



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

December 14, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

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

NMOCD CASE NO. 13399

February 17, 2005

Dugan Production Corp.

Exhibit No. 7

Attention: Kurt H. Fagrelus
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 Federal "I" Com. Well No. 103 (API No. 30-045-32587) to be drilled at an unorthodox coal gas well location within the W/2 equivalent of Section 12, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, being a standard 320-acre, more or less, stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool, 1775 feet from the North line and 10 feet from the West line (Unit E) of Section 12 (administrative application reference No. pMES0-433151972).*

Dear Mr. Fagrelus:

I have reviewed your application and due to the extreme nature of the proposed unorthodox location and being so close to Dugan's Basin-Fruitland coal gas production in the E/2 equivalent of offsetting Section 11, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico (King Com. Well No. 90 - API No. 30-045-29883), which appears to have different royalty interest owners than the proposed Federal "I" Com. Well No. 3. A well that is only 10 feet away from a spacing unit line is going to drain the other communitized property. Even though Dugan is presumably the only working interest in both communitized units. The correlative rights of the offsetting royalty interests will be violated.

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for January 6, 2005. Please be prepared to provide evidence that correlative rights will be protected from drainage and that these affected royalty interest owners were notified.

In order to expatiate this matter I have prepared the following advertisement in this matter:

"Application of Dugan Production Corporation for an unorthodox coal gas well location, San Juan County, New Mexico. Applicant seeks approval to drill its proposed Federal "I" Com. Well No. 103 (API No. 30-045-32587) at an unorthodox coal gas well location within the W/2 equivalent of Section 12, Township 29 North, Range 14 West, being a standard 320-acre, more or less, stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool (71629), 1775 feet from the North line and 10 feet from the West line (Unit E) of Section 12. This unit is located approximately one mile west of the Four Corners Regional Airport in Farmington, New Mexico."

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Administrative Application Reference No. pMES0-433151972

Should you have any questions, please contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421.

Sincerely



Michael E. Stogner
Chief Hearing Officer/Engineer

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