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|------------------------|----------|------------------------------|--------------------------|-----------------|--------------------------------|
| DATE IN <u>5/12/06</u> | SUSPENSE | ENGINEER <u>MIKE STOGNER</u> | LOGGED IN <u>5/15/06</u> | TYPE <u>NSL</u> | APP NO. <u>P TDS0613549010</u> |
|------------------------|----------|------------------------------|--------------------------|-----------------|--------------------------------|

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



Dugan

ADMINISTRATIVE APPLICATION CHECKLIST

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

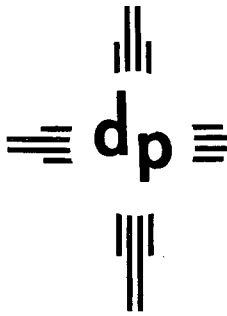
** - copy of interest owner notification letter is presented on Attachment No. 2 & was sent by certified mail. Copies of the return receipts will be forwarded to the NMOCD.*

[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.

| | | | |
|--------------------|---------------------------|------------------------------------|-----------------|
| <u>John D. Roe</u> | <u><i>John D. Roe</i></u> | <u>Engineering Manager</u> | <u>05/10/06</u> |
| Print or Type Name | Signature | Title | Date |
| | | <u>johnroe@duganproduction.com</u> | |
| | | e-mail Address | |



dugan production corp.

May 10, 2006

Mr. Mark Fesmire
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Application for Non-Standard Location
Dugan Production Corp.'s Patriot No. 1 (API No. 30-045-28579)
Unit M, Section 29, T-26N, R-13W
Basin Fruitland Coal Gas Pool (Pool No. 71629)
San Juan County, New Mexico

Dear Mr. Fesmire,

Dugan Production Corp. respectfully requests your administrative approval for the captioned non-standard location.

Dugan Production completed the Patriot No. 1 at an orthodox location in the Bisti Lower Gallup oil pool on 5-12-93. The Gallup completion has ceased to produce and the wellbore has been plugged back to test the Mesaverde which was unsuccessful. The well is currently shut in and it is proposed to be recompleted in the Basin Fruitland Coal. The wellbore is located 330' from the south and west lines of Section 29 which was an orthodox location for the Bisti Lower Gallup pool but will be unorthodox in the Basin Fruitland Coal since the pool rules require a 660' setback.

Attachment No. 1 presents the leasehold, mineral and overriding royalty interest information for the SE/4 of Section 30, NE/4 of Section 31 and the NW/4 of Section 32 all in T-26N, R-13W which is the acreage being encroached by our proposed NSL for the Patriot No. 1. All affected interest ownership in the adjacent sections have been notified of our plans to complete the Basin Fruitland Coal in the Patriot No. 1 and a copy of that notification letter (which was sent by certified mail with a return receipt requested) is presented in Attachment No. 2. Copies of the return receipts will be forwarded to the NMOCD upon receiving them. Dugan Production holds 100% of the working interest in the Patriot No. 1 and all royalty is federal lease No. SF-078091 which covers the SW/4 of Section 29. There are no overriding royalty interest owners.

The proposed NSL will allow Dugan Production to salvage the current wellbore for the Patriot No. 1 which is currently not producing and is planned for abandonment if not returned to production.

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

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

JDR/tmf

attachment

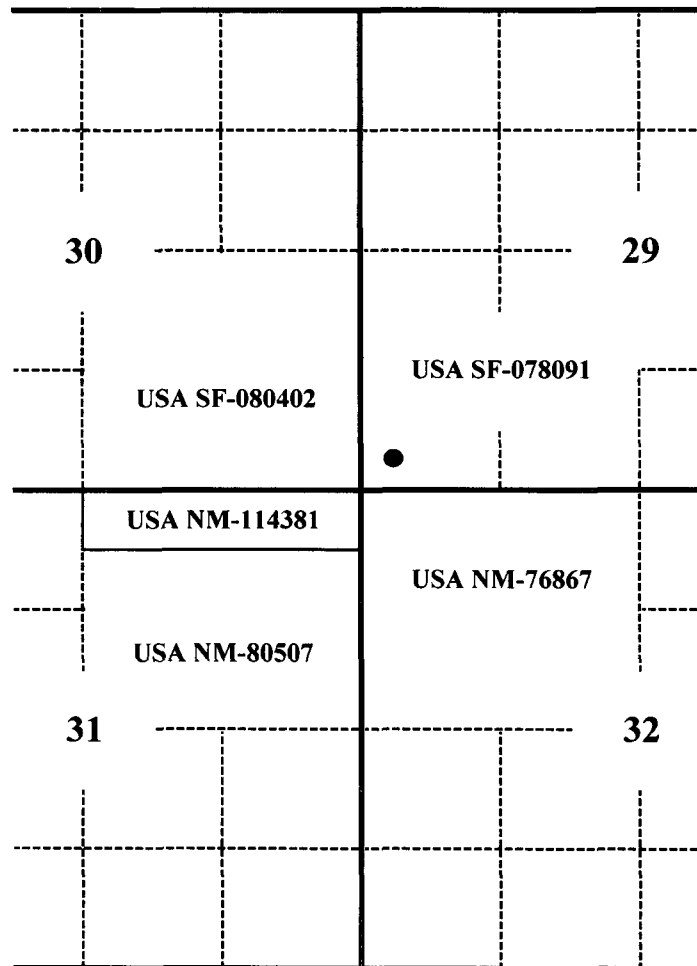
cc: BLM - Farmington
NMOCD - Aztec

ATTACHMENT #1

DUGAN PRODUCTION CORP.
APPLICATION FOR
NON-STANDARD WELL LOCATION

PATRIOT #1

Fruitland Coal Recompletion
330' FSL & 330' FWL
Section 29, Township 26 North, Range 13 West, NMPM



OWNERSHIP
See Page 2

ATTACHMENT #1

SF-080402, NM-80507, NM-76867

Working Interest:

Elm Ridge Exploration Company, LLC
12225 Greenville Avenue, Suite 950
Dallas, TX 75243-9362

R P Brewer III Estate
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

Betty Brewer Chumney
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

Elizabeth H. Chumney
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

India Brewer Demarigny
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

Winifred Chumney Meaden
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

Rebecca E. Brewer, Individually
c/o W T Chumney, Jr.
40 NE Loop 410, Suite 200
San Antonio, TX 78216

Key Production Company Inc.
c/o Cimarex Energy Company
1700 Lincoln Street, Suite 1800
Denver, CO 80203

Bolack Minerals Company
Tommy Bolack, General Partner
3901 Bloomfield Highway
Farmington, NM 87401

Frederick A. F. Berry
P.O. Box 23233
Santa Fe, NM 87502-3233

Royalty:

Minerals Management Service

Overriding Royalty:

Elliott Hall Company
P.O. Box 1231
Ogden, UT 84402

Elliott Industries
P.O. Box 1355
Roswell, NM 88202

Madison M. Hinkle
P.O. Box 2292
Roswell, NM 88202-2292

Rolla R. Hinkle III
P.O. Box 2292
Roswell, NM 88202-2292

NM-114381

Working Interest:

Burlington Resources Oil & Gas Company
PO Box 4289
Farmington, NM 87499

Royalty:

Minerals Management Service



dugan production corp.

Attachment
No. 2
pg 1 of 3

May 10, 2006

**CERTIFIED RETURN
RECEIPT REQUESTED**

To: Offset Interest Owners
Address List – Page 2 of Attachment No. 1

Re: Application for Non-Standard Location
Basin Fruitland Coal Gas Pool
Dugan Production's Patriot No. 1 (API No. 30-045-28579)
SWSW Section 29, T-26N, R-13W
San Juan County, New Mexico

Dear Ladies/Gentlemen,

Dugan Production Corp. is applying to the New Mexico Oil Conservation Division (NMOCD) for a non-standard location (NSL) for our proposed Fruitland Coal completion in the subject well. According to our records, you have a leasehold, mineral interest or an overriding royalty interest in the SE/4 of Section 30, NE/4 of Section 31 or the NW/4 of Section 32 all in T-26N, R-13W (see Attachment No. 1) which is the acreage being encroached by our proposed NSL, and as such, the special pool rules for the Basin Fruitland Coal require us to notify you.

Dugan Production completed the Patriot No. 1 at an orthodox location in the Bisti Lower Gallup oil pool on 5-12-93. The Gallup completion has ceased to produce and the wellbore has been plugged back to test the Mesaverde which was unsuccessful. The well is currently shut in and it is proposed to be recompleted in the Basin Fruitland Coal. The wellbore is located 330' from the south and west lines of Section 29 which was an orthodox location for the Bisti Lower Gallup pool but will be unorthodox in the Basin Fruitland Coal pool since the pool rules require a 660' setback.

Should you have questions or concerns, please let me know. Any unresolved concern should be submitted to the NMOCD within 20 days from the date of this letter and we would appreciate receiving a copy of your letter. The mailing address for the NMOCD is 1220 South St. Francis Drive, Santa Fe, NM 87505.

Sincerely,
John D. Roe
John D. Roe
Engineering Manager

JDR/tmf

Attachments

cc: NMOCD – Santa Fe

Attachment
no. 2
Pg 2 of 3

ATTACHMENT #1

DUGAN PRODUCTION CORP.

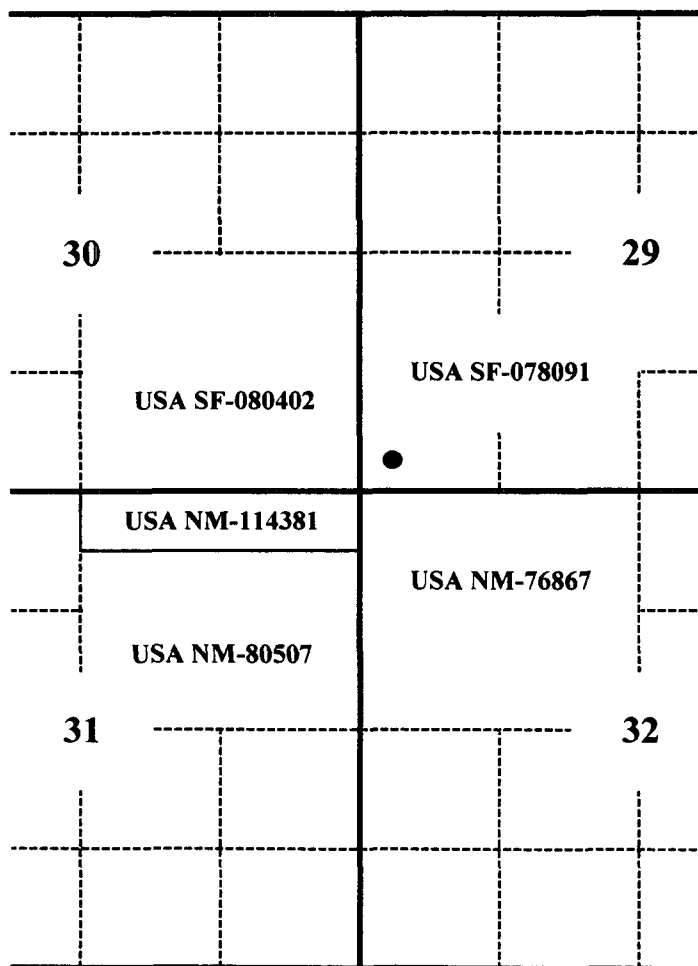
APPLICATION FOR
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NO. 2
Pg 3 of 3

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