



D.C.D. Aztec

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

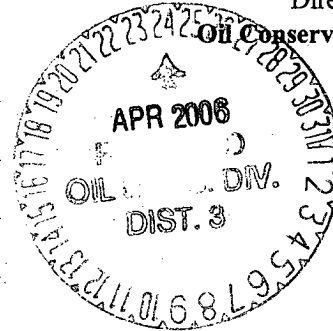
Joanna Prukop

Cabinet Secretary

March 17, 2006**Mark E. Fesmire, P.E.**

Director

Oil Conservation Division

Dugan Production Corporation**P. O. Box 420****Farmington, New Mexico 87499-0420****Attention: John D. Roe***johnroe@duganproduction.com***Administrative Order NSL-5369**

Dear Mr. Roe:

Reference is made to the following: (i) your application that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on March 27, 2006 (**administrative application reference No. pTDS0-608650736**); (ii) your letter dated April 5, 2006 with supplemental data attached; and (iii) the Division's records in Aztec and Santa Fe: all concerning Dugan Production Corporation's ("Dugan") request for an exception to the well location requirements [Rule 7 (a) (1)] provided within the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended, for a non-standard infill gas well location within an existing 320-acre stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool (**71629**) comprising the W/2 of Section 33, Township 26 North, Range 13 West, NMPM, San Juan County, New Mexico.

Your application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," and (ii) Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

This unit is currently dedicated to Dugan's Salge Federal "A" Well No. 96 (**API No. 30-045-32039**), located at a standard coal gas well location 1850 feet from the North line and 1895 feet from the West line (Unit F) of Section 33.

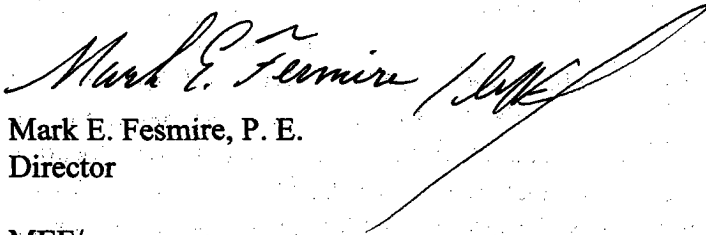
It is the Division's understanding that the well to be considered at this time, Dugan's Salge Federal "A" Well No. 5 (**API No. 30-045-28578**), located 1730 feet from the South line and 595 feet from the West line (Unit L) of Section 33, was initially drilled in 1991 and completed as an oil well in the Bisti Lower-Gallup Oil Pool (**5890**) at a standard oil well location within the N/2 SW/4 of Section 33, being a standard 80-acre lay-down oil spacing and proration unit for the Bisti Lower-Gallup Oil Pool. Since the deeper Gallup oil interval in this well has "ceased to produce," Dugan now intends to plug-back into the shallower Fruitland coal gas zone; however, pursuant to Rule 7 (a) (1) of the special Basin-Fruitland coal gas pool rules this location is considered to be unorthodox.

By the authority granted me under the applicable provisions of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool and Division Rule 104.F (2), the above-described unorthodox infill coal gas well location for the Salge Federal "A" Well No. 5 within the W/2 320-acre stand-up gas spacing unit is hereby approved.

Further, Dugan is authorized to simultaneously dedicate production attributed to the Basin-Fruitland Coal (Gas) Pool from both the above-described Salge Federal "A" Wells No. 96 and 5.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management – Farmington