

dugan production corp.

September 6, 2002

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

Mr. Ray Powell, Commissioner
New Mexico State Land Office
P. O. Box 1148
Santa Fe, NM 87504-1148

Mr. Steve Henke, Manager
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Case 12936

Re: Request for Surface Commingling, plus
Off-lease Measurement and Sale of Produced Natural Gas
Add Dugan's Little b No. 2 and South Seas No. 1 Wells to
the South Lybrook Gas Gathering System Operated by
Questar E&P Company
San Juan & Sandoval Counties, New Mexico

Dear Ms. Wrotenbery, Mr. Powell, and Mr. Henke:

We are writing to request your approvals for the surface commingling, plus off-lease measurement and sale of natural gas production from two wells operated by Dugan Production Corp. (Dugan) and proposed to be added to the South Lybrook Gas Gathering System operated by Questar E&P Company (Questar). Questar has agreed to this proposed addition and anticipates little to no change in their current operations. Questar's gathering system currently has 38 wells and was authorized by the Bureau of Land Management (BLM) on 03-08-99, the New Mexico State Land Office (NMSLO) on 05-03-99, and the New Mexico Oil Conservation Division (NMOCD) on 05-25-99 (Division Order R-11185). It is Dugan's understanding that this application can be approved administratively by the BLM and NMSLO; however, since the NMOCD's approval was after hearing and by a formal division order, it will now be necessary to consider this application after notice and hearing. Based upon this understanding, we have requested that this application be placed upon the examiner's docket scheduled for 10-10-02.

The South Lybrook Gas Gathering System was initially installed in April of 1990 by BCO, Inc. The system currently has 38 wells, all of which are completed in the Alamito or Lybrook Gallup oil pools and are operated by Questar. Production averages 1.4 BOPD plus 15.7 mcf/d per well and 22 wells average less than 15 mcf/d. The current production for each well is presented on Attachment No. 2, and the historical production for all wells on the gathering system is presented on Attachment No. 7. Although none of the wells produce much individually, combined all wells currently average 597 mcf/d plus 53 BOPD, which is a fairly significant volume. Attachment No. 1 presents a map of the South Lybrook Gas Gathering System, which starts in the NE/4 of Section 2, T-22N, R-8W of San Juan County and extends approximately 6.5 miles to the east and northeast to the central delivery gas sales meter (CDP), located in the SWNW of

Section 25, T-23N, R-7W of Sandoval County. The CDP is located on Beeline Gas System's pipeline, and Beeline operates and maintains the sales meter (Meter No. 31467). Also presented on Attachment No. 1 are the two wells and associated leases that Dugan Production is proposing to add to Questar's gathering system. This map was initially prepared by Questar and was included as Exhibit E in their application for surface commingling and off-lease measurement dated 12-18-98.

Attachment No. 2 presents well and lease information for the 38 wells currently authorized for the South Lybrook Gas Gathering System, plus the two wells Dugan Production is proposing to add. Dugan's Little b No. 2 is located in the NE/4 of Section 36, T-23N, R-8W of San Juan County and is on State Lease LG-9090. This well was completed on 01-04-91 in the Chacra Formation and has been shut in since completion as we have not been able to obtain a gas pipeline connection. This well initially tested 622 mcf/d and subsequent tests have indicated test rates of 220 to 316 mcf/d. All testing to date has been relatively short flow periods as the well is not connected for gas sales, and we wanted to keep gas venting to a minimum. Under sustained producing conditions, we anticipate production will initially average ± 60 mcf/d. Dugan's South Seas No. 1 well is located in the NE/4 of Section No. 1, T-22N, R-7W of Sandoval County and is on Federal Lease No. NM89023. This well was completed on 08-26-93 in the Chacra Formation and has also been shut in since completion due to no pipeline connection. An initial rate of 454 mcf/d was tested; however, again this is based upon a short flow period, and we anticipate initial production under sustained flow to be ± 40 mcf/d. After extensive negotiations, we have reached an agreement with Questar to connect these two wells to their South Lybrook Gas Gathering System, which is within 3/4 mile of the Little b No. 2 well and 1/2 mile of the South Seas No. 1 well. The next nearest gas pipeline connection is Dugan Production's Rusty Chacra Gas Gathering System, approximately 4-1/2 miles to the east.

Attachment No. 3 presents copies of current C-102's for the wells to be added. The interest ownership for each well is presented in Attachment No. 4, with a summary for all 40 wells presented on the first page, and the detailed information for each well presented on pages 2 through 8. Questar holds 100% of the working interest in the 38 wells currently approved for system, and Dugan Production holds 100% of the working interest in the two wells to be added. Of the 38 wells currently on the system, 4 are on state leases (Lease Nos. 00016172 and 00016174) and 34 are on Federal leases (NMNM10087, NMNM6681, NMNM6682, NMNM048989A, NMNM16586, and NMNM58878). For the two wells to be added, one is on State Lease LG-9090, and one is on Federal Lease NM-89023. There are 10 wells that have overriding royalty interest owners, one of which is Dugan Production.

Attachment No. 5 presents the allocation procedures currently being used by Questar, along with the minor changes that will be necessary upon adding the gas from Dugan's wells. Dugan has reviewed, in detail, Questar's allocation procedures and agrees that the gas volumes and BTU's measured at the CDP meter are currently being allocated to each well in a reasonable and equitable manner. Upon adding production from Dugan's wells, the gas volume allocation procedures currently being used will continue to be used, with the gas volume from Dugan's wells being determined from the gas meter located at the point of delivery for gas from Dugan's wells into the South Lybrook Gas Gathering System. This volume will be used by Questar in the determination of allocation factors (individual well volume/total of individual volumes from all wells), which will be used to allocate the CDP gas sales volumes. System fuel (currently one compressor), along with system losses, will be allocated to all wells on the system, including Dugan's wells, using the gas volume allocation factors. Questar will continue to allocate lease fuel to each of their wells; however, Dugan's wells will not be included in Questar's allocation of lease fuel. Dugan Production will separately determine lease fuel requirements for the Little b No. 2 and South Seas No. 1. For allocation of CDP BTU's, Questar currently uses the gas heating value from the CDP and applies it to the individual gas volumes to compute the BTU's contributed from each well. This is satisfactory as long as all wells are producing similar gases, which is currently the case. Upon adding Dugan's wells, the Chacra gas will be approximately 1,100 BTU, compared to the $\pm 1,348$ BTU typical to Questar's Gallup wells. Thus, with the gas from Dugan's wells, Questar's BTU allocation procedure will need to be modified slightly. The BTU's contributed from Questar's wells will continue to be calculated using the CDP BTU's; however, the BTU's

contribution from Dugan's wells will be calculated using the gas BTU determined at the point of delivery into the gathering system. This BTU value, along with BTU values for each of Questar's wells, will then be used to determine factors for allocating CDP BTU's to each well (individual well BTU/total of all individual well BTU's). The only change is that the BTU's determined for each well will then be used to compute allocation factors to be applied to the CDP BTU's, as opposed to being the BTU value. This modification has been discussed with Questar, and they are in agreement. Gas from the Chacra typically does not produce any liquid hydrocarbon condensate (drip), and thus any drip accumulations in the gathering system will only be allocated to Questar's wells. All liquid production (only water from Dugan's wells) will be separated, stored, and sold or disposed of at each well or on the individual leases. There will be no commingling of oil or water.

Attachment No. 6 presents a gas analysis from Dugan Production's Chacra No. 1 well, located in NWNW Section 10, T-22N, R-7W, approximately three miles to the southeast. We believe this analysis is representative of the gas to be produced from the Chacra completions in Dugan's Little b No. 2 and South Seas No. 1 wells.

Attachment No. 7 presents a composite production curve for all 38 wells currently connected to the South Lybrook Gas Gathering System. During the last 12 months, production from these wells has averaged 597 mcf/d plus 53 BOPD. This is a fairly significant volume of production, which is made possible by operation of the South Lybrook Gas Gathering System.

Attachment No. 8 presents a sketch of the South Lybrook Gas Gathering System, along with the well equipment and facilities associated with Dugan's two wells and their connection to Questar's gathering system. It is our understanding that the gathering system pressure will average 60-70 psi at the tie-in for Dugan's two wells. We initially plan to install only a two-phase separator, water storage tank, and standard dry flow gas meter at each well. The individual well gas meters will be used by Dugan Production to allocate the gas volumes and BTU's to each individual well that Questar has allocated to the meter measuring the volumes of gas being delivered into the gathering system from Dugan's wells. We also plan to regulate production into the gathering system from Dugan's wells to a maximum of 100 mcf/d. This will allow Questar to monitor their wells and insure that the additional gas from Dugan's wells is not having a negative impact upon Questar's wells. We do not anticipate installing a compressor initially and will do so only after it is established that gas from Dugan's wells is not having a negative effect upon Questar's wells, and it becomes desirable to reduce the operating pressures at Dugan's wells. Should a compressor or other equipment requiring natural gas for fuel be installed, the fuel usage will be allocated only to Dugan's wells that are benefiting from the equipment based upon factors determined from produced gas volumes (i.e. individual wellhead gas volume/total of all wellhead gas volumes benefiting from the equipment).

Attachment No. 9 presents a "Participation Statement" executed by Dugan Production as a non-operator to commit Dugan's Little b No. 2 and South Seas No. 1 to the South Lybrook Gas Gathering System operated by Questar. In addition, it is our understanding that Questar intends to separately support this application.

Attachment No. 10 is a copy of Dugan's letter to the overriding royalty interest owners, which transmits a complete copy of our application plus advises them of the October 12th NMOCD hearing. Since Questar and Dugan are the only working interest owners, and all royalty interest is either state or federal, all working and royalty interest owners will receive this complete application as an addressee.

In summary, Dugan Production Corp. is requesting approvals from the BLM, NMSLO, and the NMOCD to add two wells operated by Dugan Production to an existing gas gathering system operated by Questar E&P Company. Questar is willing to add Dugan's wells to their system upon receiving the necessary regulatory approvals. This will allow Dugan Production to place two wells (one State and one Federal) on production that have both been shut in 9 to 11 years as a result of not being connected to a pipeline for gas sales.

Dugan Production has agreed to limit volumes delivered into Questar's gathering system so that there should not be any impact to Questar's existing wells.

Thus if all goes as planned, two small gas wells will be placed on production, state and federal royalties will increase, production from Questar's existing wells should not be affected, and Dugan Production will begin to recover drilling and completion investments made 9 to 11 years ago. Should there be any questions or additional information needed, please let me know. In addition, Questar's engineer, Mr. Gary Ohlman, can be contacted by phone at (303) 672-6916 or by mail at Questar's Denver office, 1050 17th Street, Suite 500, Denver, CO 80265.

Sincerely,



John D. Roe
Engineering Manager

JDR:sh

Attachments

xc: NMOCD – Aztec
Questar E&P Company – Attention Gary Ohlman

ATTACHMENT NO. 2
QUESTAR E&P COMPANY
SOUTH LYBROOK GAS GATHERING SYSTEM & CDP
CDP Sales Meter @ SW NW 25, T-23N, R-07W (Beeline Meter No. 31467)
SANDOVAL COUNTY, NEW MEXICO

Operator	Well Name	API Number	Well Location		Well Location		Completion Date		Pool	Spacing Unit/Acres	Current Prod.	
			1/4 1/4- Sec. Twn-Rng	SWNE Sec. 34-23N-07W	1/4 1/4- Sec. Twn-Rng	SWNE Sec. 34-23N-07W	Completion Date	MCFD			BOPD	
WELLS CURRENTLY AUTHORIZED												
Questar E&P Co.	Federal B 2	30-043-20338	SWNE Sec. 34-23N-07W	NMNM6682	Federal	11/18/1978	Alamito Gallup	SWNE-40	24.0	0.7		
Questar E&P Co.	Federal B 3	30-043-20339	NWSE Sec. 34-23N-07W	NMNM6682	Federal	11/27/1978	Alamito Gallup	NWSE-40	9.3	0.7		
Questar E&P Co.	Federal B 4	30-043-20340	NWSW Sec. 34-23N-07W	NMNM6682	Federal	7/5/1979	Alamito Gallup	NWSW-40	7.8	0.8		
Questar E&P Co.	Federal B 5	30-043-20337	NWNW Sec. 34-23N-07W	NMNM6682	Federal	6/5/1985	Alamito Gallup	NWNW-40	30.0	1.5		
Questar E&P Co.	Federal B 6	30-043-20332	SWSW Sec. 27-23N-07W	NMNM6682	Federal	11/28/1978	Alamito Gallup	SWSW-40	20.2	1.5		
Questar E&P Co.	Federal B 7	30-043-20829	NENE Sec. 21-23N-07W	NMNM6682	Federal	7/5/1989	Lybrook Gallup	NENE-40	25.2	3.7		
Questar E&P Co.	Federal C 1	30-043-05164	SESE Sec. 31-23N-07W	NMNM6681	Federal	05/17/72	Alamito Gallup	SESE-40	11.4	0.8		
Questar E&P Co.	Federal C 2	30-043-20861	NESE Sec. 31-23N-07W	NMNM6681	Federal	08/09/88	Alamito Gallup	NESE-40	6.0	1.7		
Questar E&P Co.	Federal C 3	30-043-20826	SESW Sec. 31-23N-07W	NMNM6681	Federal	8/9/1988	Alamito Gallup	SESW-40	13.3	1.2		
Questar E&P Co.	Federal I 1	30-043-20334	SWNE Sec. 33-23N-07W	NMNM16586	Federal	07/11/79	Alamito Gallup	SWNE-40	26.2	1.6		
Questar E&P Co.	Federal I 2	30-043-20335	NESE Sec. 33-23N-07W	NMNM16586	Federal	7/6/1979	Alamito Gallup	NESE-40	12.8	1.3		
Questar E&P Co.	Federal I 3	30-043-20336	SWSW Sec. 33-23N-07W	NMNM16586	Federal	7/7/1984	Alamito Gallup	SWSW-40	11.1	1.2		
Questar E&P Co.	Federal I 4	30-043-20333	SWNW Sec. 33-23N-07W	NMNM16586	Federal	7/17/1979	Alamito Gallup	SWNW-40	16.6	1.5		
Questar E&P Co.	Federal I 5	30-043-20852	SWNE Sec. 21-23N-07W	NMNM16586	Federal	5/13/1991	Lybrook Gallup	SWNE-40	18.5	1.1		
Questar E&P Co.	Federal I 8	30-043-20918	SWNW Sec. 21-23N-07W	NMNM16586	Federal	5/16/1994	Lybrook Gallup	SWNW-40	40.0	1.3		
Questar E&P Co.	Federal I 9	30-043-20929	NWNE Sec. 21-23N-07W	NMNM16586	Federal	7/12/1995	Lybrook Gallup	NWNE-40	16.3	0.9		
Questar E&P Co.	Federal L 1	30-043-20825	SWSE Sec. 28-23N-07W	NMNM58878	Federal	10/5/1988	Alamito Gallup	SWSE-40	14.8	0.9		
Questar E&P Co.	Federal G 1	30-045-05067	NENE Sec. 02-22N-08W	NMNM048989A	Federal	7/28/1978	Alamito Gallup	NENE-40	8.5	1.1		
Questar E&P Co.	Federal G 2	30-045-28912	NWNE Sec. 02-22N-08W	NMNM048989A	Federal	7/30/1988	Alamito Gallup	NWNE-40.9	6.7	2.8		
Questar E&P Co.	Federal A 1	30-043-07026	SWNW Sec. 22-23N-07W	NMNM10087	Federal	11/2/1969	Lybrook Gallup	SWNW-40	19.6	1.6		
Questar E&P Co.	Federal B 8	30-043-20835	NENW Sec. 22-23N-07W	NMNM6682	Federal	5/16/1990	Lybrook Gallup	NENW-40	24.7	1.4		
Questar E&P Co.	Federal B 9	30-043-20837	SWNW Sec. 22-23N-07W	NMNM6682	Federal	6/15/1990	Lybrook Gallup	SWNW-40	5.0	0.1		
Questar E&P Co.	Federal B 20	30-043-20919	SENE Sec. 21-23N-07W	NMNM6682	Federal	5/9/1994	Lybrook Gallup	SENE-40	1.5	0.4		
Questar E&P Co.	Federal B 23	30-043-20927	NWSW Sec. 22-23N-07W	NMNM6682	Federal	7/18/1995	Lybrook Gallup	NWSW-40	12.6	0.8		
Questar E&P Co.	Alamito 2	30-043-20816	SESW Sec. 32-23N-07W	00016172	State	9/18/1987	Alamito Gallup	SESW-40	0.0	0.3		
Questar E&P Co.	Alamito 3	30-043-20814	SWNW Sec. 32-23N-07W	00016172	State	9/25/1987	Alamito Gallup	SWNW-40	6.4	2.0		
Questar E&P Co.	Alamito 4	30-043-20815	SWNE Sec. 32-23N-07W	00016172	State	10/6/1987	Alamito Gallup	SWNE-40	6.6	1.7		
Questar E&P Co.	Federal B 10	30-043-20865	NENE Sec. 22-23N-07W	NMNM6682	Federal	5/18/1992	Lybrook Gallup	NENE-40	14.6	1.3		
Questar E&P Co.	Federal B 11	30-043-20866	NWSE Sec. 22-23N-07W	NMNM6682	Federal	5/12/1992	Lybrook Gallup	NWSE-40	15.8	0.8		
Questar E&P Co.	Federal B 13	30-043-20915	SESE Sec. 22-23N-07W	NMNM6682	Federal	4/29/1994	Lybrook Gallup	SESE-40	21.5	1.3		
Questar E&P Co.	Federal B 22	30-043-20061	NESE Sec. 22-23N-07W	NMNM6682	Federal	10/22/1970	Lybrook Gallup	NESE-40	6.6	0.8		
Questar E&P Co.	Federal B 12	30-043-20867	SWNE Sec. 27-23N-07W	NMNM6682	Federal	5/7/1992	Lybrook Gallup	SWNE-40	14.1	1.5		
Questar E&P Co.	Federal B 14	30-043-20883	NENE Sec. 27-23N-07W	NMNM6682	Federal	6/3/1993	Lybrook Gallup	NENE-40	57.7	4.9		
Questar E&P Co.	Federal B 15	30-043-20885	NESE Sec. 27-23N-07W	NMNM6682	Federal	6/9/1993	Lybrook Gallup	NESE-40	19.3	0.9		
Questar E&P Co.	Federal B 21	30-043-20916	SESW Sec. 22-23N-07W	NMNM6682	Federal	5/4/1994	Lybrook Gallup	SESW-40	26.1	3.0		
Questar E&P Co.	Federal B 24	30-043-20932	SWSE Sec. 22-23N-07W	NMNM6682	Federal	11/14/1995	Lybrook Gallup	SWSE-40	2.5	0.3		
Questar E&P Co.	Federal B 25	30-043-20931	NESE Sec. 22-23N-07W	NMNM6682	Federal	11/18/1995	Lybrook Gallup	NESE-40	11.0	1.4		
Questar E&P Co.	State K 1	30-045-28665	SESE Sec. 36-23N-08W	00016174	State	6/18/1992	Alamito Gallup	SESE-40	13.1	1.9		
WELLS TO BE ADDED TO SYSTEM												
Dugan Production Corp.	Little b No. 2	30-045-28333	SWNE Sec. 36-23N-08W	LG-9090	State	1/4/1991	Rusty Chacra	NE/4-160	60.0	0.0		
Dugan Production Corp.	South Seas No. 1	30-043-20897	NENE Sec. 01-22N-07W	NM-89023	Federal	8/26/1993	Rusty Chacra	NE/4-161.38	40.0	0.0		
									TOTAL	697.4	52.8	

Notes:
 ① Current production data represents daily average for the last 12 months. Data from P/Dwights through 3/2002. Rates for Dugan's wells are estimated.
 ② Initially reported to be a Wildcat Chacra and then the Bisti Chacra Pool. The Rusty Chacra Pool boundary has been extended to include the Little b No. 2 as an extension.

District I
 PO Box 1980, Hobbs, NM 88241-1980
 DISTRICT II
 PO Drawer DD, Artesia, NM 88211-0719
 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

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

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

Attachment
 No. 3
 of 10 of 2

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ APT Number 30 045 28333	² Pool Code 84360	³ Pool Name Rusty Chacra 30-045-28333
⁴ Property Code 014407	⁵ Property Name Little b	
⁷ OGRID No. 006515	⁶ Operator Name Dugan Production Corp.	⁸ Well Number 2
		⁹ Elevation 6,910' GL

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	36	23N	8W		1,850	North	1,850	East	San Juan

¹¹ Bottom Hole Location If Different From Surface

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

¹² Dedicated Acres 160	¹³ Joint or Infill	¹⁴ Consolidation Code	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	1850'	Dugan Prod. LG-9090	1850'	1850'	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>John D. Roe</u> Printed Name <u>John D. Roe</u> Title <u>Engineering Manager</u> Date <u>08/20/02</u>

District I
 90-Box 1980, Hobbs, NM 88241-1980
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 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

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

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

Attachment
 No. 3
 pg 2 of 2

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

AFT Number 30 043 20897		Pool Code 84360	Pool Name Rusty Chacra (gas)	30-043-20897
Property Code	Property Name South Seas		Well Number 1	
OGRID No. 006515	Operator Name Dugan Production Corp.		Elevation 6800' (est)	

10 Surface Location

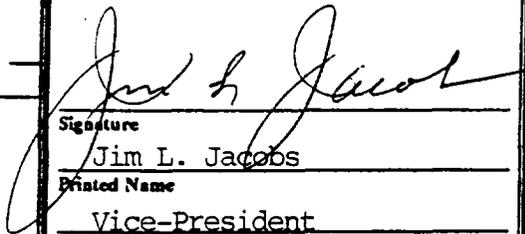
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
A	6	22N	7W		1100	North	1135	East	Sandoval

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 160	13 Joint or Infill	14 Consolidation Code	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	Dugan Prod. NM 89023	1100'	1135'	17 OPERATOR CERTIFICATION	
				I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief	
				 Signature Jim L. Jacobs Printed Name Vice-President Title 5/22/96 Date	
	Sec. 6			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. June 16, 1993 Date of Survey Signature and Seal of Professional Surveyer: Original plat surveyed & signed by Edgar L. Risenhoover, P.S. 5979 Certificate Number	

ATTACHMENT 4
Alamito Lease
Questar E&P Company
Sandoval County, New Mexico

<u>Well Name</u>	<u>Location</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Alamito 2	SESW 32, T-23N, R-7W	State 00016172	Alamito Gallup	SESW - 40.0 acres
Alamito 3	SWNW 32, T-23N, R-7W	State 00016172	Alamito Gallup	SWNW - 40.0 acres
Alamito 4	SWNE 32, T-23N, R-7W	State 00016172	Alamito Gallup	SENE - 40.0 acres

INTEREST OWNER	Alamito No. 2 & No. 3		Alamito No. 4	
	INTEREST %		INTEREST %	
<u>Working Interest Owners</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	83.3333%	100.00%	83.5000%
<u>Royalty Interest Owners</u>				
State of New Mexico New Mexico State Land Office P.O. Box 1148 Santa Fe, NM 87504-1148		16.6667%		12.5000%
<u>Overriding Royalty Interest Owners</u>				
Dugan Production Corp. P.O. Box 420 Farmington, NM 87499				2.0000%
R & J Miller Partnership 2702 Crestline Road Big Spring, TX 79720				2.0000%
TOTAL WELL	100.00%	100.00%	100.00%	100.00%

ATTACHMENT 4
Federal A & Federal C Leases
Questar E&P Company
Sandoval County, New Mexico

<u>Well Name</u>	<u>Location</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Federal A 1	SWNW 23, T-23N, R-7W	Federal NMNM10087	Lybrook Gallup	SWNW - 40.0 acres
Federal C 1	SESE 31, T-23N, R-7W	Federal NMNM6681	Alamito Gallup	SESE - 40.0 acres
Federal C 2	NESE 31, T-23N, R-7W	Federal NMNM6681	Alamito Gallup	NESE - 40.0 acres
Federal C 3	SESW 31, T-23N, R-7W	Federal NMNM6681	Alamito Gallup	SESW - 40.0 acres

INTEREST OWNER	Federal A 1 INTEREST %		Federal C No. 1, No. 2 & No. 3 INTEREST %	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest Owners</u>				
Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	87.5000%*	100.00%	87.5000%*
<u>Royalty Interest Owners</u>				
USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401		12.5000%*		12.5000%*
TOTAL WELL	100.00%	100.0000%	100.00%	100.0000%

* Wells qualify for stripper oil royalty rate of 1.30%, which results in a NI of 98.70% on oil production.

**ATTACHMENT 4
Federal B Lease
Questar E&P Company
Sandoval County, New Mexico**

<u>Well Name</u>	<u>Location</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Federal B 2	SWNE-34, T23N, R7W	Federal NMNM6682	Alamito Gallup	SWNE-40.0 acres
Federal B 3	NWSE-34, T23N, R7W	Federal NMNM6682	Alamito Gallup	NWSE-40.0 acres
Federal B 4	NWSW-34, T23N, R7W	Federal NMNM6682	Alamito Gallup	NWSW-40.0 acres
Federal B 5	NWNW-34, T23N, R7W	Federal NMNM6682	Alamito Gallup	NWNW-40.0 acres
Federal B 6	SWSW-27, T23N, R7W	Federal NMNM6682	Alamito Gallup	SWSW-40.0 acres
Federal B 7	NENE-21, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NENE-40.0 acres
Federal B 8	NENW-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NENW-40.0 acres
Federal B 9	SWNW-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SWNW-40.0 acres
Federal B 10	NENE-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NENE-40.0 acres
Federal B 11	NWSE-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NWSE-40.0 acres
Federal B 12	SWNE-27, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SWNE-40.0 acres
Federal B 13	SESE-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SESE-40.0 acres
Federal B 14	NENE-27, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NENE-40.0 acres
Federal B 15	NESE-27, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NESE-40.0 acres
Federal B 20	SENE-21, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SENE-40.0 acres
Federal B 21	SESW-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SESW-40.0 acres
Federal B 22	NESE-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NESE-40.0 acres
Federal B 23	NWSW-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NWSW-40.0 acres
Federal B 24	SWSE-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	SWSE-40.0 acres
Federal B 25	NESW-22, T23N, R7W	Federal NMNM6682	Lybrook Gallup	NESW-40.0 acres

INTEREST OWNER**INTEREST %****Working Interest Owners**

	<u>Gross</u>	<u>Net</u>
Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	87.5000%*

Royalty Interest Owners

USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401		12.5000%*
--	--	-----------

TOTAL WELL**100.00%****100.0000%**

* Wells qualify for stripper oil royalty rate of 1.30%, which results in a NI of 98.70% on oil production.

**ATTACHMENT 4
Federal G Lease
Questar E&P Company
San Juan County, New Mexico**

<u>Well Name</u>	<u>Location</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Federal G 1	NENE 2, T-22N, R-8W	Federal NMNM048989A	Alamito Gallup	NENE - 40.0 acres
Federal G 2	NWNE 2, T-22N, R-8W	Federal NMNM048989A	Alamito Gallup	NWNE - 40.9 acres

<u>INTEREST OWNER</u>	<u>INTEREST %</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest Owners</u>		
Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	82.5000%*
<u>Royalty Interest Owners</u>		
USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401		12.5000%*
<u>Overriding Royalty Interest Owners</u>		
Harold R. Bechtell c/o Richard Biltner, Trustee 201 West 2nd Street Davenport, IA 52801		1.2500%
Marie A. Schaefer 4131 N.W. Boulevard, Apt. 303 Davenport, IA 52806		1.2500%
Richard & Mary Ann Schmidt 5418 Chapel Hill Road Davenport, IA 52802-9802		1.2500%
Michael W. Houston P.O. Box 980 Buffalo, MO 65622		1.2500%
TOTAL WELL	100.00%	100.0000%

* Wells qualify for stripper oil royalty rate of 2.10%, which results in a NI of 92.90% on oil production.

ATTACHMENT 4
Federal I Lease
Questar E&P Company
Sandoval County, New Mexico

<u>Well Name</u>	<u>Location</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Federal I 1	SWNE 33, T-23N, R-7W	Federal NMNM16586	Alamito Gallup	SWNE - 40.0 acres
Federal I 2	NESE 33, T-23N, R-7W	Federal NMNM16586	Alamito Gallup	NESE - 40.0 acres
Federal I 3	SWSW 33, T-23N, R-7W	Federal NMNM16586	Alamito Gallup	SWSW - 40.0 acres
Federal I 4	SWNW 33, T-23N, R-7W	Federal NMNM16586	Alamito Gallup	SWNW - 40.0 acres
Federal I 5	SWNE 21, T-23N, R-7W	Federal NMNM16586	Lybrook Gallup	SWNE - 40.0 acres
Federal I 8	SWNW 21, T-23N, R-7W	Federal NMNM16586	Lybrook Gallup	SWNW - 40.0 acres
Federal I 9	NWNE 21, T-23N, R-7W	Federal NMNM16586	Lybrook Gallup	NWNE - 40.0 acres

<u>INTEREST OWNER</u>	<u>INTEREST %</u>	
<u>Working Interest Owners</u>	<u>Gross</u>	<u>Net</u>
Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	86.5000%*
<u>Royalty Interest Owners</u>		
USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401		12.5000%*
<u>Overriding Royalty Interest Owners</u>		
Robert L. Payne 14902 Indian Quail Circle Houston, TX 77095-3220		0.6667%
Lyle L. Payne, Jr. 218 Lynnwood Drive Houma, LA 70360		0.3333%
TOTAL WELL	100.00%	100.0000%

* Wells qualify for stripper oil royalty rate of 2.90%, which results in a NI of 96.10% on oil production.

**ATTACHMENT 4
Federal L & State K Leases
Questar E&P Company
San Juan & Sandoval Counties, New Mexico**

<u>Well Name</u>	<u>Location</u>	<u>County</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Federal L 1	SWSE 28, T-23N, R-7W	Sandoval	Federal NMNM58878	Alamito Gallup	SWSE - 40.0 acres
State K 1	SESE 36, T-23N, R-8W	San Juan	State 00016174	Alamito Gallup	SESE - 40.0 acres

INTEREST OWNER	Federal L 1 INTEREST %		State K 1 INTEREST %	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest Owners</u> Questar E&P Company 1331 Seventeenth Street, Suite 300 Denver, CO 80202	100.00%	87.5000%*	100.00%	83.3333%
<u>Royalty Interest Owners</u> USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401		12.5000%*		
State of New Mexico New Mexico State Land Office P.O. Box 1148 Santa Fe, NM 87504-1148				16.6667%
TOTAL WELL	100.00%	100.0000%	100.00%	100.0000%

* Well qualifies for stripper oil royalty rate of 1.30%, which results in a NI of 98.70% on oil production.

**ATTACHMENT 4
Little b & South Seas Leases
Dugan Production Corp.
San Juan & Sandoval Counties, New Mexico**

<u>Well Name</u>	<u>Location</u>	<u>County</u>	<u>Lease Type & #</u>	<u>Pool</u>	<u>Spacing Unit & Acres</u>
Little b 2	SWNE-36, T23N, R8W	San Juan	State LG-9090	Rusty Chacra	NE/4-160.0 acres
South Seas 1	NENE-1, T22N, R7W	Sandoval	Federal NM-89023	Rusty Chacra	NE/4-161.38 acres

INTEREST OWNER	Little b 2 INTEREST %		South Seas 1 INTEREST %	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
<u>Working Interest Owners</u> Dugan Production Corp. P.O. Box 420 Farmington, NM 87499	100.00%	87.5000%	100.00%	87.5000%
<u>Royalty Interest Owners</u> USA - Bureau of Land Management 1235 La Plata Hwy., Suite A Farmington, NM 87401				12.5000%
State of New Mexico New Mexico State Land Office P.O. Box 1148 Santa Fe, NM 87504-1148		12.5000%		
TOTAL WELL	100.00%	100.0000%	100.00%	100.0000%

**ATTACHMENT NO. 5
ALLOCATION PROCEDURES
SOUTH LYBROOK GAS GATHERING SYSTEM
QUESTAR E&P COMPANY**

A. Wells operated by Questar and currently approved for operation.

1. Natural Gas

The allocation procedures for natural gas are described in Questar's letter of 12-18-98, which is attached as pages No. 3 through 10. Questar calculates the monthly gas volumes for each well using a computed volume associated with the plunger lift and the number of trips the plunger made during the month. The gas volume calculations include adjustments for varying wellhead pressures. This procedure has produced an acceptable method for calculating gas volumes for each well, which are used in determining allocation factors to be applied to the gas volumes measured at the CDP gas sales meter. This procedure will not change upon adding Dugan's wells.

2. System Fuel

System Fuel requirements currently consists of one compressor, and the computed fuel volumes are allocated to each well using allocation factors determined from gas volumes. Questar also allocates fuel used on each lease to each well using the gas volume allocation factors. This will not change upon adding Dugan's wells.

3. BTU's

Since all 38 wells operated by Questar are completed in the Gallup formation and produce gas with similar compositions and heating values, it is not necessary to sample the gas at each well. Instead, Questar uses the gas analysis and heating values determined from samples taken at the CDP sales meter. This is a reasonable approach to allocating the gas BTU's determined at the CDP to each well when all wells are producing gas of similar compositions. Upon adding Dugan's wells, this procedure will be modified to account for the fact that Dugan's wells will produce gas with lower heating values. Upon adding Dugan's wells, the CDP gas heating value will continue to be used to compute the "theoretical BTU's" produced from each of Questar's wells and the "theoretical BTU's" for the gas from Dugan's wells will be calculated using the BTU's determined from samples taken at Dugan's delivery point to the South Lybrook Gas Gathering System. The "theoretical BTU's" so calculated will then be used to calculate allocation factors (individual theoretical BTU/sum of all theoretical BTU's) which will be used to allocate the CDP BTU's and revenues to each of Questar's wells and Dugan's delivery meter.

4. System Drip Condensate

Drip condensate accumulations from the system are allocated to individual wells based upon the gas sales volumes allocated to each well. This is also a reasonable approach to allocating condensate when all wells are producing gas of similar compositions. This procedure will not change upon adding Dugan's wells.

5. Oil & Water

Oil and water are separated, stored, and sold/disposed of on each individual lease. There is no commingling or off-lease storage/sale of oil and/or water. This will not change as a result of adding Dugan's wells.

B. Wells operated by Dugan Production Corp. – proposed to be added.

Since only dry natural gas with relatively small volumes of water and no oil or condensate is anticipated from either of the two wells operated by Dugan Production, conventional dry flow meters will be installed at each well. In addition, a separate dry flow meter will be installed at the point of delivery for gas from Dugan's wells to the South Lybrook Gas Gathering System, which will measure the combined gas from both wells prior to entering the South Lybrook Gas Gathering System (SLGGS). This meter will be known as the Dugan Delivery Meter (DDM). Dugan Production will install, maintain and operate all three meters. In addition, Dugan will have the charts integrated monthly by a commercial service with volumes reported directly to Questar.

1. Natural Gas

Volumes recorded at the DDM will be used by Questar along with computed gas volumes on their wells to determine allocation factors to be applied to the gas volumes measured at the CDP gas sales meter. The gas sales volume allocation to the DDM by Questar will then be used by Dugan Production to allocate gas sales volumes to Dugan's individual wells using a second allocation based upon factors determined from the allocation meters at each well.

2. System Fuel

System fuel requirements will be allocated to each well on the system including the DDM using the gas volume allocation factors. Dugan Production will then allocate the DDM fuel volume to each well using allocation factors determined from the individual well allocation meters. Questar will not allocate any fuel used on Questar's leases to the DDM; however, Dugan Production will account for the fuel used on lease at each of Dugan's well. Currently we anticipate no individual lease use; however, it may be necessary to install a compressor at the DDM, and if so, the fuel will be allocated to each of Dugan's wells using factors determined from the individual allocation meter volumes.

3. BTU's

Dugan Production Corp. will sample the gas at the DDM and have the heating value determined as required by current regulations (currently On Shore Order No. 5). Questar will use this heating value applied to the gas volumes measured at the DDM to calculate the theoretical gas BTU's delivered from Dugan's wells. In addition, Questar will use the gas heating values determined at the central delivery meter and applied to the gas volumes computed for each Questar well to calculate theoretical gas BTU's delivered from each Questar well. The theoretical BTU's calculated for each Questar well and the DDM will then be used to determine allocation factors based upon the ratio each well's BTU's bears to the total BTU's for all wells. This factor will then be used to allocate the CDP BTU's and gas revenues to each Questar well and to the DDM. The BTU's and gas revenues allocated to the DDM by Questar will then be allocated by Dugan Production to each of Dugan's wells using the gas volume allocation factors determined from the individual well allocation meters.

4. System Drip Condensate

System drip condensate accumulations will only be allocated to Questar wells since Dugan's wells will not produce any drip condensate.

5. Oil & Water

No oil is anticipated from Dugan's wells, and any water production will be separated, stored, and disposed of at each well. There will be no commingling of water.



AHachman
No. 5
Pg 3 of 10

December 18, 1998

Mr. Jim Lovato
USDI Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Re: Request for Continuance of Variance Approval
Onshore Oil & Gas Order #5, Measurement of Gas
South Lybrook Gas Gathering System

Dear Jim:

As you requested in our phone conversation today, Universal Resources Corporation submits the following additional information in conjunction with our Request for Variance to Onshore Oil & Gas Order #5 dated September 25, 1998:

- 1) A copy of the gas volume allocation spreadsheet prepared monthly for the wells on the South Lybrook Gas Gathering System is attached. The computation of estimated gas volume for each well is shown on the right side of the spreadsheet. The formula is:

Estimated Daily Gas Volume

$$= (\text{Minutes of afterflow} \div \text{total minutes per trip}) \cdot \text{total trip gas volume per day}$$

Total Trip Gas Volume per day

$$= \text{Gas volume per trip} \cdot \text{trips per day}$$

Gas Volume per trip

$$= ((\text{tubing volume} \cdot (\text{tubing pressure psig} + 15.025 \text{ psia}) \div 15.025 \text{ psia}) \div 1000$$

Tubing volume in ft³

$$= (\pi(\text{tubing radius})^2) \cdot \text{tubing height}$$

The actual formulas are:

$$\text{Column AB} = (((Z13/12)^2) * 3.14159265/4) * AA13$$

$$\text{Column AF} = ((AB13 * (AC13 + 15.025)) / 15.025) / 1000$$

$$\text{Column AG} = (AD13 * AF13)$$

$$\text{Column AI} = (AH13 / AE13) * AG13$$

$$\text{Column AJ} = AG13 + AI13$$

$$\text{Column AK} = X13 * AJ13$$

Columns AC, AD, AE and AH are entered each month based on each wells performance during that month. Temperature is assumed to be identical for all wells and is not considered in the formula.

Variance to Onshore Oil & Gas Order #5
December 18, 1998
Page 2

Attachment
No. 5
p. 4 of 10

The gas volume delivered to EPNG at the South Lybrook Compressor is allocated (Columns M and T) based on each well's prorated share of the total estimated monthly gas volume (Column G and Column AK). Volumes are calculated in pressure base 14.730 and 15.025.

- 2) Fuel Gas for the entire system is shown at the top of form as compressor use (O7) and separator/pumpjack use (O8). There are 18 separators and 2 pumping wells on the system. The separators are typically 3-phase, 125# working pressure with an estimated fuel usage of 1 mcf. Fuel gas for the pumping units is also estimated at 1 mcf.

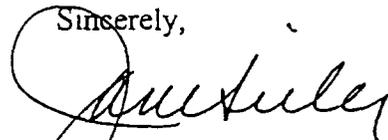
Based on manufacturer specs, the South Lybrook compressor fuel gas use is as follows:

$$\begin{aligned} \text{Waukesha F1197G} &= 8.5 \text{ btu per hp per hour} \\ 8.5 \cdot 150\text{hp} \cdot 24 &= 30,600 \text{ btu/day} \\ 30,600 \div 1.348 \text{ btu/ft}^3 &= 22.7 \text{ mcf} \text{ or } \underline{681 \text{ mcf/month}} \end{aligned}$$

Compressor fuel and separator/pumpjack fuel is allocated to each well (Columns K, L, R and S) based on the estimated monthly produced mcf.

Please give me a call at 303-672-6970 if I have not responded to all your concerns or if you need additional information.

Sincerely,



Jane Seiler
Administrative Supervisor

enclosures

EQUIPMENT AT WELL AND TANK BATTERY LOCATIONS
LYBROOK FIELD

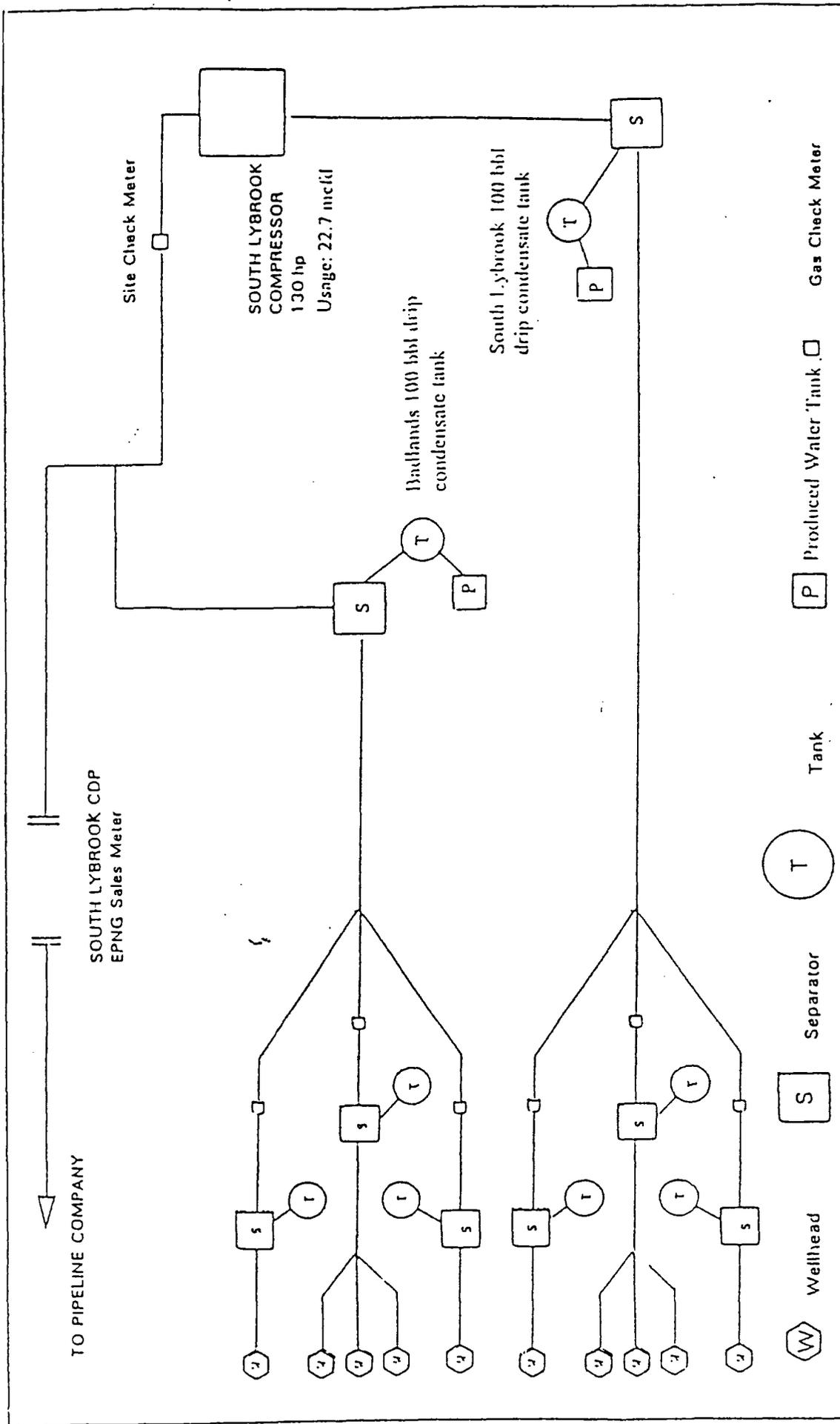
Attachment No. 5 - Pg 6 of 10

SOUTH LYBROOK GATHERING SYSTEM

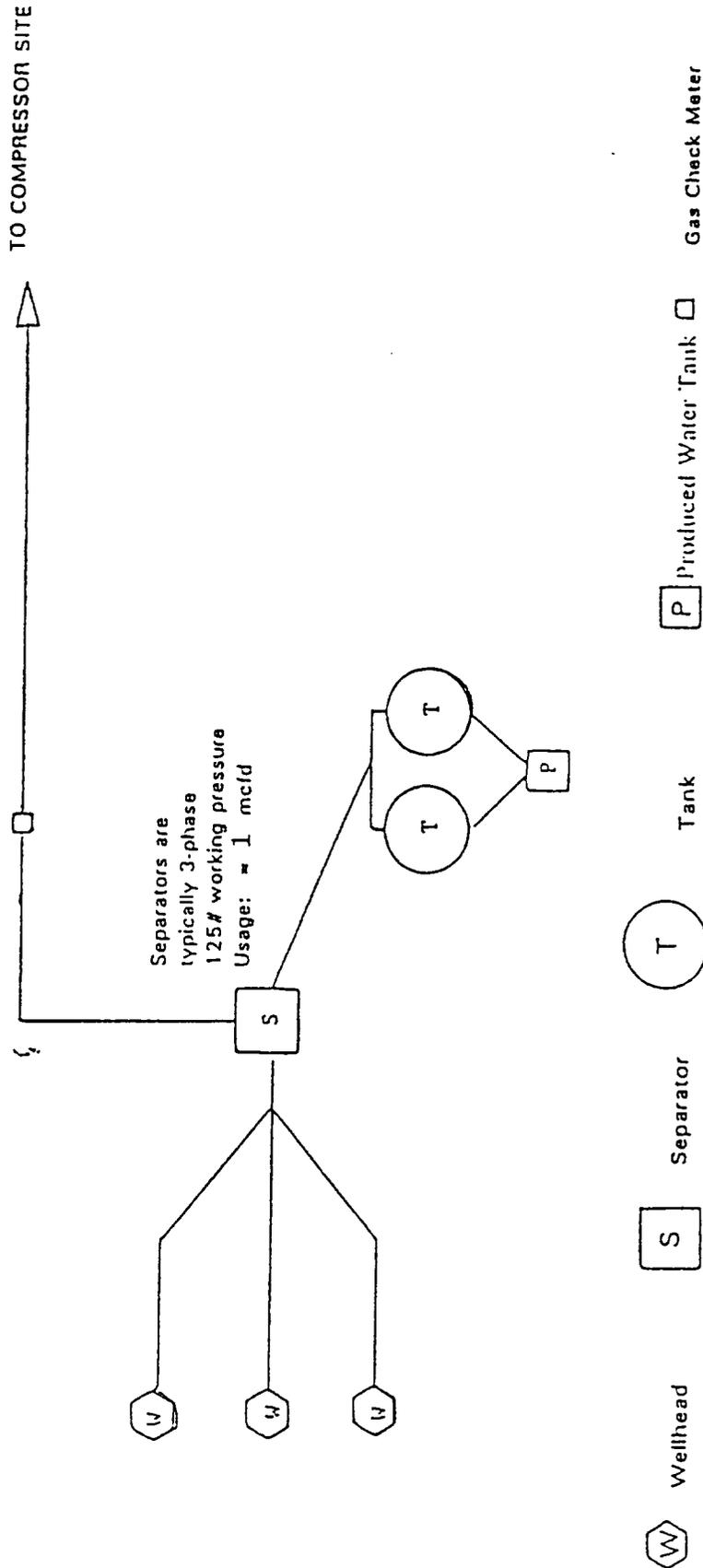
Battery Name	Well Name	Compressor	Separator	Pumpjack	Tanks	Heater	Meters	Pipeline	Pit
S. Lybrook Compressor Site		1	1		1-100 bbl atp condensate		1-EPNG (check meter)		1
	Federal A-1		1		1-300 bbl		1	2" gas line	1
Federal B	Federal B-2		1		2-400 bbl		1	2" gas line	
	Federal B-3							2" flowline	
	Federal B-4							2" flowline	
	Federal B-5							2" flowline	
	Federal B-6							2" flowline	
	Federal B-7			1		1-300 bbl		1	
Federal B	Federal B-8		1		2-500 bbl		1	3" gas line	
	Federal B-9							2" flowline	
	Federal B-20							2" flowline	
	Federal B-23							2" flowline	
Federal B-22	Federal B-22		1		1-210 bbl 1-400 bbl		1	2" gas line	1
	Federal B-10							flowline	
	Federal B-11							flowline	
Federal B-12	Federal B-13							2" flowline	
	Federal B-12		1	1	1-300 bbl		1	gasline	
	Federal B-14							2" flowline	
	Federal B-15							2" flowline	
	Federal B-21		1		1-400 bbl		1	2" gas line	1
Federal B-25	Federal B-24		1		1-300 bbl		1	gas line	1
	Federal B-25		1		1-300 bbl		1	2" gas line	1
Federal C-1	Federal C-1		1		1-300 bbl		1	2" gas line	

Attachment
 NO 5
 PG 7 of 10

Battery Name	Well Name	Compressor	Separator	Pumpjack	Tanks	Heater	Meters	Pipeline	Pit
	Federal C-2							2" flowline	
	Federal C-3							2" flowline	
Federal G	Federal G-1		1		2-300 bbl			2" gas line	1
	Federal G-2		1		1-400 bbl		1	2" gas line	
Federal I	Federal I-2				2-400 bbl		1	2" gas line	
	Federal I-3							flowline	
	Federal I-4							2" flowline	
	Federal I-4							flowline	
Federal I-9	Federal I-9		1		1-400 bbl		1	2" gas line	1
	Federal I-5							flowline	
	Federal I-8							2" flowline	
	State K-1		1		1-400 bbl		1	2" gas line	1
	Federal L-1		1		1-400 bbl		1	2" gas line	
Alamito	Alamito 2		1		2-400 bbl		1	2" flowline	
	Alamito 3							2" flowline	
	Alamito 4							2" flowline	
Bedlands compressor station			1		1-100 bbl Drip condensate				1
TOTALS		1	18	1	25	0	16		10



<p>UNIVERSAL RESOURCES CORPORATION</p>	<p>South Lybrook Gathering System Compressor Facilities Off-Lease Sales, Usage and Measurement System</p>
<p>Universal Resources Corporation 1331 17th Street, Suite 300 Denver, CO 80202 303-672-6970</p>	<p>NOT TO SCALE</p>



UNIVERSAL RESOURCES CORPORATION	
Universal Resources Corporation 1331 17th Street, Suite 300 Denver, CO 80202 303-672-6970	Typical Tank Battery Multiple Wells
NOT TO SCALE	



Wellhead

Separator

Tank

Produced Water Tank

Gas Check Meter

UNIVERSAL RESOURCES CORPORATION

Universal Resources Corporation
1331 17th Street, Suite 300
Denver, CO 80202
303-672-6970

Typical Tank Battery
Single Well

NOT TO SCALE



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

ANALYSIS NO. DU220047
 CUST. NO. 23000 - 10605

WELL/LEASE INFORMATION

*Attachment
 No. 6
 Pg 1 of 1*

CUSTOMER NAME	DUGAN PRODUCTION CORP.	SOURCE	N/A
WELL NAME	CHACRA 1	PRESSURE	55 PSIG
COUNTY/ STATE	SANDOVAL NM	SAMPLE TEMP	DEG.F
LOCATION	D10-22N-07W	WELL FLOWING	Y
FIELD		DATE SAMPLED	4/1/02
FORMATION	RUSTY CHACRA	SAMPLED BY	MARK SANDOVAL
CUST.STN.NO.	202A252606	FOREMAN/ENGR.	TOM BLAIR

REMARKS

ANALYSIS

COMPONENT	MOLE %	GPM**	B.T.U.*	SP.GR *
NITROGEN	1.818	0.0000	0.00	0.0176
CO2	0.080	0.0000	0.00	0.0012
METHANE	88.998	0.0000	900.93	0.4930
ETHANE	5.621	1.5036	99.70	0.0584
PROPANE	2.243	0.6182	56.57	0.0342
I-BUTANE	0.404	0.1321	13.17	0.0081
N-BUTANE	0.434	0.1368	14.19	0.0087
I-PENTANE	0.154	0.0563	6.18	0.0038
N-PENTANE	0.085	0.0308	3.42	0.0021
HEXANE PLUS	0.163	0.0711	8.38	0.0052
TOTAL	100.000	2.5490	1,102.54	0.6323

* @ 14.730 PSIA DRY & UNCORRECTED FOR COMPRESSIBILITY

** @ 14.730 PSIA & 60 DEG. F.

COMPRESSIBILITY FACTOR (1/Z) 1.0026
 BTU/CU.FT (DRY) CORRECTED FOR (1/Z) 1,105.5
 BTU/CU.FT (WET) CORRECTED FOR (1/Z) 1,086.3
 REAL SPECIFIC GRAVITY 0.6340

ANALYSIS RUN AT 14.730 PSIA & 60 DEGREES F

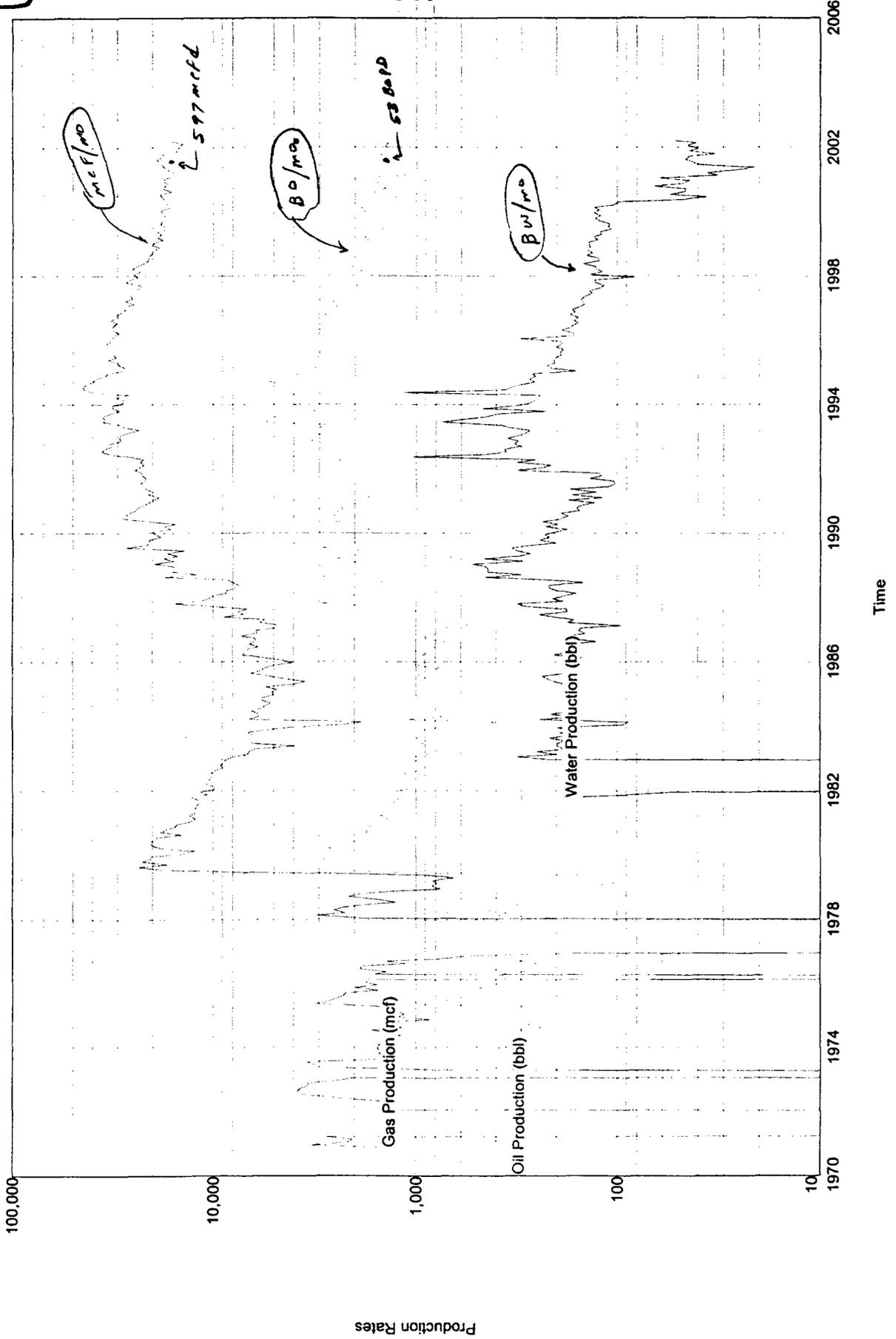
DRY BTU @ 14.650 1,099.5
 DRY BTU @ 14.696 1,102.9
 DRY BTU @ 14.730 1,105.5
 DRY BTU @ 15.025 1,127.6

CYLINDER # K059
 CYLINDER PRESSURE 56 PSIG
 DATE RUN 4/9/02
 ANALYSIS RUN BY DAWN BLASSINGAME

Lease Name: MULTIPLE - 38 wells
 County, State: MULTIPLE - San Juan & Sandoval Counties, New Mexico
 Operator: MULTIPLE - Quinsa - E & P
 Field: MULTIPLE - Alamoito & Lybrook Gallup
 Reservoir: GALLUP
 Location: -South Lybrook EMS Gathering SYS

Attachment
 No. 7
 PS 1 of 1

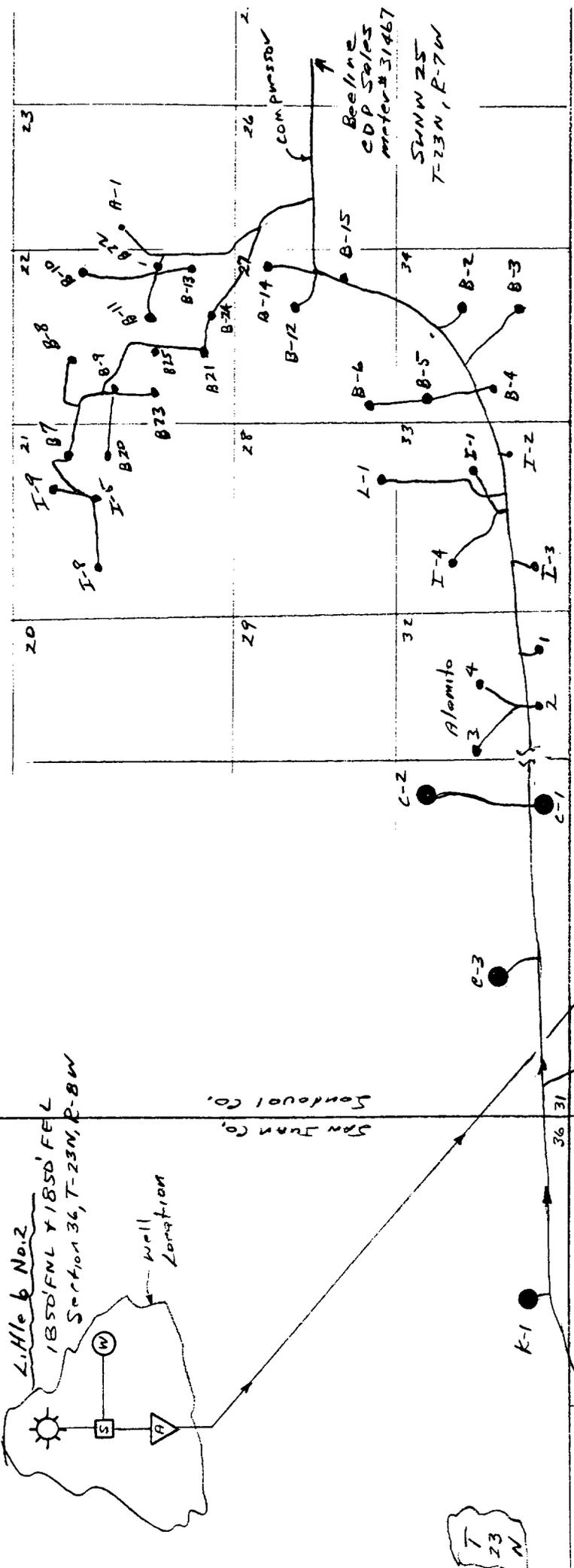
MULTIPLE - MULTIPLE - 38 wells



Oil Production (bbl)
 Gas Production (mcf)
 Water Production (bbl)

Production Rates

Time



Little 6 No. 2
1850' FNL + 1850' FEL
Section 36, T-23N, R-8W

San Juan Co.
Londouni Co.

Beeline
CDP Sales
meter # 31467
SUNW 25
T-23N, R-7W

South Seas #1
1100' FNL + 1135' FEL
Section 6, T-22N, R-7W

Legend

- [S] - Gas/water Separator
- [W] - Water Storage tank
- [A] - Gas Allocation Meter
- [C] - Compressor

Attachment No. 8
Well Facilities Diagram
Upon Production Wells to be
Added to Questar Ex P's
South Lybrook Gas Gathering Sys.
- Not Drawn to Scale -

R-7W

R-8W

T 23 N

T 22 N

ATTACHMENT NO. 9

**Participation Statement of Dugan Production Corp.
South Lybrook Gas Gathering System – Operated by Questar E&P Company
Sandoval & San Juan Counties, New Mexico**

Dugan Production Corp. is the operator of two wells in the vicinity of the South Lybrook Gas Gathering System operated by Questar E&P Company and desires to use this gas gathering system to transport natural gas produced from our wells to a central delivery sales meter for the South Lybrook Gas Gathering System located on Beeline Gas System's line in the SWNW of Section 25, T-23N, R-7W, Sandoval county.

We have reviewed Questar's existing operations at the South Lybrook Gas Gathering System, along with the allocation procedures currently being used. It is our understanding that the South Lybrook Gas Gathering System has been approved by the BLM, the New Mexico State Land Office, and the New Mexico Oil Conservation Division. We believe the existing operation and allocation procedures are consistent with standard industry practices and are acceptable to Dugan Production Corp.

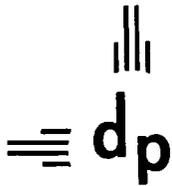
We request that the wells operated by Dugan Production Corp. listed below be added to the wells currently approved for surface commingling and the off-lease measurement and sale of produced natural gas in the South Lybrook Gas Gathering System operated by Questar E&P Company.

<u>Well Name</u>	<u>Location</u>	<u>API Number</u>	<u>Lease Type & No.</u>
Little b No. 2	SWNE 36, T-23N, R-8W	30-045-28333	State Lease LG-9090
South Seas No. 1	NENE 1, T-22N, R-7W	30-043-20897	Federal Lease NM-89023

Signed by: John Alexander

Title: VP
Dugan Production Corp.

Date: 9/6/2002



dugan production corp.



CERTIFIED MAIL
RETURN RECEIPT REQUESTED

September 6, 2002

Attachment
No. 10
Pg 1 of 2

Overriding Royalty Interest Owners (Address List Attached)
Questar E&P Company's
South Lybrook Gas Gathering System
San Juan & Sandoval Counties, New Mexico

Dear Interest Owner:

Attached for your information and file is a copy of the application Dugan Production Corp. has filed with the New Mexico Oil Conservation Division (NMOCD), the New Mexico State Land Office, and the Bureau of Land Management requesting authorization to add two wells operated by Dugan Production Corp. to the captioned gas gathering system operated by Questar E&P Company. Questar has agreed to the proposed addition of Dugan's wells, which should not significantly change the current operations by Questar.

The addition of these two wells should have no affect upon your interest in the wells currently producing into the South Lybrook Gas Gathering System and will allow Dugan Production Corp. to produce two small gas wells that have been shut in for over nine years because there is no gas pipeline in the area other than Questar's gathering system.

This matter does not require any action or expenditure by you. Should you have any questions, need additional information, or have any concern as to Dugan's proposal, please let me know, or you can contact Questar's engineer, Mr. Gary Ohlman, by phone (303) 672-6916 or by mail 1050 17th Street, Suite 500, Denver, CO 80265. The New Mexico Oil Conservation Division has scheduled Dugan's application for their hearing docket on October 10, 2002. Should you have an objection to our application, please let me know prior to the hearing, or you can contact the New Mexico Oil Conservation Division directly at 1220 South St. Francis Drive, Santa Fe, NM 87505. We would appreciate receiving a copy of your objection. Should you desire to participate in the hearing, you must file a pre-hearing statement with the NMOCD by 4:00 p.m. October 4, 2002.

Sincerely yours,

John D. Roe
Engineering Manager

JDR:sh

Attachment

Attachment
No 10
Pg 2 of 2

ATTACHMENT A
Interest Owner Address List
South Lybrook Gas Gathering System

(A = Alamito Wells No. 2 & 3; B = Alamito Well No. 4; C = Federal A Well No. 1; D = Federal B Wells No. 2,3,4,5,6,7,8,9,10, 11,12,13,14,15,20,21,22,23,24 &25; E = Federal C Well No. 1,2 & 3; F = Federal G Wells No. 1 & 2; G = Federal I Wells No. 1,2,3,4,5,8 &9; H = Federal L Well No. 1; I = State K Well No. 1; J = Little b Well No. 2; K = South Seas Well No. 1)

Working Interest Owners

Questar E&P (A,B,C,D,E,F,G,H,I)
1331 Seventeenth Street, Suite 300
Denver, CO 80202

Dugan Production Corp. (J,K)
P.O. Box 420
Farmington, NM 87499

Royalty Interest Owners

USA – Federal (C,D,E,F,G,H,K)
Bureau of Land Management
1235 La Plata Highway, Suite A
Farmington, NM 87401

State of New Mexico (A,B,I,J)
New Mexico State Land Office
P.O. Box 1148
Santa Fe, NM 87504-1148

Overriding Interest Owners

Harold R. Bechtell (F)
c/o Richard Biltner, Trustee
201 West 2nd Street
Davenport, IA 52801

Dugan Production Corp. (B)
P.O. Box 420
Farmington, NM 87499

Michael W. Houston (F)
P.O. Box 980
Buffalo, MO 65622

Lyle L. Payne, Jr. (G)
218 Lynnwood Drive
Houma, LA 70360

Robert L. Payne (G)
14902 Indian Quail Circle
Houston, TX 77095-3220

R&J Miller Partnership (B)
2702 Crestline Road
Big Spring, TX 79720

Marie A. Schaefer (F)
4131 N.W. Boulevard, Apt. 303
Davenport, IA 52806

Richard & Mary Ann Schmidt (F)
5418 Chapel Hill Road
Davenport, IA 52802-9802