



NSL-4732

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

June 7, 2005

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

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

Attention: **Kurt Fagrelus**
Geologist
kfagrelus@duganproduction.com

Administrative Order NSL-4732-A (SD)

Dear Mr. Fagrelus:

Reference is made to the following: (i) your application submitted to the New Mexico Oil Conservation Division ("Division") on May 16, 2005 (*administrative application reference No. pSEM0-513734634*); and (ii) the Division's records in Aztec and Santa Fe, including the file in Division Administrative Order NSL-4732: all concerning Dugan Production Corporation's ("Dugan") request to include the Basin-Fruitland Coal (Gas) Pool within the provisions of a previously approved Division administrative order and for an exception to the well location requirements [Rule 7 (a) (1)] provided within the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended, for the existing King Com. Well No. 2 (API No. 30-045-31116), located 2385 feet from the South line and 2255 feet from the East line (Unit J) of Section 11, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico.

By Division Administrative Order NSL-4732, dated May 15, 2002, Dugan received authorization to drill and complete the above described well within the Undesignated Harper Hill Fruitland Sand-Pictured Cliffs Pool (78160) at an unorthodox gas well location within a standard 160-acre, more or less, gas spacing unit comprising the SE/4 of Section 11.

It is the Division's understanding that Dugan now indents to perforate the King Com. Well No. 2 up-hole into the Fruitland coal gas interval in an attempt to establish gas production and recomplete this well such that production from both the Fruitland coal gas and Fruitland sand/Pictured Cliffs intervals will be downhole commingled.

This well will be an infill coal gas completion within a standard 320-acre, more or less, stand-up gas spacing unit comprising the E/2 of Section 11, which unit is currently dedicated to Dugan's King Com. Well No. 90 (API No. 30-045-29883), located at a standard coal gas well location 1128 feet from the North line and 1511 feet from the East line (Unit B) of Section 11.

Your application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," and (ii) Division Rules 104.F and 1207.A (2).

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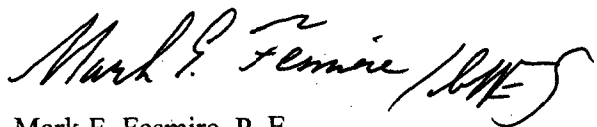
By the authority granted me under the applicable provisions of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool and Division Rule 104.F (2), the above-described unorthodox coal gas well location for Dugan's existing King Com. No. 2 is hereby approved.

Dugan is further authorized to simultaneously dedicate production attributed to the Basin-Fruitland Coal (Gas) Pool from both its existing King Com. Wells No. 2 and 90.

Further, Division Administrative Order NSL-4732 shall remain in full force and affect until further notice.

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

Sincerely,

A handwritten signature in cursive script, reading "Mark E. Fesmire" followed by a stylized flourish or set of initials.

Mark E. Fesmire, P. E.

Director

MEF/ms

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington
Division Administrative Order NSL-4732