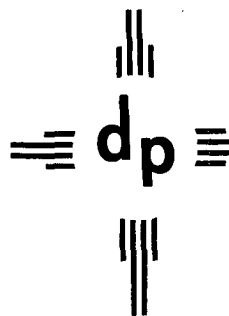
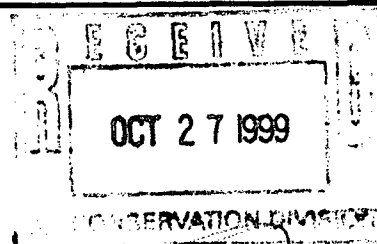


NSL 11/16/99



dugan production corp.



October 25, 1999

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Application for Administrative Approval of Unorthodox Location
Dugan Production Corp.'s Dot Com # 90
1850' FSL & 790' FEL (NE/4 SE/4)
Unit I, Section 2, T26N, R11W
San Juan County, New Mexico
Basin Fruitland Coal Pool

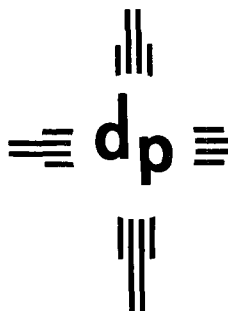
Dr. Mr. Stogner:

Dugan Production Corp. hereby requests administrative approval for an unorthodox location for the referenced well. Attached for your reference are the following exhibits:

1. Well location plat (NMOCD Form C-102)
2. Topographic map
3. Offsetting operator map
4. Cumulative Fruitland coal gas production map
5. Isopach map of total Fruitland coal
6. Isopach map of basal Fruitland coal
7. Stratigraphic cross section

For geologic reasons, the unorthodox location of this well is necessary in order to minimize risk and maximize recovery of the Fruitland coal gas reserves. The enclosed exhibits show that a well drilled at the proposed unorthodox location will encounter a good thickness of coal (10 - 15 feet thick) and recover the highest cumulative gas production possible from the S/2 of section 2, T26N, R11W. Whereas a well drilled in the SW/4 at an orthodox location, could not be justified because it would encounter only a trace of coal (less than 5 - feet).

The offsetting operator map shows that offsetting operators have recompleted pre-existing wellbores (NW/4 section 3, T26N, R11W and SE/4 section 36, T27N, R11W) and proposed new drill locations (NW/4 section 2, T26N, R11W) in the Fruitland coal at unorthodox locations. A well drilled at the proposed location would not disrupt the existing spacing



dugan production corp.

pattern and would facilitate efficient development and drainage of the Fruitland coal reservoir in this area.

By certified mail, a copy of this application and request for administrative approval has been sent to all Fruitland coal offsetting operators and the Bureau of Land Management.

Please contact me if you have any questions or need additional information.

Very Sincerely,

Kurt H. Fagrelus
Kurt H. Fagrelus

Attachments

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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

[NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
 [DD-Directional Drilling] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Directional Drilling

☒ NSL ☐ NSP ☐ DD ☐ SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement

☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery

☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

[A] ☐ Working, Royalty or Overriding Royalty Interest Owners

[B] ☒ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO

U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with supervisory capacity.

Kurt Fagrelus
Print or Type Name

Kurt Fagrelus
Signature

Geologist
Title

10-25-99
Date

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045		2 Pool Code 71629		3 Pool Name Basin Fruitland Coal	
4 Property Code		5 Property Name Dot Com			6 Well Number 90
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6435'

10 Surface Location

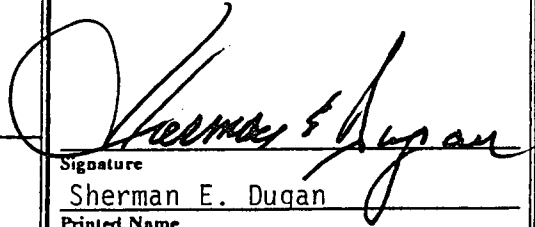
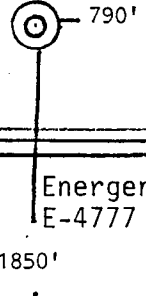
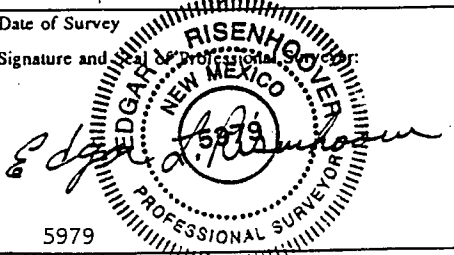
UL or lot no. I	Section 2	Township 26N	Range 11W	Lot Ida I	Feet from the 1850'	North/South line South	Feet from the 790	East/West line East	County San Juan
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11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
---------------	---------	----------	-------	---------	---------------	------------------	---------------	----------------	--------

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature Sherman E. Dugan Printed Name Vice-president Title Date	
Section 2					
Energen E-4777		DPC VB-436		 790' 1850' Energen E-4777	
				18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. September 2, 1999 Date of Survey Signature and Seal of Professional Surveyor  5979 Certificate Number	

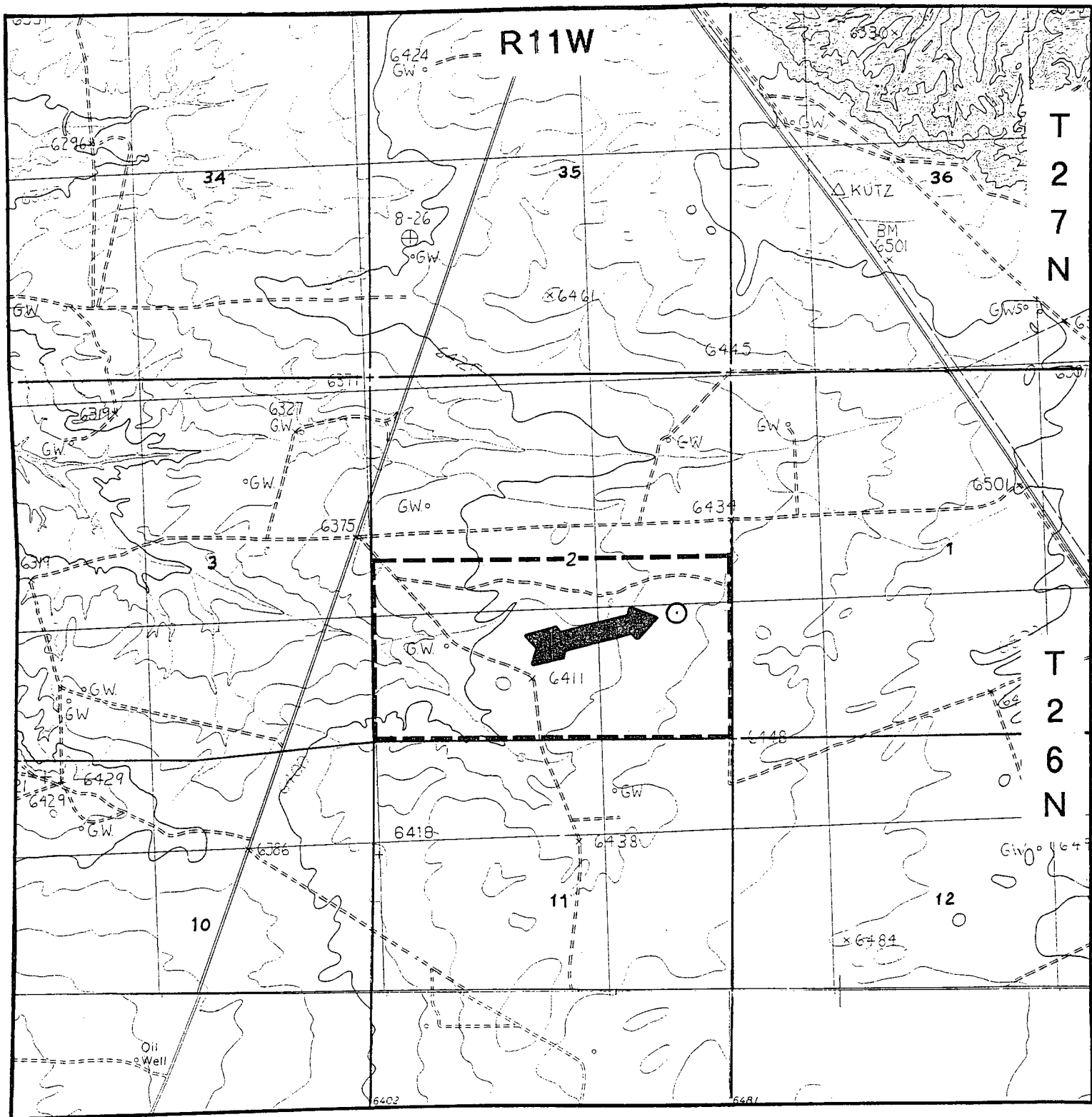


Exhibit 2.

Dugan Production Corp.
Dot Com # 90
Application For Unorthodox Location

TOPOGRAPHIC MAP

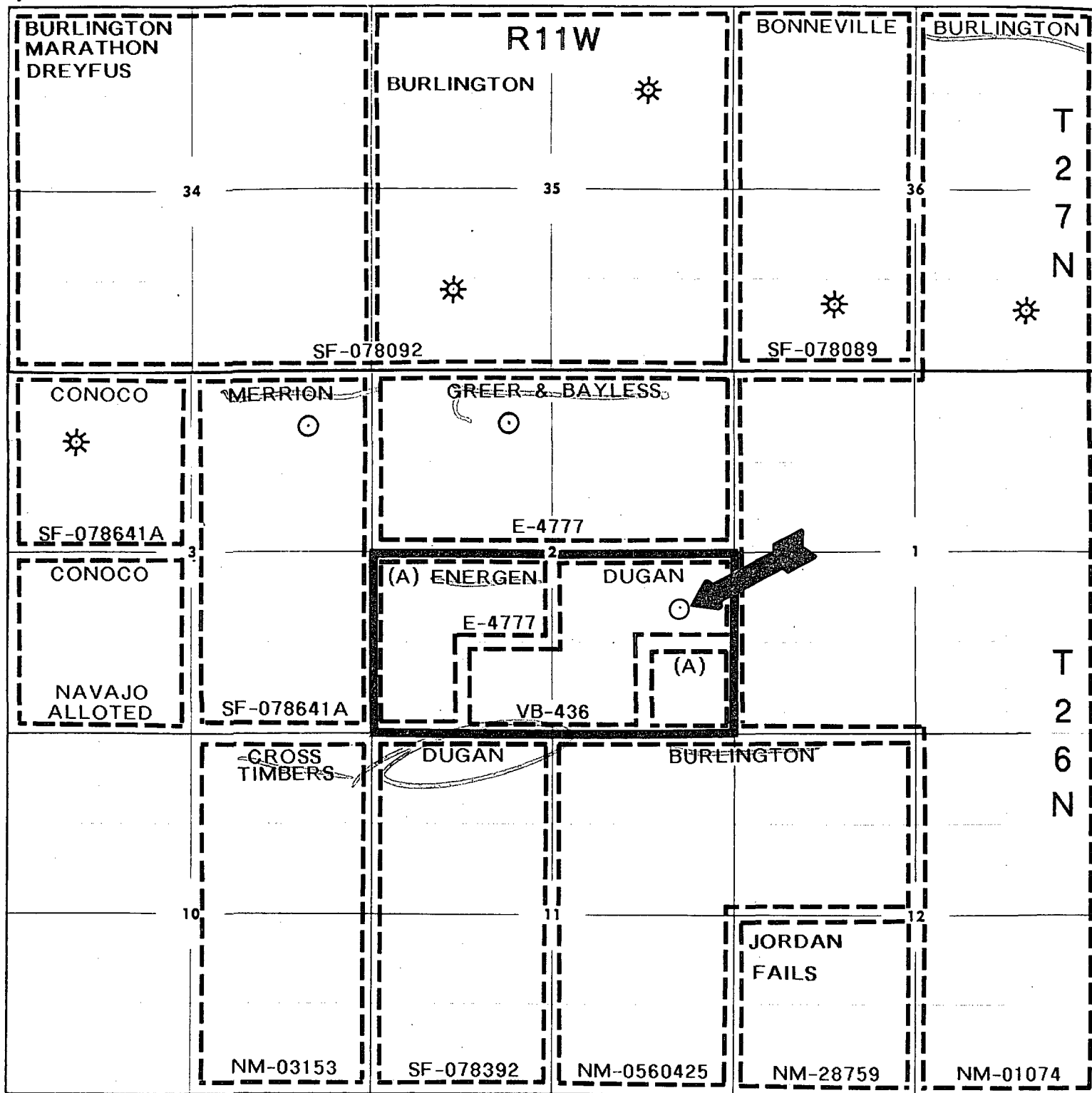


Exhibit 3.

Dugan Production Corp.
 Dot Com # 90
 Application For Unorthodox Location

**OFFSETTING OPERATOR MAP
 FRUITLAND COAL WELLS ONLY**

Exhibit 3a.

OFFSET OPERATORS NOTIFICATION LIST

Robert Bayless Producer, L.L.C.
P.O. Box 168
Farmington, NM 87499

Benson-Montin-Greer Drilling Corporation.
4900 College Blvd.
Farmington, New Mexico 87402

Bonneville Fuels Corporation
1660 Lincoln, Suite 1800
Denver, CO 80264

Burlington Resources Oil & Gas Company
P. O. Box 4289
Farmington, NM 87499-4289

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500

Cross Timbers Oil Company
810 Houston St., Suite 2000
Fort Worth, Texas 76102-6298

Energen Resources Corporation
2198 Bloomfield Highway
Farmington, NM 87401

Thomas G. Fails
1777 Larimer # 1203
Denver, Co 80202

Jordan Oil & Gas Co.
Box 1919
Healdsburg, CA 95448-1919

Louis Dreyfus Natural Gas
14000 Quail Springs, # 600
Oklahoma City, OK 73134-2600

Marathon Oil Co.
Box 3128
Houston, TX 77253-3128

Merrion Oil & Gas Corporation
610 Reilly Avenue
Farmington, NM 87401

R11W

R10W

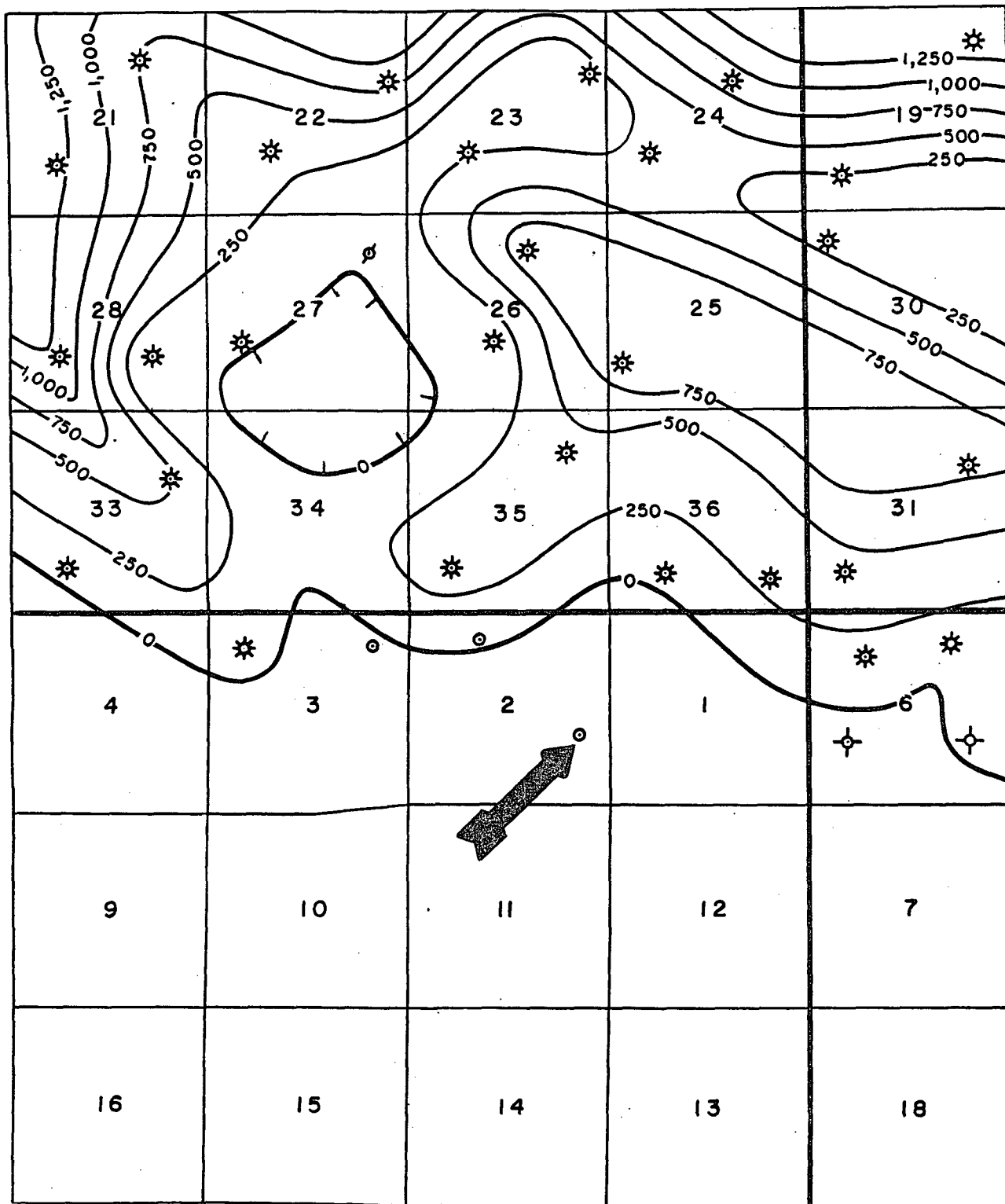


Exhibit 4.

Dugan Production Corp.
Dot Com # 90
Application For Unorthodox Location

**CUMULATIVE FRUITLAND COAL GAS
PRODUCTION MAP THRU 4/99**

C.I. = 250 mmcf

R11W

R10W

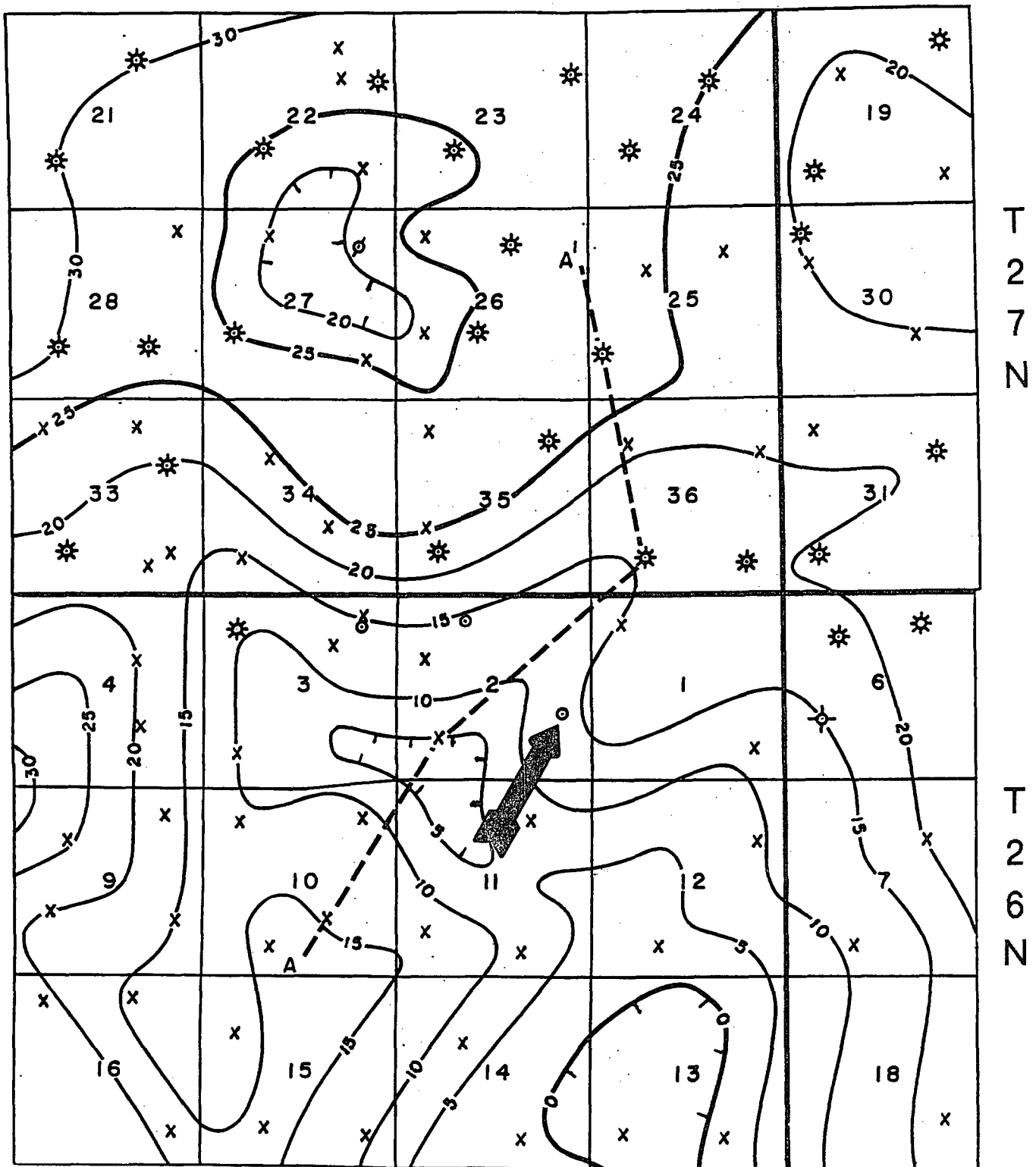


Exhibit 5.

Dugan Production Corp.
Dot Com # 90
Application For Unorthodox Location

ISOPACH MAP OF TOTAL FRUITLAND COAL**C.I. = 5 ft.**

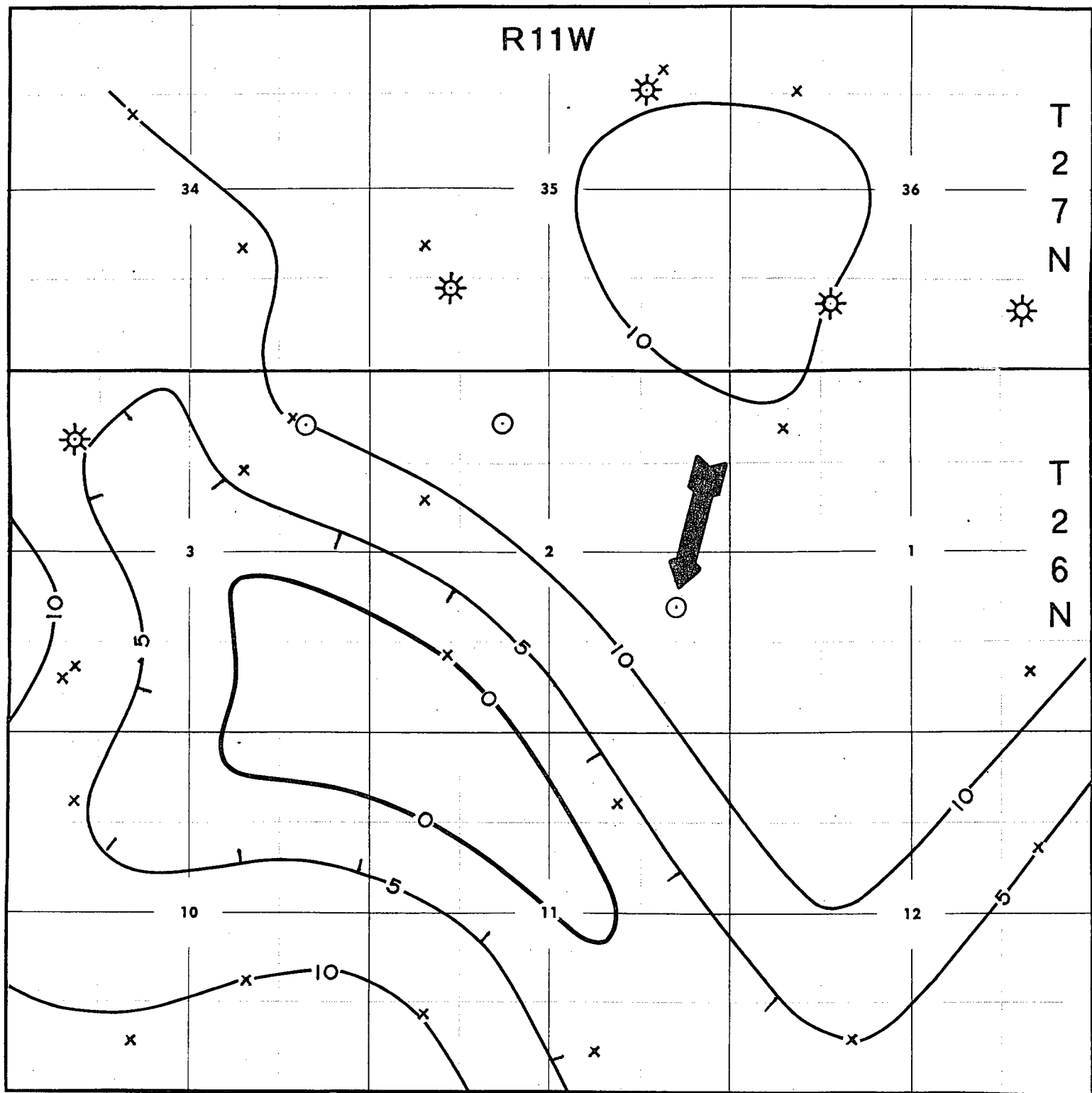


Exhibit 6.

Dugan Production Corp.
Dot Com # 90
Application For Unorthodox Location

ISOPACH MAP OF BASAL FRUITLAND COAL

C.I. = 5 FT.