



dugan production corp.

June 3, 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

Re: Application to consolidate two gas gathering systems
Dugan Production Corp.'s
State Com No. 1 & State Com No. 2 CDP's
San Juan County, New Mexico

Dear Ms. Wrotenbery and Mr. Powell,

We are writing to request your administrative approvals to consolidate two gas gathering systems operated by Dugan Production Corp. and to convert the State Com No. 1 Central Delivery Gas Sales Meter (CDP) (currently serving as a gas sales meter for Dugan Production's State Com No. 1, 1A and 91 wells) to a CDP for the consolidated gathering systems serving as a sales meter for Dugan Production's State Com No. 1, 1A, 2, 90R and 91 wells.

The State Com No. 1 CDP (El Paso's Meter No. 87978) located in Unit N of Section 16, T-32N, R-12W at the State Com No. 1 well initially authorized the surface commingling of natural gas produced from Dugan's State Com No. 1 and 1A wells (both completed in the Blanco Mesaverde Pool) with the CDP volumes to be allocated between the wells using factors determined from annual testing. Dugan's State Com No. 91 (completed in the Basin Fruitland Coal Pool) was added to the State Com No. 1 CDP in our application dated 6-15-00 which was approved by the State Land Office on 6-19-00 and the NMOCD on 6-19-00 (Commingling Order PC-1012). Gas volumes from the CDP are allocated to the State Com No. 91 plus the State Com No. 1 and 1A wells using allocation factors determined from allocation meters measuring the State Com No. 91 plus the commingled State Com No. 1 and 1A. Then the volume allocated to the State Com 1 and 1A is allocated between these wells using well tests. All three wells share a south half, 320 acre spacing unit.

The State Com No. 2 CDP, located in Unit G of Section 16, T-32N, R-12W at the State Com No. 2 well (El Paso's Meter No. 89175) initially authorized the surface commingling and off-lease measurement of natural gas produced from Dugan's State Com No. 2 (Blanco Mesaverde) and Dugan's State Com No. 90 (Basin Fruitland Coal). Production from the State Com No. 90 did