



dugan production corp.



May 14, 2003


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

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



Re: Surface Commingling - add one well to
Dugan Production Corp.'s Davis Gas Gathering System & CDP
San Juan County, New Mexico

Dear Ms. Wrotenbery & Mr. Henke,

 We are writing to request your administrative approvals for the proposed addition of one well, Dugan Production's recently drilled Davis Federal No. 1E, to Dugan's existing Davis Gas Gathering System & CDP. This will require the surface commingling of production from the Davis Federal No. 1E with the production from the three wells currently authorized for this gathering system. Only natural gas will be commingled. All liquid production (condensate and water) will be separated, stored and sold/disposed of at each individual well site.

In support of our application, NMOCD Form C-107B is attached. This gathering system is currently authorized by NMOCD Order PC-936. The Davis Federal No. 1E is an infill well to Dugan Production's Davis Federal No. 1 and is currently waiting to be completed. This well was spudded on 4-6-03 and 4-1/2" casing cemented at 6600' on 4-14-03. We plan to complete the well in the Gallegos Gallup Associated and the Basin Dakota pools at intervals that are correlative to the completed intervals in the Davis Federal No. 1. Production from the Gallup and Dakota will be downhole commingled under NMOCD Order DHC-1195AZ. Production from both completions, when added to the production from both completions in the Davis Federal No. 1, is anticipated to be less than the top allowables established for the spacing units for each completion. This well will be operated in the same manner that has been approved by the BLM and the NMOCD for the 3 wells currently on the gathering system.

Attachment No. 3 presents a summary of the interest owners in all wells which includes three working interest, 2 royalty interest (Federal & Navajo Allotted) plus 9 overriding royalty interest owners. As required by OCD Rule 19.15.5.303B.(4)(d)(iii) all interest owners in the wells currently approved plus the well proposed to be added to the gathering system have been provided with a copy of this application. As provided by Rule 19.15.5.303B.(4)(3)(vii), Dugan Production is requesting that the NMOCD Order issued for this application also include a provision that for future additions to the gathering system, only the interest owners in the wells being added need be notified, providing that in reasonable probability the proposed additions will not adversely affect the interest owners in the wells already approved for the system. Our transmittal letters to each of the interest owners sent certified return-receipt, is presented as Attachment No. 5 and did include a notice of this request.

Should you need additional information or have questions regarding any of this information, please feel free to contact me at the letterhead address.

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

Attachments

cc: NMOCD - Aztec & all interest owners

District I
1525 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
March 31, 2003

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original
application to the Santa Fe
office with one copy to the
appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Dugan Production Corp.

OPERATOR ADDRESS: P. O. Box 420, Farmington, NM 87499-0420

APPLICATION TYPE:

☐ Pool Commingling ☐ Lease Commingling ☒ Pool and Lease Commingling ☐ Off-Lease Storage and Measurement (Only if not Surface Commingling)

LEASE TYPE: ☐ Fee ☐ State ☒ Federal

Is this an Amendment to existing Order? ☒ Yes ☐ No If "Yes", please include the appropriate Order No. PC-936

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling

☒ Yes ☐ No

(A) POOL COMMINGLING

Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production	Value of Non-Commingled Production	Calculated Value of Commingled Production	Volumes
Gallegos Gallup Associated (26980)	±1250 BTU	1259 BTU	\$1,248/day	\$2,303/day	458 mcf/d
Basin Dakota (71599)	±1270 BTU		\$1,055/day		381 mcf/d
TOTAL			\$2,303/day		838 mcf/d

(2) Are any wells producing at top allowables? ☐ Yes ☒ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☒ Yes ☐ No Attachments No. 3 & No. 5

(4) Measurement type: ☒ Metering ☐ Other (Specify) Allocation Procedure - Attachment No. 4

(5) Will commingling decrease the value of production? ☐ Yes ☒ No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING

Please attach sheets with the following information

(1) Pool Name and Code.

(2) Is all production from same source of supply? ☐ Yes ☐ No

(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No

(4) Measurement type: ☐ Metering ☐ Other (Specify)

(C) POOL and LEASE COMMINGLING

Please attach sheets with the following information

(1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT

Please attached sheets with the following information

(1) Is all production from same source of supply? ☐ Yes ☐ No

(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)

Please attach sheets with the following information

(1) A schematic diagram of facility, including legal location. Attachment No. 1

(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved. Attachment No. 1

(3) Lease Names, Lease and Well Numbers, and API Numbers. Attachment No. 2

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

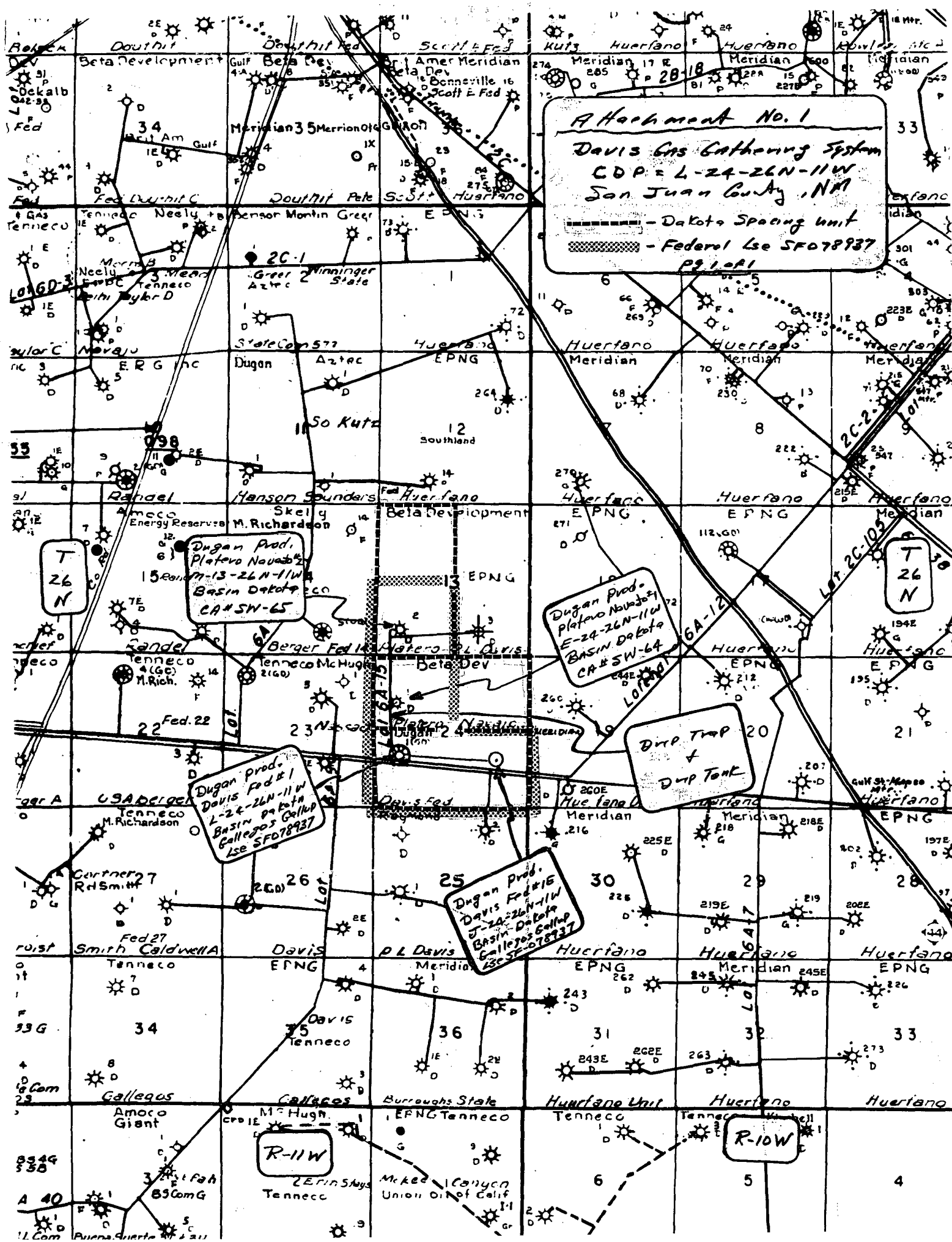
SIGNATURE: John D. Roe

TITLE: Engineering Manager

DATE: 05/14/03

TYPE OR PRINT NAME John D. Roe

TELEPHONE NO.: 505)325-1821



ATTACHMENT NO. 2
DUGAN PRODUCTION CORP.
DAVIS GAS GATHERING SYSTEM & CDP
CDP SALES METER @ NWSW SECTION 24, T-26N, R-11W (EL PASO METER NO. 73550)
SAN JUAN COUNTY, NEW MEXICO

* 30-045-05747

Well Name	API No. 30-045-	Well Location				CA Number	Pool	Completion Date	Current Production ①		Spacing Unit	Dates for SC, OLM & S ②		
		1/4 1/4	Sec-Twn-Rng	Lease No.	Type Lease				MCFD	BC/D		Application Date	BLM Approval	NMOCD Approval
WELLS TO BE ADDED														
Davis Federal #1E GA	30714	NWSE	24-26N-11W	SF-078937	Federal	N/A	Gallegos Gallup	③	330	1.7	S/2-320A	5/14/2003	pending	pending
Davis Federal #1E DK	30714	NWSE	24-26N-11W	SF-078937	Federal	N/A	Basin Dakota	③	165	1.3	S/2-320A	5/14/2003	pending	pending
WELLS PREVIOUSLY APPROVED FOR SYSTEM														
Davis Federal #1 GA	87280	NWSW	24-26N-11W	SF-078937	Federal	N/A	Gallegos Gallup	8/21/1962	128.08	0.19	S/2-320A	5/24/1996	N/A	7/15/1996
Davis Federal #1 DK	87280	NWSW	24-26N-11W	SF-078937	Federal	N/A	Basin Dakota	8/21/1962	55.31	0.15	S/2-320A	5/24/1996	N/A	7/15/1996
Platero Navajo #1	05765	SWNW	24-26N-11W	SF-078937	Federal	SW-64 ④	Basin Dakota	8/9/1962	83.46	0	N/2-320A	7/28/1997	12/11/1997	10/3/1997
Platero Navajo #2	05765	SWSW	13-26N-11W	SF-078937	Federal	SW-65 ⑤	Basin Dakota	7/27/1962	78.2	0	W/2-320A	7/28/1997	12/11/1997	10/3/1997

05827

Footnotes:

N/A - Not applicable or not needed

- ① Current production data represents average for 02/03 and 03/03. For wells not completed, data represents anticipated production rates.
- ② Dates for surface commingling applications and/or approvals. NMOCD Commingling Order PC-936 was approved 7/15/96 & last amended 12/29/99.
- ③ Well is waiting to be completed. 4-1/2" casing was cemented @ 6600' on 4/14/03. It is Dugan's intention to perforate intervals correlative to the completed intervals in the Davis Federal No. 1 well which will be at the approximate depths of ±5515' to 5566' in the Gallup & ±6249' to 6320' in the Dakota. Both completions will be infills to the Davis Federal No. 1 and have been approved for downhole commingling (DHC-1195AZ).
- ④ Communitization Agreement SW-64, effective 6/22/62, communitizes the NW/4 (160A) Federal Lease SF 078937 with the NE/4 (160A) of Navajo Allotted lease 14-20-603-1445 to form a 320 acre Dakota spacing unit.
- ⑤ Communitization Agreement SW-65, effective 6/1/62, communitizes the SW/4 (160A) Federal Lease SF 078937 with the NW/4 (160A) of Navajo Allotted lease 14-20-603-1443, to form a 320 acre Dakota spacing unit.

ATTACHMENT NO. 3
INTEREST OWNERSHIP
WELLS CONNECTED OR TO BE CONNECTED TO DUGAN'S DAVIS CPD

	Davis Federal No. 1 (GA & DK) & 1E (GA & DK)		Platero Navajo No. 1 (DK) & 2 (DK)	
	WI%	NI%	WI%	NI%
Working Interest Owners				
Burlington Resources	0	0.000	25.00	17.500
ConocoPhillips Co.	0	0.000	25.00	17.500
Dugan Production Corp.	100.00	70.000	50.00	35.000
Royalty Interest Owners				
Minerals Management Service - Federal -c/o BLM	0	12.500	0.00	6.250
Minerals Management Service - Navajo Ailotted - c/o BLM	0	0.000	0.00	6.250
Overriding Royalty Owners				
Charter Royalty 96, Ltd.	0	0.750	0.00	0.3750
Collins Partners, Ltd.	0	0.750	0.00	0.3750
F. Ferrell Davis	0	0.375	0.00	0.1875
Paul L. Davis, Ltd.	0	0.375	0.00	0.1875
Four Star Oil & Gas Co.	0	14.500	0.00	7.2500
Jont Tyson	0	0.750	0.00	0.3750
Dominion Resources Inc.	0	0.000	0.00	2.1875
Wilson Oil	0	0.000	0.00	4.3750
XTO Energy Inc.	0	0.000	0.00	2.1875
Total Ownership	100.00	100.000	100.00	100.000

Attachment No. 3
Interest Owners
Davis Federal #1 & #1E & Platero Navajo #1 & #2

Burlington Resources Oil & Gas Co, LP
Attn: Land Department
P. O. Box 4289
Farmington, NM 87499-4289

ConocoPhillips Company
Attn: Chief Landman
San Juan/Rockies
P. O. Box 2197
Houston, TX 77252

Minerals Management Service – Federal & Navajo Allotted
c/o Bureau of Land Management
1235 La Plata Highway, Suite A
Farmington, NM 87401

Charter Royalty 96, LTD
P. O. Box 3253
Midland, TX 79702-3253

Collins Partners, LTD
5000 Burnet Road
Austin, TX 78756

F. Ferrell Davis
P. O. Box 3061
Midland, TX 79702-3061

Paul L. Davis, Jr.
P. O. Box 1811
Midland, TX 79702-1811

Dominion Resources, Inc.
14000 Quail Springs Parkway, Suite 600
Oklahoma City, OK 73134-2600

Four Star Oil & Gas Company
P. O. Box 36366
Houston, TX 77236

Jont Tyson
c/o Judi Coston
P. O. Box 3786
Midland, TX 79702-3786

Wilson Oil Company LTD
P. O. Box 1297
Santa Fe, NM 87504-1297

XTO Energy Inc.
810 Houston Street, Suite 2000
Fort Worth, TX 76102

Attachment No. 4
(Attachment No. 2 in application dated 12-20-99)
Allocation Procedures – unchanged from prior approvals
Dugan Production Corp.'s
Davis Federal CDP
NW SW 24, T-26N, R-11W
San Juan County, New Mexico

Base Data for Gas Production & BTU Allocations:

W=Volume (MCF) from Well Allocation Meter

X=Volume (MCF) from CDP Sales Meter

Y=BTU's from CDP Sales Meter

1. Allocated Individual Well Production = A+B+C+D+E

A = Allocated Sales Volume, MCF

$$= (W / \text{SUM } W) \times X$$

B = On lease fuel usage, MCF. Determined from equipment specifications and operating conditions.

C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefitting from the equipment using allocation factors determined by $W / \text{Sum } W$ for the wells involved.

E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. all volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by $W / \text{Sum } W$.

2. Allocated Individual Well BTU's = $((W \times \text{Individual well BTU}) / \text{Sum } (W \times \text{individual well BTU})) \times Y$.

Individual well gas heating values to be determined in accordance with BLM's Onshore Order No. 5.

3. Allocated Individual Well Drip Volumes. This allocation procedure only applies to liquids that may condense from the gas stream and accumulate in the system drip traps. All crude oil, condensate and water production will continue to be separated, stored and sold

at each individual well. All drip volumes recovered from system drip traps will be allocated to the individual wells producing gas through the drip trap from which the drip was recovered using factors determined by dividing the individual well's theoretical liquids by the total theoretical liquids from all wells producing into the system from which the drip was recovered. The theoretical liquids will be calculated by multiplying the individual well's produced gas volumes by the individual well's gas stream liquids content (GPM) of isobutane and heavier. This allocation is to be made during the month that liquids are removed and will be based upon the most recent annual gas volumes produced from the wells involved and an average GPM for each well during the same period. Since drip accumulation typically occurs slowly over extended periods of time and is dependent upon numerous factors, many of which are not controllable, and considering that there is no practical way to know for sure exactly when the drip volumes accumulated, the use of annual gas production rather than specific months of production will simplify this calculation and should improve the accuracy of this factor.

Base Data for Drip & Drip Revenue Allocations:

S = Volume of drip (bbl) removed from system drip blow down tank.

U = GPM (gallons per MCF) of isobutane and heavier from a current individual well gas analysis.

V = Most recent calendar year of gas production from the individual well - MCF.
If a full 12 months is not available, an annual volume will be determined using an average production rate from the data available.

F = Allocated Individual Well Drip Volume, bbl

$$F = ((V \times U) / \text{Sum } (V \times U)) \times S$$



dugan production corp.



May 14, 2003

Attachment
No. 5
Pg 1 of 2

To: Interest Owners (address list attached)
Dugan Production Corp.'s
Davis Federal No. 1 (L-24-26N-11W)
Davis Federal No. 1E (J-24-26N-11W)
Platero Navajo No. 1 (E-24-26N-11W)
Platero Navajo No. 2 (M-13-26N-11W)
San Juan County, New Mexico

Gentlemen:

Attached for your information, review and file is a copy of our application to the New Mexico Oil Conservation Division (NMOCD) and the Bureau of Land Management (BLM) to add Dugan Production's recently drilled Davis Federal No 1E (GA & DK) to the gathering system and CDP currently authorized under NMOCD Order PC-936. The Davis Federal No. 1E will be equipped with an allocation meter and will be operated in a manner that is consistent with the operations currently approved for the Davis Federal No. 1 & Platero Navajo No. 1 & 2 wells.

There are no expenditures required for any of the interest owners other than Dugan Production and there should not be any significant changes in the system operation or revenues as a result of this proposal.

This matter does not require any action on your part. Current NMOCD regulations require that all interest owners (those in the existing system and those being added) receive notice of proposed additions to gathering systems. Included in Dugan's application is a request that for future additions to the gathering system, only the interest owners in the wells to be added will require notification, provided that the proposed additions will not adversely affect the existing wells. This will greatly simplify adding wells to a gathering system and should not affect the interests previously authorized to operate on a gathering system. Should you have any questions, need additional information, or have any concern as to our proposal, please let me know. Should you have an objection to our proposal, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 1220 South St. Francis Drive in Santa Fe, New Mexico 87505, and we would appreciate receiving a copy of your objection.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

attachment

c:\tf\johnroe\Davis GGS\interest ownership