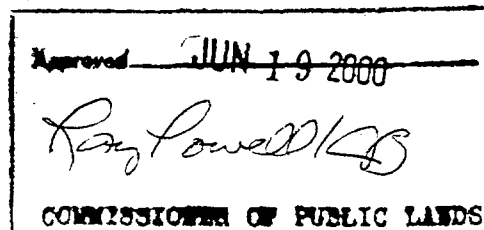
Sincerely,

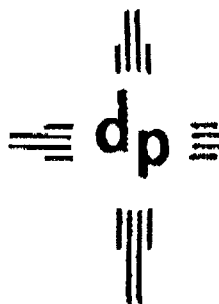
John D. Roe

John D. Roe
Engineering Manager

JDT/tmf

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





dugan production corp.

709 E. MURRAY DR. • P.O. BOX 420 • FARMINGTON, N.M. 87499-0420 • PHONE: (505) 325-1821

• FAX# (505) 327-4613

FAX TRANSMITTAL

DATE: 6-13-00 TIME: _____TO: Mark AshleyNmored - Santa Fe c 505-827-8177

You should receive 6 pages including this cover sheet. If you did not receive all pages or are unable to read any pages, please contact:

FROM: John Roe TELEPHONE NO. (505) 325 - 1821

Mark,

As we discussed on the phone, Dugan Prod. currently has Nmored (+ State Land Office) approvals to Surface Commingle + use a CDP Solms meter for our State Com No 1 + 1A wells, both producing from the Blanco MV Pool + a 5/2-320A Spacing unit in 16-32N-12W.

Dugan prod has drilled + will be starting completion operations later this week on our State Com No 91, a Basin Fluvial and Coal well in unit m-16-32N-12W + the same 5/2 Spacing unit as the com #1 + 1A wells.

All 3 wells are located on State lease LG-0038 + have common ownership.

We are proposing to Surface Commingle production from all 3 wells which will allow all 3 wells to use one compressor + CDP Sales meter on El Paso's system.

I've attached our initial application for the State Com 141A for your review + have added the State Com 91 Fruitland Coal well to the C-102 form used for the State Com 141A application.

The 3 wells are:

<u>Well</u>	<u>Location</u>	<u>Pool</u>	<u>API #</u>
State Com #1	N-16-32N-12W	Blanco MV	30-045-21127
" " #1A	P-16-32N-12W	" "	" - 22218
" " #91	M-16-32N-12W	Basin Fr Coal	" - 29681

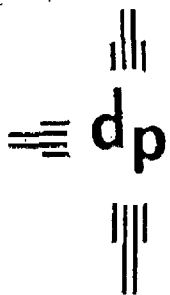
production from the 3 wells is:

<u>Well</u>	<u>AUG 1st - Aug 2000</u>
State Com #1	97 MCFD + 0.16 B/D
1A	88 MCFD + 0.16 B/D
91	well being completed - anticipate ± 100 MCFD but could be ± 1500 MCFD
	- Dugan's State Com #90 (N-16-32-12) = 55 MCFD
	Cross Timbers Well 1A (9-32N-12W) $\pm 2,200$ MCFD
	" " " " B-20-32N-12W) ± 465 MCFD

Mark, Please let me know if we can do this as simple Surface commingling.

Phone # = 505-325-1821 & Fax = 505-327-4613

John Roe



dugan production corp.

Mr. Frank Chavez
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

August 12, 1997

RE: Surface Commingling Application
Dugan Production's
State Com Well No. 1 (N-16-32N-12W)
State Com Well No. 1A (P-16-32N-12W)
Blanco Mesaverde Gas Pool
San Juan County, New Mexico

RECEIVED
AUG 12 1997

OIL CON. DIV.
DIST. 3

Dear Mr. Chavez,

Attached for your approval is NMOCD Form C-136 with which we are proposing to surface commingle the subject wells, both producing from the Blanco Mesaverde Gas Pool and a common 320 acre spacing unit comprising the south half of Section 16, T-32N, R-12W.

This application replaces our 6/16/97 application to Mr. LeMay where we requested NMOCD administrative approval for the proposed conversion of the State Com No. 1 gas sales meter to a CPD for the State Com No. 1 and No. 1A wells. Since both wells are within the same spacing unit, produce from the same pool and all ownership is common, it is our understanding that an exception to the NMOCD Statewide Rule 403.B.(2) using form C-136 will provide the necessary approval from the NMOCD. With this application, we propose to surface commingle all production (gas, condensate and water) from both wells, using the production equipment and facilities at the No. 1 well. This will allow us to salvage all duplicate surface equipment at the No. 1A well and will provide a significant reduction in our operating costs, primarily using a single compressor for both wells.

Commingled production will be allocated to each well using allocation factors determined annually by testing each well using Dugan's portable test unit. Since all leases are State of New Mexico, we have received approval from the State Land office and a copy is attached for your review and file.

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

Sincerely,

John D. Roe
John D. Roe

xc - Pete Martinez, NMSLO

DISTRICT I
P.O. Box 1940, Hobbs, NM 88241-1940

DISTRICT II
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III
1000 Rio Brazos Road, Aztec, NM 87410

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-136
Originated 12/23/91

OIL CONSERVATION DIVISION
P.O. Box 2083
Santa Fe, New Mexico 87504-2083

Submit original and 4 copies to the
appropriate district office.

APPLICATION FOR APPROVAL TO USE AN ALTERNATE GAS MEASUREMENT METHOD
Rule 403.B(1) or (2)

Operator Name: Dugan Production Corp. Operator No. 006515
Operator Address: P.O. Box 420, Farmington, NM 87499
Lease Name: State Com Type: State X Federal Fee
Location: Well No. 1: N-16-32N-12W. Well No. 1A: P-16-32N-12W
Pool: Blanco Mesaverde
Requested Effective Time Period: Beginning upon approval Ending indefinite

APPROVAL PROCEDURE: RULE 403.B.(1)

Please attach a separate sheet with the following information.

- 1) A list of the wells (including well name, number, ULSTR location, and API No.) included in this application.
- 2) A one year production history of each well included in this application (showing the annual and daily volumes).
- 3) The established or agreed-upon daily producing rate for each well and the effective time period.
- 4) Designate wells to be equipped with a flow device (required for wells capable of producing 5 MCF per day or more).
- 5) The gas transporter(s) connected to each well.

APPROVAL PROCEDURE: RULE 403.B.(2)

Please attach a separate sheet with the following information.

A separate application is required for each Central Point Delivery (CPD).

Working interest, royalty and overriding royalty ownership must be common for all wells to be connected to the subject CPD.

- 1) An ownership plat showing a description of the lease and all of the wells to be produced through this CPD.
 - a) List the wells which will be metered separately, including API No.
 - b) List the wells which will not be metered separately, including API No.
- 2) Describe the proposed method of allocating production from non-metered wells.
- 3) A one year production history of the wells which will not be metered showing the annual and daily volumes.
- 4) The gas transporter(s) connected to this CPD.

Applicant will be responsible for filing OCD Form C-111 for the CPD.

OPERATOR

I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature: John D. Roe

Printed Name & Title: John Roe, Engr. Mgr.

8/11/97

OIL CONSERVATION DIVISION

This approval may be cancelled at anytime that operating conditions indicate that re-tests may be necessary to prevent waste and protect correlative rights.

Approved Until: further notice

By: [Signature]

Title: SUPERVISOR DISTRICT # 3

Attachment to NMOCD Form C-136
Dugan Production Corp.
Application for State Com #1 & #1A CPD
NMOCD Rule 403.B. (2)

1. Ownership Plat and Well Description

Wells not metered separately.

<u>Well</u>	<u>Well Location</u>	<u>API No.</u>
State Com No. 1	Unit N, Sec. 16, T32N, R12W	30-045-21127
State Com No. 1A	Unit P, Sec. 16, T32N, R12W	30-045-22218

Ownership Plat - NMOCD form C-102 for well State Com #1A attached, with well #1 added.

2. Proposed Allocation of Production — *note we are willing to use allocation factors - 1 for Fr. Coal + 1 for nu wells.*

Each well will be tested annually using Dugan's portable test unit to establish MCFD + BCPD + BWPD. Individual well tests will be used to compute allocation factors based upon the proportion each well's individual test rate bears to the total test rates for all wells, connected to the CPD. Commingled gas volumes, BTU's and revenues recorded at the CPD will be allocated to individual wells using MCFD factors. Commingled condensate volumes and revenues resulting from production and sales from the condensate storage tank at the No. 1 well will be allocated to the individual wells using BCPD factors. Commingled water volumes will be allocated using BWPD factors.

3. One Year Production History.

<u>Well No.</u>	<u>12 Months Production 7/96 - 6/97</u>				<u>Daily Avg. Last 12 mths.</u>		
	<u>Gas MCF</u>	<u>Condensate BBL</u>	<u>Water BBL</u>	<u>Days</u>	<u>MCFD</u>	<u>BCPD</u>	<u>BWPD</u>
State Com No. 1	14,223	28	15	273	52.1	0.1	0.05
State Com No. 1A	24,854	226	180	355	70.0	0.6	0.51

4. CPD Gas Transporter - El Paso Field Services.
Condensate Transporter - Giant Refining.

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

Ownership
Plot
Form C-130
Attachment

16	<div style="border: 2px solid black; padding: 10px; display: inline-block; transform: rotate(-5deg);"> RECEIVED AUG 12 1997 OIL CON. DIV. DIST. 3 </div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; display: inline-block; margin-top: 20px;"> 320 Acre Spacing unit </div>	<div style="border: 1px solid black; padding: 5px;"> 17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief </div> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> Signature <u>John Alexander</u> Printed Name <u>John Alexander</u> Title <u>Vice-President</u> Date <u>6/16/97</u> </div>
<div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Now Merchant Res. Ameco E-4426-30 </div>	<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> Dugan Prod. B-011571 </div>	<div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> 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. </div> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> Date of Survey <u>10/7/76</u> Signature and Seal of Professional Surveyor: <u>Original surveyed & signed by James P. Leese</u> 1463 Certificate Number </div>
<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> Sec. 16 </div>		
<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> 1850' 790' → ● #1 790' ↑ </div>	<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> 1190' ↑ ● #1 1190' </div>	<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> 1190' → ● #1A 1190' </div>
<div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> Dugan Prod. LG-0038 </div>		