

DATE IN <u>12/4/12</u>	SUSPENSE <u>2/13/12</u>	ENGINEER <u>NVT</u>	LOGGED IN <u>1.24.12</u>	TYPE <u>DHC</u> <u>4505</u>	APP NO. <u>1202432505</u>
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION  
- Engineering Bureau -  
1220 South St. Francis Drive, Santa Fe, NM 87505



*Dugan*

*Jeffers Fed 2*

## ADMINISTRATIVE APPLICATION CHECKLIST

*30-0452-24439*

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATION WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

### Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [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 - Simultaneous Dedication  
☐ NSL ☐ NSP ☐ 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

[D] Other: Specify \_\_\_\_\_

### [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] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

**Note:** Statement must be completed by an individual with managerial and/or supervisory capacity.

John D. Roe  
Print or Type Name

John D. Roe  
Signature

Engineering Manager  
Title

1/20/12  
Date

johnroe@duganproduction.com  
e-mail Address

*K-2-234-8W*  
*ST*



# dugan production corp.

January 20, 2012

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

Mr. Larry Roybal, Director  
Oil, Gas & Minerals Division  
New Mexico State Land Office  
P O Box 1148  
Santa Fe, NM 87505

Mr. Dave Evans, District Manager  
Bureau of Land Management  
Farmington Field Office  
1235 La Plata Highway  
Farmington, NM 87401

Re: Application for Downhole Commingling  
Dugan Production's  
Jeffers Federal 2 Well No. 23  
API No. 30-045-24439  
Unit K, Section 2, T-24N, R-8W  
Basin Fruitland Coal (71629) & Nageezi Gallup (47540)  
San Juan County, New Mexico

Dear Ms. Bailey, Mr. Evans & Mr. Roybal,

We are writing to request your administrative approvals to downhole commingle production in the subject well.

NMOCD Form 107-A is attached in support of this application. Attachment No. 1 presents NMOCD Forms C-102 for each completion which also presents the spacing units and leases within each spacing unit. The Jeffers Federal 2 Well No. 23 was completed 10/17/80 with an initial potential of 1 BOPD, 15 BWPD and gas TSTM from perforations 5336'-5349' in a Wildcat Gallup oil pool. During April 1981, 21 additional Gallup intervals 4763' to 5334' were added. As of 1/1/2012, a total of 24,025 bbl oil + 49,466 mcf gas have been produced. Production from the Gallup has always been marginal and when Dugan Production acquired this well on 10/1/88, it was scheduled to be plugged and abandoned by the prior operator, however Dugan Production was able to workover the well and return it to production. Attachment No. 2 (Pg. No. 2) presents the oil production and as can be seen, production has been very erratic, however over all, the decline is very low and during a 5 year period (2006 thru 2010) averaged 2.1 BOPD, 5 mcf/d + 0.35 BWPD. It is our belief that there are substantial oil and gas reserves remaining within the 586' Gallup interval, however the operating economics are fairly marginal and future production will last for as long as economics will allow. To date, all gas production from the Gallup has been used to fuel the pumping unit engine (2.70 mcf/d) or vented (1 to 3 mcf/d approved for venting in 1989). We are currently working to secure a gas sales pipeline connection for the Jeffers Federal 2 Well No. 23 which will be necessary for the 9/1/11 completion in the Basin Fruitland Coal pool and hopefully will also allow the gas from the Gallup to be sold rather than vented.

The Gallup completion is currently temporarily shut in below a retrievable bridge plug while the Fruitland Coal is being completed and tested. Upon receiving approval to downhole commingle and securing a gas sales arrangement, we will remove the bridge plug, install rod pump artificial lift and return this well to

production. There are many uncertainties, however we do not anticipate any significant problems producing this well. The Gallup completion has produced for over 30 years, but still exhibits a reasonable bottom hole pressure, currently estimated to be  $\pm 1400$  psia @ 4763' which should prevent any significant cross-flow exposure from the Fruitland Coal completion which has a bottom hole pressure of 460 psia @ 1798' as measured during completion. In addition, the Gallup formation consists of multiple thin, very low permeability, fine grained siltstone and sandstone which will also serve to minimize any potential damage from cross-flow. Gas and water production are common to both the Fruitland Coal and the Gallup and we believe should be compatible.


Attachment No. 3 presents our proposed allocation of commingled production and Attachment No. 4 presents our interest owner information and notice. Dugan Production holds 100% of the working interest in both completions and all royalty is either Federal (Lease NM-29560) or State (V-7843). There are no Indian or fee interests. There are five overriding interest owners and their notice was provided by "certified mail-return receipt requested". Upon receiving the mail receipts, we will forward copies to the NMOCD.

We believe this downhole commingling will;

1. Extend the producing life of the Gallup completion,
2. Result in the recovery of oil and gas from the Gallup that might not otherwise be recovered,
3. Provide a pipeline connection for gas sales not only from the Fruitland Coal, but also gas from the Gallup,
4. Provide an opportunity to evaluate and develop the Fruitland Coal in an area that to date has minimal development,
5. Help to prevent waste,
6. Protect the correlative rights of all interest owners.

Should you have questions or need additional information, please let us know.

Sincerely,



John D. Roe  
Engineering Manager

JDR/tmf

attachments

cc: NMOCD – Aztec  
All interest owners

District I  
1625 N. French Drive, Hobbs, NM 88240

District II  
811 S. First St., 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-107A  
Revised August 1, 2011

Oil Conservation Division  
1220 South St. Francis Dr.  
Santa Fe, New Mexico 87505

APPLICATION TYPE  
☒ Single Well  
☐ Establish Pre-Approved Pools  
EXISTING WELLBORE  
☒ Yes ☐ No

APPLICATION FOR DOWNHOLE COMMINGLING

Dugan Production Corp.

P. O. Box 420, Farmington, NM 87499-0420

DHC-4503

Operator  
NM-29560

Jeffers Federal 2 #23

Address  
K-2-23N-8W

San Juan

Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 006515 Property Code 003716 API No. 30-045-24439 Lease Type: ☒ Federal ☐ State ☐ Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	Basin Fruitland Coal		Nageezi Gallup
Pool Code	71629		47540
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	1798'-1804'		4763'-5349'
Method of Production (Flowing or Artificial Lift)	Rod Pump		Rod Pump
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)	460 psia @ 1798' Measured 12/1/11		±1400 psia @ 4763' Estimated 8/15/11
Oil Gravity or Gas BTU (Degree API or Gas BTU)	Gas - 1,050 btu		Gas - 1450 btu Oil - 45° API
Producing, Shut-In or New Zone	New Completion		SI
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: 12/1/11 Rates: 7 mcf/d + 3 BWPD	Date: Rates:	Date: 8/15/11 Rates: 2.1 BOPD + 5 mcf/d + 0.35 BWPD
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil 0%	Gas 58% *	Oil 100%

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones?  
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail?

Are all produced fluids from all commingled zones compatible with each other?

Will commingling decrease the value of production?

If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application?

NMOCD Reference Case No. applicable to this well: N/A

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication. - Attachment No. 1
- Production curve for each zone for at least one year. (If not available, attach explanation.) - Attachment No. 2
- For zones with no production history, estimated production rates and supporting data. - Attachment No. 2
- Data to support allocation method or formula. - Attachment No. 3
- Notification list of working, royalty and overriding royalty interests for uncommon interest cases. - Attachment No. 4
- Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

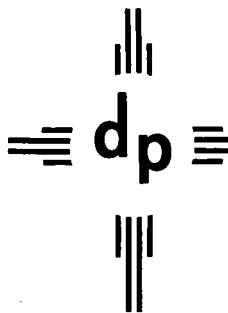
- List of other orders approving downhole commingling within the proposed Pre-Approved Pools
- List of all operators within the proposed Pre-Approved Pools
- Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
- Bottomhole pressure data.

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 January 20, 2012

TYPE OR PRINT NAME John D. Roe TELEPHONE NO. (505) 325-1821

E-MAIL ADDRESS johnroe@duganproduction.com



# dugan production corp.

January 31, 2012

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

Mr. Larry Roybal, Director  
Oil, Gas & Minerals Division  
New Mexico State Land Office  
P O Box 1148  
Santa Fe, NM 87505

Re: Dugan Production's  
Application for Downhole Commingling dated 1/20/12  
Jeffers Federal 2 Well No. 23  
API No. 30-045-24439  
Unit K, Section 2, T-24N, R-8W  
Basin Fruitland Coal (71629) & Nageezi Gallup (47540)  
San Juan County, New Mexico

RECEIVED OGD  
2012 JAN 32 P 1:10

Dear Ms. Bailey & Mr. Roybal,

For your information, file and consideration of the subject downhole commingling application, attached is a copy reflecting approval by the BLM's Farmington Field Office.

Should you have questions, please let me know.

Sincerely,

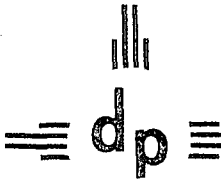
*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

cc:

NMOCD-Aztec

RECEIVED  
JAN 30 2012

dugan production corp.

RECEIVED

JAN 23 2012

January 20, 2012

Farmington Field Office  
Bureau of Land ManagementMs. Jami Bailey, Director  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, NM 87505Mr. Larry Roybal, Director  
Oil, Gas & Minerals Division  
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APPROVED

OPERATOR

Joe Hewitt BLM

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Should you have questions or need additional information, please let us know.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachments

cc: NMOCD – Aztec  
All interest owners

STATE OF NEW MEXICO  
DEPT. OF NATURAL RESOURCES

CONSERVATION DIVISION  
P. O. BOX 7084  
SANTA FE, NEW MEXICO 87501

RECEIVED

JUN 17 2011

Attachment  
No. 1  
Pg 1 of 2

Form C-107  
Revised 10-1-10

All distances measured from the corner description of the Section

Operator <b>Dugan Production Corp.</b>		Lease <b>JEFFERIS-FEDERAL 2</b>		Farrington Field Data No. Bureau of Land Management	
Time Letter <b>K</b>	Section <b>2</b>	Township <b>23N</b>	Range <b>8W</b>	County <b>San Juan</b>	
Actual Surface Location of Well: <b>1750</b> feet from the <b>South</b> corner <b>1650</b> feet from the <b>West</b> corner					
Ground Level Elev. <b>6908</b>	Producing Formation <b>Fruitland Coal</b>		Pool <b>Basin</b>	Identified Annuity: <b>320</b>	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☒ Yes ☐ No If answer is "yes," type of consolidation Communitization (Pending)

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.

RECEIVED MAY 16 1993 U. S. GEOLOGICAL SURVEY FARRINGTON, N. M.		Sec.	
		2	
V-7843	NM 29560	V-7843	

CERTIFICATION

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

John Alexander

Vice-President

Company  
Dugan Production Corp.

Date  
06/17/2011

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 knowledge and belief.

Date Surveyed

April 30 1980

Registered Professional Engineer

and/or Licensed Surveyor

Paul B. Kerr Jr.

Certificate No.

3950



All distances must be from the outer boundaries of the Section

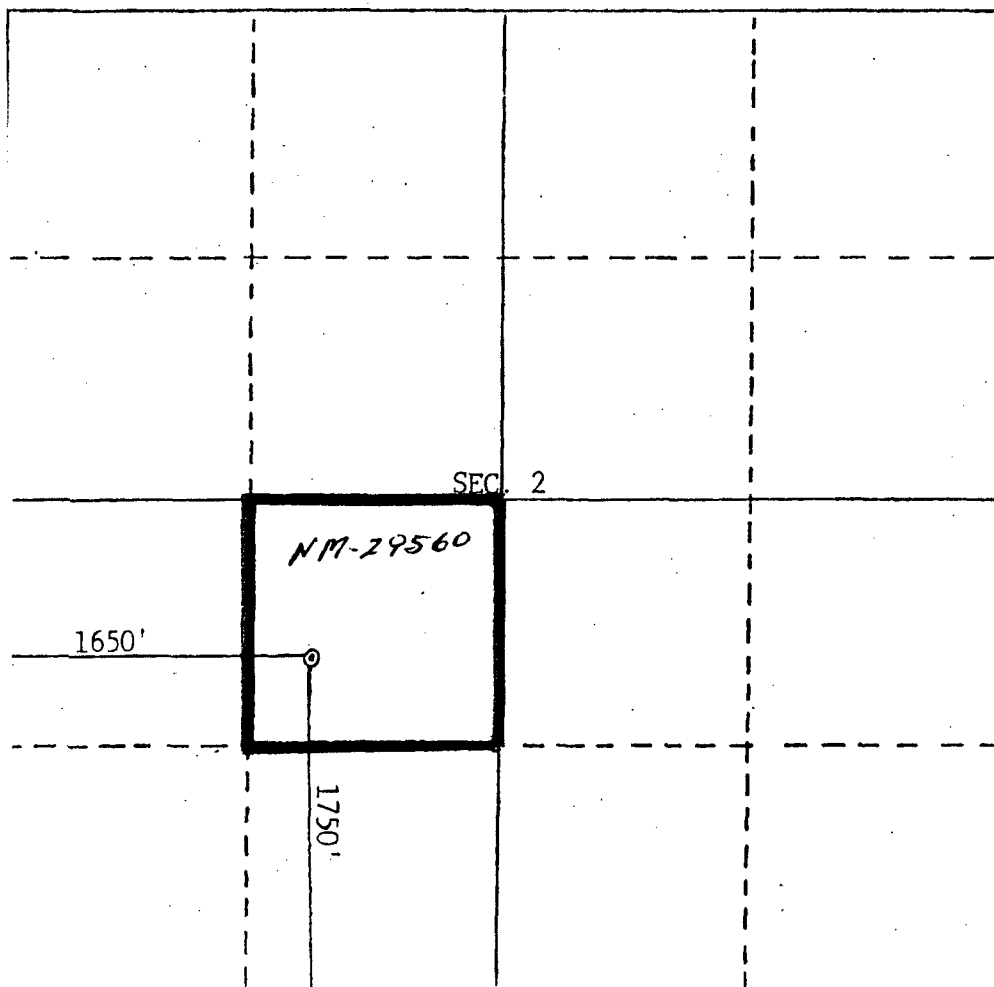
Operator <u>Dugan Production Corp.</u>		Lease <u>JEFFERS FEDERAL - 2</u>		Well No. <u>#23</u>
<del>KENAI OIL AND GAS INC.</del>				
Unit Letter <u>K</u>	Section <u>2</u>	Township <u>23N</u>	Range <u>8W</u>	County <u>San Juan</u>
Actual Footage Location of Well:				
1750' feet from the South line and		1650' feet from the West line		
Ground Level Elev. <u>6985'</u>	Producing Formation <u>Gallup</u> ✓	Pool <u>Wildcat - Nageezi</u>	Dedicated Acreage: <u>40</u> Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation \_\_\_\_\_

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) \_\_\_\_\_

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



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

George B. Judd  
Name

George B. Judd  
Position

Manager-Drilling & Production  
Company

KENAI OIL AND GAS INC.  
Date

September 9, 1980

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 knowledge and belief.

Date Surveyed

Registered Professional Engineer  
and/or Land Surveyor

Certificate No.

**Attachment No. 2  
Production History & Data  
Jeffers Federal 2 Well No. 23  
Unit K, Section 2, T-23N, R8W**

**Nageezi Gallup**

Completed 10/17/80 w/IPP = 1.0 BOPD + 15 BWPD = gas TSTM from Lower Gallup perms 5336'-5349'.  
During 4/81, added Gallup perms 4763'-5110' & 5238'-5334'

First Production – November, 1980

Cumulative Production 1/1/2012: 24,025 bbl oil, 49,466 mcf gas, 3,189 bbl water

Production Curve presented on Page No. 2

Oil production has been very erratic, ranging from a peak of 17.9 BOPD during 12/88 following a 14 month shut in, **averaging 2.1 BOPD + 5.4 mcf/d + 0.35 BWPD during the 5 year period 2006 thru 2010, which was a period of fairly consistent production.** During the first eight months of 2011, a total of 178 bbl oil and 250 mcf of gas was produced (daily average = 0.8 BOPD + 3.0 mcf/d). The Gallup completion was temporarily shut in below a retrievable bridge plug on 8/15/11 to complete the Fruitland Coal.

Annual Production Summary – Last 10 years

<u>Year</u>	<u>Oil-bbl</u>	<u>Gas-mcf</u>	<u>Water-bbl</u>	
2002	482	1,582	40	
2003	313	1,180	40	
2004	359	1,645	42	
2005	1	318	4	
2006	741 (63/mo)	2,618	89	} 3,572 BO/1715 days = 2.1 BOPD 9,201 mcf/1715 days = 5.4 mcf/d 596 BW/1715 days = 0.35 BWPD
2007	833 (69/mo)	2,710	187	
2008	641 (60/mo)	2,095	100	
2009	729 (72/mo)	1,131	120	
2010	628 (52/mo)	647	100	
2011 (8 mos)	178	250	0	

**Basin Fruitland Coal**

Completed 9/1/2011 w/IPF – 3.3 mcf/d + 15 BWPD from perms 1798'-1804'

Production Test 11/28/11 to 12/1/11 – flow chart presented on Page No. 3. Tested maintaining a back pressure of 25 psia. Test summary:

<u>Day</u>	<u>Flow Time</u>	<u>Gas Rate mcf/d</u>
11/28 & 29/11	20 hrs	6
11/29/ & 30/11	26 hrs	orifice freeze?
11/30/11	3 hrs	orifice freeze?
11/30 & 12/1/11	23 hrs	7

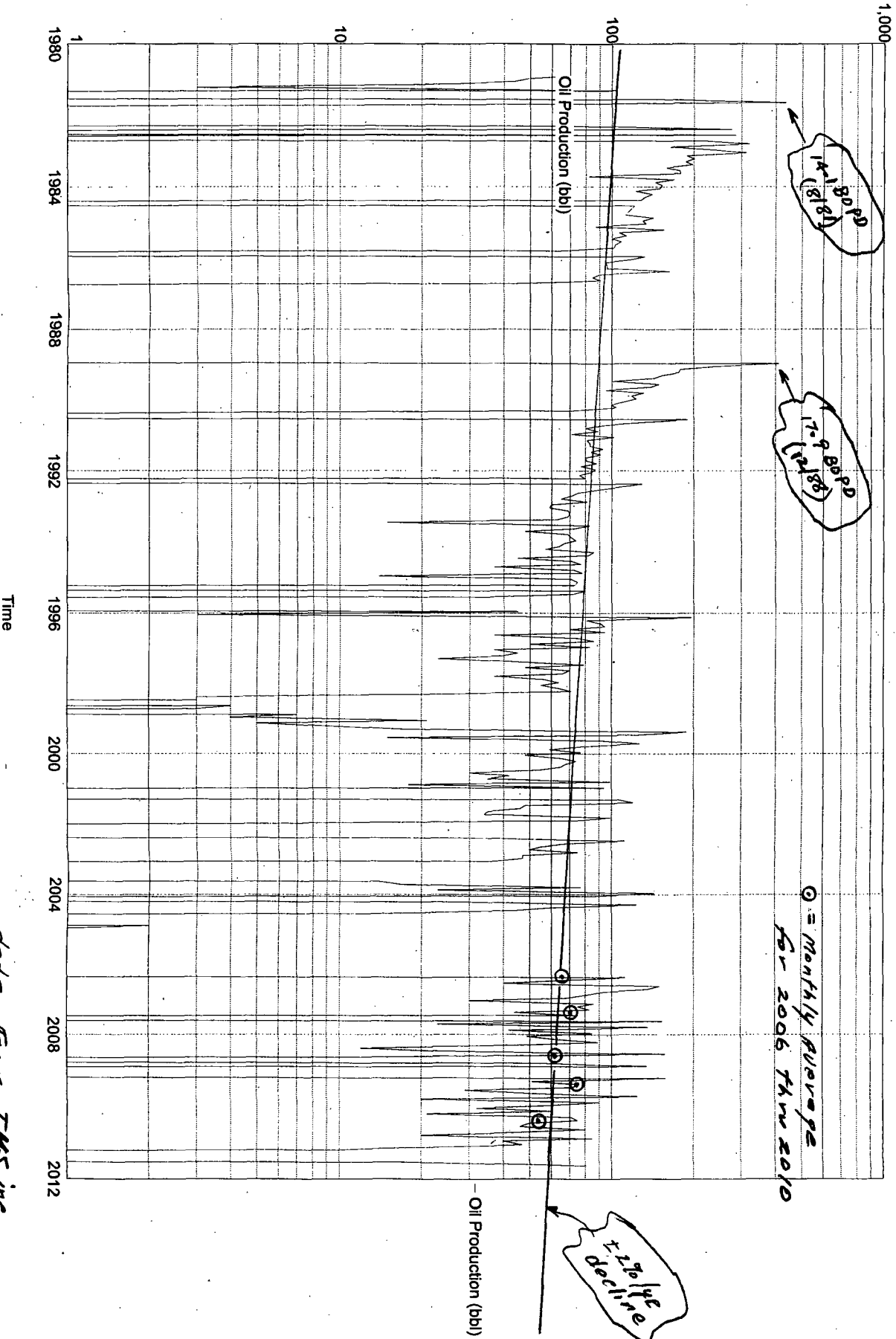
# Production Rates

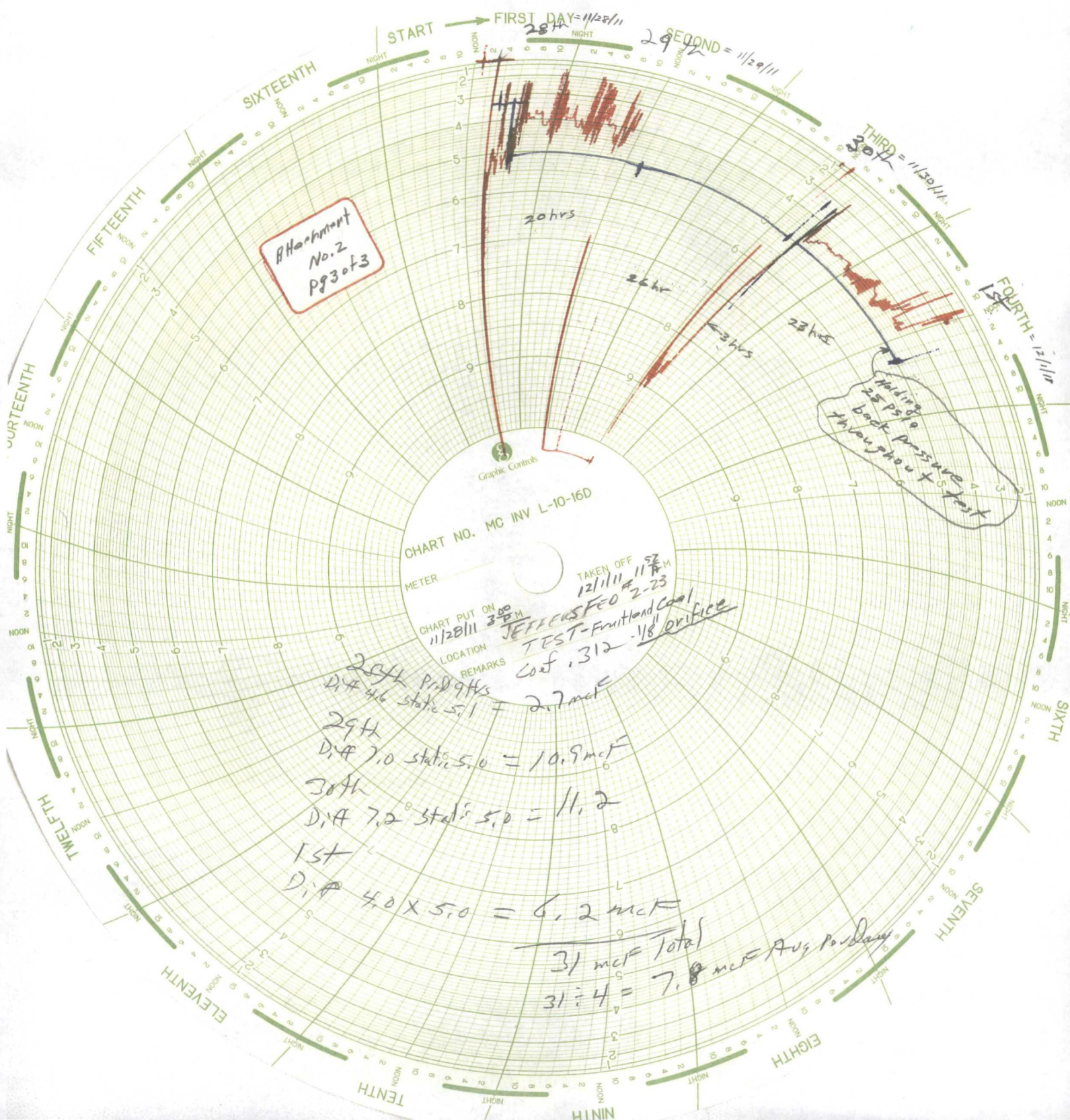
Lease Name: JEFFERS FEDERAL 2  
 County, State: SAN JUAN, NM  
 Operator: DUGAN PRODUCTION CORPORATION  
 Field: NAGEEZI  
 Reservoir: GALLUP  
 Location: 2 23N 8W SW NE SW

Location: 2 23N 8W SW NE SW

JEFFERS FEDERAL 2 - NAGEEZI - No 11 No. 23

Attachment  
 No. 2  
 Pg 2 of 3





B Hachment  
No. 2  
Pg 3 of 3

Graphic Controls  
CHART NO. MC INV L-10-16D  
METER

TAKEN OFF  
12/11/11 11:52 AM

CHART PUT ON  
11/28/11 3:00 PM

LOCATION  
JEFFERSON

REMARKS  
TEST-Fruitland Coal

CONF. 312-1181 orifice

28th  
DIA 4.6 static 5.1 = 2.7 mcf

29th  
DIA 7.0 static 5.0 = 10.9 mcf

30th  
DIA 7.2 static 5.0 = 11.2

1st  
DIA 4.0 x 5.0 = 6.2 mcf

31 mcf Total

31 ÷ 4 = 7.8 mcf Avg per Day

Holding  
25 psig  
back pressure  
throughout test



**Attachment No. 3  
Proposed Allocation Method  
Jeffers Federal 2 Well No. 23**

**The Nageezi Gallup completion** has produced for approximately 30 years and as of shutting in on 8/15/11, had produced 24,025 bbl oil and 49,466 mcf of gas. Production comes from 24 fine grained, low permeability tight sandstone/siltstone reservoir intervals perforated between 4763' & 5349' (a 586' interval). Due to the low permeability and large reservoir thickness, low production rates are anticipated to exist as long as operating economics warrant continued operations. An average production rate is very difficult to determine, but using a fairly stable **five year period 2006 thru 2010, production did average 2.1 BOPD and 5 mcf/d** (of which 2.70 mcf/d was used to fuel the pumping unit engine and  $\pm$  2.3 mcf/d was vented). The associated gas has an average heating value of **1450 btu/cf**.

**The Basin Fruitland Coal completion** is in a coal approximately 6' thick and during completion tested a rate of **7 mcf/d + 3 BWPD on 12/1/11 with a flowing tubing pressure of 25 psia**. The perforations have been broken down and acidized and upon obtaining a pipeline connection for gas sales, we plan to continue testing and evaluate the feasibility/need for additional stimulation. To date, we have not frac'd the Fruitland Coal. The Fruitland Coal in this general area has not been developed and within the eight adjacent sections, there is only one other Fruitland coal completion which is the South Blanco Coal 36 Well No. 1 (API No. 30-045-30516) operated by Elm Ridge Exploration in Unit L, Section 36, T-24N, R-8W approximately 1¼ mile to the northeast. This well was completed 12/27/01 and to date has produced 60.6 mmcf gas with a peak gas of 42 mcf/d during May, 2004. Production during May and June, 2011 averaged 21 mcf/d with no water. **The Fruitland Coal gas in this area has a heating value of 1050 btu/cf.**

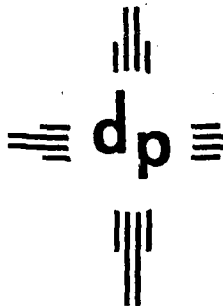
**For allocation of commingled production**, we propose the following method;

- A. **Oil** – 100% of the oil allocated to the Gallup completion
- B. **Gas** – From the total gas volume metered, 5.0 mcf/d will be considered to be from the Gallup completion and all gas volumes greater than 5 mcf/d will be credited to the Fruitland Coal. This method will account for the 30+ years of production history established by the Gallup completion.

With the gas heating values being 1050 (Fruitland Coal) and 1450 (Gallup) btu/cf, it will be a fairly simple procedure to verify the mix of the commingled gas stream and if indicated that we need to modify our gas allocation method to more accurately represent the gas production from each zone, we will amend the allocation procedure as needed. For demonstration purposes, this can be done as follows;

<b>Sales Meter Btu</b>	<b>% gas from Fruitland Coal</b>	<b>% gas from Gallup</b>
1050	100	0
1150	75	25
1250	50	50
1350	25	75
1450	0	100

- C. **Water** – From the total water, 0.35 BWPD will be allocated to the Gallup based upon its 30+ year production history and all water volumes greater than 0.35 BWPD will be allocated to the Fruitland Coal.



dugan production corp.

Attachment  
No. 4  
Pg 1 of 2

January 20, 2012

Interest Owners (list attached)  
Dugan Production Corp.'s  
Jeffers Federal 2 Well No. 23  
Unit K, Section 2, T-24N, R-8W  
San Juan County, New Mexico

Re: Dugan's Application dated 1/20/12  
Downhole Commingle Production  
Basin Fruitland Coal and Nageezi Gallup

Dear Interest Owner,

Attached for your information, review and file is a copy of the subject application, which requires approvals from the New Mexico Oil Conservation Division (NMOCD), New Mexico State Land Office (NMSLO) and the Bureau of Land Management's Farmington Field Office (BLM-FFO). NMOCD rules require us to provide notice to interest owners when ownership is not identical in each of the pools being downhole commingled, which is the case for Dugan's Jeffers Federal 2 Well No. 23. The attached interest ownership summary presents the interest ownership and address information for this well. Dugan Production holds 100% of the working interest for both pools and the royalty interest comes from one state and one federal lease. Since our application is addressed to the NMSLO and the BLM-FFO, we are not including them in this separate interest owner notice.

As an overriding royalty interest owner, this notice is only for your information and requires no action from you, unless you have questions, concerns or objections. It is Dugan Production's belief that our application will allow us to continue producing oil and gas from the Gallup completion which to date has been fairly marginal plus will allow us to test and develop the Fruitland coal which is only 6' thick at this location. If successful, all interest owners will benefit and receive production revenues that might not otherwise occur. It is also our belief that our application will help to prevent loss of future production and will protect correlative rights of all interest owners.

Should you have questions or concerns, please let us know. Should you have an objection, you should contact the NMOCD within 20 days from the date they receive our application which should occur on 1/23/12. We would appreciate receiving a copy of your objection.

Sincerely,

*John D. Roe*

John D. Roe  
Engineering Manager

JDR/tmf

attachment

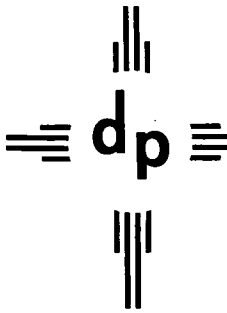
**Interest Ownership**  
**Jeffers Federal 2 Well No. 23**  
**Unit K, Section 2, T-23N, R-8W**  
**San Juan County, New Mexico**

Attachment  
 No. 4  
 Pg 2 of 2

**INTEREST OWNER**

	<b><u>Basin Fruitland Coal</u></b> <b><u>320A Spacing Unit - S/2</u></b>		<b><u>Nageezi Gallup</u></b> <b><u>40A Spacing Unit - NESW</u></b>	
	<b><u>Gross</u></b>	<b><u>Net</u></b>	<b><u>Gross</u></b>	<b><u>Net</u></b>
<b><u>Working Interest</u></b> Dugan Production Corp.	100.00	82.397617	100.00	81.461900
<b><u>Royalty Interest</u></b> State of New Mexico P. O. Box 1148 Santa Fe, NM 87504-1148	-0-	8.333333	-0-	-0-
USA - c/o BLM 1235 La Plata Highway Farmington, NM 87401	-0-	6.250000	-0-	12.500000
<b><u>Overriding Royalty Interest</u></b> Ruth Ann Jeffers Calvert P O Box 65 Artesia, NM 88211-0065	-0-	1.750000	-0-	3.500000
George E. Johnson P O Box 1473 Artesia, NM 88211-1473	-0-	0.750000	-0-	1.500000
Mazzola & Company 14624 Fenton Street Broomfield, CO 80020-6116	-0-	0.375000	-0-	0.750000
Prudential Bache Energy Production One Seaport Plaza* 199 Water Street New York, NY 10292	-0-	0.072025	-0-	0.144050
Prudential Insurance Capital Marketing One Seaport Plaza 199 Water Street New York, NY 10292	-0-	0.072025	-0-	0.144050
<b><u>TOTAL WELL</u></b>	<b><u>100.00</u></b>	<b><u>100.00000</u></b>	<b><u>100.00</u></b>	<b><u>100.000000</u></b>

\*Last known address (P O Box 62731, New Orleans, LA 70162) is not current. Until resolved, address for Prudential Insurance Capital Marketing is believed to be correct.



# dugan production corp.

RECEIVED OCD

2012 FEB -6 A 10:18

February 3, 2012

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

Re: Dugan Production's Application dated 1-20-12  
Downhole Commingling  
Jeffers Federal 2 Well No. 23  
API No. 30-045-24439  
Unit K, Section 2, T-24N, R-8W  
Basin Fruitland Coal & Nageezi Gallup  
San Juan County, New Mexico

Dear Ms. Bailey,

Attached for your consideration for the captioned application are copies of the certified mail return receipts for our notice given to interest owners in the subject well. Dugan Production holds 100% of the working interest and the royalty interest is either State of New Mexico or Federal, both of which were recipients of our application and subject to approvals from the New Mexico State Land Office (SLO) and the Bureau of Land Management (BLM). The SLO approval is still pending and BLM has approved our application. We have received receipts from three of the five overriding royalty (ORRI) interest owners and upon checking with the US Postal Service (USPS) tracking system, the two ORRI owners with no receipts, both did receive our notice on 1/23/12. Copies of the USPS tracking system information are attached for your review and file.

To date, we have not had any comment or objection from any of the interest owners.

Should you have questions or need additional information, please let me know.

Sincerely,

John D. Roe  
Engineering Manager

JDR/tmf

attachments



Jeffers Fed 2 #23 DHC App.

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ruth Ann Jeffers Calvert  
P.O. Box 65  
Artesia, NM 88211-0065

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X *Ruth Ann Jeffers Calvert*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

Ruth Ann Jeffers Calvert

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below:

☒ No



3. Service Type

☒ Certified Mail

☐ Express Mail

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☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

7007 3020 0000 2102 3283

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

ORRI  
downpus

Jeffers Fed 2 #23 DHC App.

**SENDER: COMPLETE THIS SECTION**

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

George E. Johnson  
P.O. Box 1473  
Artesia, NM 88211-1473

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X *George E. Johnson*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

George E. Johnson

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below:

☒ No



3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

7007 3020 0000 2102 3290

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

Jeffers Fed 2 #23 DHC App.

**SENDER: COMPLETE THIS SECTION**

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mazzeola + Company  
14624 Benton Street  
Broomfield, CO 80020-6444

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X *John Mazzeola*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

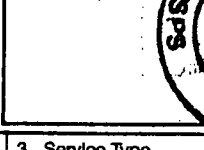
John Mazzeola

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below:

☒ No



3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

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PS Form 3811, February 2004

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70073020000021023313

## SERVICE

## STATUS OF YOUR ITEM

## DATE &amp; TIME

## LOCATION

## FEATURES

Delivered	January 23, 2012, 12:04 pm	NEW YORK, NY 10004	Certified Mail™
Arrival at Unit	January 23, 2012, 8:23 am	NEW YORK, NY 10004	
Processed through USPS Sort Facility	January 23, 2012, 6:33 am	NEW YORK, NY 10199	

## Check on Another Item

What's your label (or receipt) number?

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Sent To  
**Prudential Backstage Production**  
 Street, Apt. No., or PO Box No. **199 Water Street**  
 City, State, ZIP+4 **New York NY 10292**

PS Form 3800, August 2006 See Reverse for Instructions

-ORPT

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SERVICE

STATUS OF YOUR ITEM

DATE &amp; TIME

LOCATION

FEATURES

Delivered

January 23, 2012, 12:04 pm

NEW YORK, NY 10004

Certified Mail™

Arrival at Unit

January 23, 2012, 8:23 am

NEW YORK, NY 10004

Processed through  
USPS Sort Facility

January 23, 2012, 6:33 am

NEW YORK, NY 10199

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*Jeffrey Fed G + 23 DHC App. E*

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Certified Fee	2.85
Return Receipt Fee (Endorsement Required)	2.30
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 6.43

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Here

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*Prudential Insurance Capital Marketing*  
Street, Apt. No., or PO Box No. *One Sunlight Plaza*  
*199 Water Street*  
City, State ZIP+4  
*New York, NY 10292*

PS Form 3800, August 2006 See Reverse for Instructions

- ORRI