



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401



IN REPLY REFER TO:

Tabor & Federal I Gas Gathering System
3162.7-3

30-045-23940

April 26, 2004

Mr. John Roe
Dugan Production Corporation
P.O. Box 420
Farmington, NM 87499



Dear Mr. Roe:

Reference is made to your application to consolidate the Tabor and Federal I Gas Gathering Systems, modify the allocation methodology for wells currently tied into the Federal I Gathering System and include additional wells to the combined system. The Tabor Gas Gathering System was originally approved on July 30, 1996, and subsequently consolidated with the King Gas Gathering System on December 13, 2001. The Federal I Gas Gathering was originally approved effective August 1, 1997, and has operated using periodic well testing as the basis for production allocation. Your proposal seeks to consolidate these gathering systems and establish the common measurement point at the following location:

**Com 1E well site located in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ sec. 2, T. 29 N., R. 14 W., using
GulfTerra Field Services Meter No. 90887**

Your proposal indicates that consolidation would eliminate the current off-lease sales and measurement provisions for the Federal I Gas Gathering System at the GulfTerra Field Services meter at the Federal I No. 4 well site. This meter will be removed from service upon system consolidation. You also indicate that allocation meters will be installed on all wells tied to the combined system. In addition, associated gas in the produced water stream will be separated and measured to enhance the total gas contribution to the combined system. Accordingly, the allocation methodology will be modified to reflect each well's water and associated gas contribution using periodic well tests. Produced oil and condensate will not be a part of this off-lease sales and measurement system. You indicated that consolidation of these systems will allow the use of common compression facilities and significantly reduce certain well head operating pressures and improve the overall operating efficiency.

Your application to consolidate and modify the allocation methodology of the Tabor and the Federal I Gas Gathering Systems is hereby approved. In addition, you are authorized to include the referenced ten (10) additional wells to the consolidated system. The original terms and conditions of the previous authorizations are still in full force and effect. A mechanical integrity test of the system tie-in will be

required upon system connection. File these results within thirty-days thereafter. The consolidated system will hereafter be referenced as the Tabor Gas Gathering System.

If you have any questions regarding the above, please contact me at your convenience.

Sincerely,

/s/ Jim Lovato

Jim Lovato, Petroleum Engineer
Senior Technical Advisor
Petroleum Management Team

cc:

NMOCD (Aztec and Santa Fe)