



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:

3162.7-3

Pinon Mesa Gas Gathering System

October 31, 2002

Dugan Production Corporation
Attn.: John Roe
P.O. Box 420
Farmington, New Mexico 87499-0420

Dear Mr. Roe:

Reference is made to your application for surface commingling and off-lease measurement and sales of gas from the Pinon Mesa Gas Gathering System (PMGGS). You propose to measure gas production from the attached list of wells at the El Paso Field Services meter at the following well location:

^H
SENE Section 14, T. 30N., R. 14W., San Juan County, New Mexico at the Molly Pitcher No. 1 well site (El Paso Field Services Meter No. 90018)

Your application indicates that measurement at a central delivery point is necessary to effectively and economically operate these wells and extend the economic life of the properties. This application does not include liquid hydrocarbons in the proposed measurement and allocation however, any hydrocarbons associated with the water production from the wells will be allocated back to each well in proportion to the amount of water each well produces. This gas will be separated from the water stream and measured at the Molly Pitcher No. 4 central tank battery. Your application also seeks to discontinue central delivery point (CDP) measurement for the Big Field No. 1 and No. 5 wells and also the Mucho Deal No. 1 and 14 well facilities. These previously approved CDPs will now be incorporated into the PMGGS.

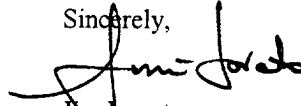
We have reviewed your application and concur with your findings. As such, you are hereby authorized to measure natural gas in accordance with the procedures outlined in your application. The following are conditions of this approval:

- Allocation methodology must be made on an MMBTU basis.
- Measurement of gas at the CDP must be conducted in accordance with the requirements outlined in Onshore Order No. 3, Site Security, Onshore Order No. 4, Oil Measurement, and Onshore Order No. 5, Gas Measurement.
- In order to prevent waste and conserve natural gas, periodic review of each well's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the central delivery point.

Failure to operate this facility in accordance with the conditions outlined above may subject this approval to revocation. In addition, this office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that Federal royalties would be reduced.

Attached is a list of the wells recognized as contributing to the PMGGS. If you have any questions regarding the above contact me at (505) 599-6367.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lovato", written over the printed name.

Jim Lovato
Senior Technical Advisor,
Petroleum Management Team

Cc:
NMOCD: Santa Fe
Attachment (List of Contributing wells)