



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

March 31, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Dugan Production Corporation
P. O. Box 420
Farmington, New Mexico 87499-0420

Attention: Kurt H. Fagrelius
kfagrelius@duganproduction.com

Administrative Order NSL-5177

Dear Mr. Fagrelius:

Reference is made to the following: (i) your application submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe on February 25, 2005 (***administrative application reference No. pMES0-506635839***); 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 provided within the "*Special Rules for the Blanco-Mesaverde Pool*," as promulgated by Division Order No. R-10987-A, issued in Case No. 12069 and dated February 1, 1999, as amended by Division Order No. R-10987-A (1), dated December 2, 2002, for the recently drilled State Com. Well No. 1-B (**API No. 30-045-32284**), which is located at a standard surface location 1980 feet from the South line and 990 feet from the West line (Unit L) of Section 16, Township 32 North, Range 12 West, NMPM, Blanco-Mesaverde Pool (**72319**), San Juan County, New Mexico.

The Blanco-Mesaverde gas production from this well is to be included within an existing standard 320-acre lay-down gas spacing and proration unit ("GPU") comprising the S/2 of Section 16, which is currently dedicated to Dugan's: (i) State Com. Well No. 1 (**API No. 30-045-21127**), located at a standard gas well location 1190 feet from the South line and 1850 feet from the West line (Unit N) of Section 16; and (ii) State Com. Well No. 1-A (**API No. 30-045-22218**), located at a standard gas well location 890 feet from the South line and 1190 feet from the East line (Unit P) of Section 16.

This application has been duly filed under the provisions of Division Rules 104.F and 605.B and the applicable rules governing the Blanco-Mesaverde Pool.

It is the Division's understanding that, while Dugan was drilling the State Com. Well No. 1-B at the above described permitted standard surface location in January, 2005, the well bore deviated from natural drift to the northwest. It was determined after reaching total depth of 4,750 feet (MD) that the resulting bottomhole location of the well bore was 2251 feet from the South line and 655 feet from the West line (Unit L) of Section 16.

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By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox subsurface Blanco-Mesaverde infill gas well location for Dugan's State Com. Well No. 1-B is hereby approved.

Further, all three of the aforementioned State Com. Wells No. 1, 1-A, and 1-B, and existing 320-acre GPU will be subject to all existing rules, regulations, policies, and procedures applicable to prorated gas pools in Northwest, New Mexico and to the Blanco-Mesaverde Pool.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire" followed by a stylized flourish or initials.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Aztec
New Mexico State Land Office – Santa Fe