

ABOVE THIS LINE FOR DIVISION USE ONLY

950-A

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

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



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 _____

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 2008 JAN 18 AM 11 53

[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 & 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

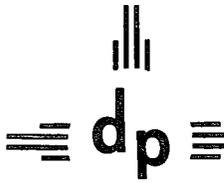
*
 *- Required notification was sent by certified mail w/ Return Receipt - upon receiving Receipts they will be sent to NMOCD.

[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.

| | | | |
|--------------------|--------------------|-----------------------------|---------|
| John D. Roe | <i>John D. Roe</i> | Engineering Manager | 1-15-08 |
| Print or Type Name | Signature | Title | Date |
| | | johnroe@duganproduction.com | |
| | | e-mail Address | |



dugan production corp.



January 15, 2008

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

Mr. Steve Henke, Manager
Bureau of Land Management
1235 La Plata Highway, Suite A
Farmington, NM 87401

Re: Application to add two wells and one pool to the Surface Commingling and Central Delivery Sales Meter currently approved by NMOCD Commingling Order PC-950 Dugan Production's Five of Diamonds CDP San Juan County, New Mexico

Dear Mr. Fesmire and Mr. Henke,

We are writing to request your administrative approvals to add the proposed Wildcat Fruitland Sand completion in Dugan Production's Five of Diamonds No. 90 plus Dugan Production's Mexico Federal L No. 1R, which is completed in the Basin Dakota gas pool to the central delivery gas sales meter (CDP) currently approved by NMOCD Commingling Order PC-950 for Dugan Production's Five of Diamonds No. 2S (Wildcat Choke Cherry Fruitland Sand pool) and Dugan's Five of Diamonds No. 90 (Basin Fruitland Coal pool). All wells are located upon Federal lease NM-030555-A which consists of the W/2 of Section 10, T-30N, R-13W and is the only lease within the spacing units for all wells. Dugan Production is the operator and holds 100% of the working interest for all wells. The interest ownership is identical for all wells and the CDP gas sales meter is located "on-lease". Since all wells are located upon a common federal lease and only one lease is involved, it is our understanding that a formal approval from the BLM is not required for the proposed surface commingling and that for the BLM, this application is for information and file purposes.

In addition to requesting that two wells and one pool be added to the current surface commingling, we are also requesting approvals to;

1. Relocate the CDP sales meter from the current Enterprise Meter No. 93267 (which was the old sales meter for Dugan's Five of Diamonds No. 2) approximately 160' to the northwest to Enterprise Meter No. 94911 (which is the current gas sales meter for Dugan's Mexico Federal L No. 1R), plus;
2. Amend the allocation of CDP gas volumes and revenues from the current factors based upon annual well tests to factors determined from allocation meters located at each well, plus;
3. We are requesting that the Wildcat Choke Cherry Fruitland Sand pool be changed to the Flora Vista Fruitland Sand gas pool.

NMOCD Form 107-B is attached in support of this application. Attachment No. 1 presents a facility diagram and well information for the wells that are connected (or proposed to be connected) to the Five of Diamonds CDP. Attachment No. 2 presents a map showing the wells along with Dugan Production's leasehold interest in the W/2 of Section 10, T-30N, R-13W. This map was reproduced from the Farmington, North Quadrangle USGS topographic map.

We do not anticipate any commingling of oil or condensate since condensate production from the Dakota completion in the Mexico Federal L No. 1R is separated from the gas and is stored at the well. There is no condensate or oil production from the Fruitland Sand and Fruitland Coal completions.

Attachment No. 3 presents a summary of the interest owners in the wells to be connected to the Five of Diamonds CDP. All interest owners in these wells are receiving a complete copy of this application. Attachment No. 5 includes a copy of the notice letter sent to the interest owners. All letters have been sent by certified, return receipt mail and upon receiving the receipts; copies will be forwarded to the NMOCD.

Attachment No. 6 presents a copy of the 10-15-07 sundry proposing the Fruitland Sand be completed and tested in Dugan's Five of Diamonds No. 90 well which is currently producing from the Basin Fruitland Coal. If successful, we will submit an application to downhole commingle the Fruitland Sand with the Basin Fruitland Coal and will discontinue producing the Fruitland Sand in Dugan's Five of Diamonds No. 2S as both completions will have the SW/4 as the proration unit. The Five of Diamonds No. 2S was completed 9-17-82 with 2-7/8" casing and was stimulated using 250 gallons acid. We believe there may be more potential for the Fruitland Sand than currently is exhibited by the 2S well however, the 2-7/8" casing is a limitation and the 4½" csg in the No. 90 makes it a more desirable test location, particularly if any water production occurs.

In addition to adding the Mexico Federal L No. 1R plus the Fruitland Sand completion in the Five of Diamonds No. 90, we are proposing to move the CDP sales meter from its current location (at the now plugged No. 2 location – Enterprise Meter No. 93267) to the current sales meter for Dugan's Mexico Federal L No. 1R, Enterprise Meter No. 94911. The meters are approximately 160' apart and upon converting the sales meter for the Mexico Federal L No. 1R to the CDP sales meter, meter no. 93267 will be removed from service. In addition to moving the CDP meter, we plan to relocate the compressor (currently serving the Five of Diamonds No. 2S and Five of Diamonds No. 90) to the Mexico Federal L No. 1R location (to serve the Five of Diamonds No. 90 and the Mexico Federal L No. 1R, assuming the Fruitland Sand is produced in the Five of Diamonds No. 90 rather than the No. 2S). This will put the CDP sales meter and compressor at the same location, and will allow the Mexico Federal L No. 1R to benefit from compression

We are also proposing to amend Surface Commingling Order PC-950 to use allocation meters at each well rather than annual well tests for determining the allocation factors for allocating production and revenues from the CDP sales meter to each well. Each well will be equipped with a continuous recording dry flow gas allocation meter (or some form of approved alternative measurement) operated and maintained by Dugan Production. Prior to converting any gas measurement from a conventional gas meter to an alternative measurement method, we will seek formal approvals. The charts from each allocation meter will be integrated by a commercial integration service and the volumes recorded utilized to determine factors for allocating CDP volumes, BTU's and revenues to the individual wells. The proposed allocation procedures are presented on Attachment No. 4.

NMOCD Commingling Order PC-950 dated 10-6-97 authorizes the surface commingling of two pools, Wildcat Choke Cherry Fruitland Sand (pool code 96330) from Dugan's Five of Diamonds No. 2S with Basin Fruitland Coal (pool code 71629) from Dugan's Five of Diamonds No. 90. To date, production from Dugan's Five of Diamonds No. 2S has been reported under Wildcat Choke Cherry Fruitland Sand (pool code 96327) and upon preparing the subject application, conversations with the Aztec office of the NMOCD confirmed that both pools exist (Wildcat Choke Cherry Fruitland Sand codes 96327 & 96330) and that neither pool has formally been established. Rather than set the Wildcat Choke Cherry Fruitland Sand pool for hearing, it was agreed that the acreage in question was within 1 mile of the Flora Vista Fruitland Sand pool (code 76600) and that this pool should be extended to include the subject acreage and replace the Wildcat Choke Cherry Fruitland Sand pools (codes 96327 & 96330). Attachment No. 7 is a copy of our sundries requesting this change in pool names for Dugan's Five of Diamonds No. 2S and No. 90.

Should you need additional information or have questions regarding any of this information, please let me know.

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

enclosures

cc: NMOCD – Aztec
All interest owners

District I
1625 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave. 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-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original application to the Santa Fe office with one copy to the appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Dugan Production Corp.
OPERATOR ADDRESS: P. O. Box 420, Farmington, NM 87499-0420

APPLICATION TYPE:

Pool Commingling Lease Commingling Pool and Lease Commingling Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: Fee State Federal

Is this an Amendment to existing Order? Yes No If "Yes", please include the appropriate Order No. PC-950
Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
 Yes No

(A) POOL COMMINGLING
Please attach sheets with the following information

| (1) Pool Names and Codes | Gravities / BTU of Non-Commingled Production | Calculated Gravities / BTU of Commingled Production | MMBTU/D | Calculated Value of Commingled Production | Volumes |
|---|--|---|----------------|--|-------------------|
| WC Choke Cherry Fruitland Sand (96330)* | 1184 | 1154 | 5.92 | Gas will be allocated and sold on MMBTU basis. | 5.0 mcf |
| Basin Fruitland Coal (71629) | 1025 | | 25.63 | | 25.0 mcf |
| Basin Dakota (71599) | 1276 | | 31.90 | | 25.0 mcf |
| | | | Total 63.45 | | Total 55.0 mcf |

*Pool name to change to Flora Vista Fruitland Sand (76600)
(2) Are any wells producing at top allowables? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No.
(4) Measurement type: Metering Other (Specify)
(5) Will commingling decrease the value of production? Yes No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING
Please attach sheets with the following information

(1) Pool Name and Code.
(2) Is all production from same source of supply? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No
(4) Measurement type: Metering Other (Specify)

(C) POOL and LEASE COMMINGLING
Please attach sheets with the following information

(1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT
Please attached sheets with the following information

(1) Is all production from same source of supply? Yes No
(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)
Please attach sheets with the following information

(1) A schematic diagram of facility, including legal location. - Attachment No. 1
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.--Attachment No. 2
(3) Lease Names, Lease and Well Numbers, and API Numbers. - Attachment No. 1

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 15, 2008
TYPE OR PRINT NAME John D. Roe TELEPHONE NO.: 505-325-1821
E-MAIL ADDRESS: johnroe@duganproduction.com

Attachment No. 1
Facility Diagram
Five of Diamonds CDP

| <u>Well Name</u> | <u>APE No.</u> | <u>Location</u> <u>distance from Section</u> | <u>U-S-T-R</u> |
|----------------------|----------------|---|----------------|
| Five of Diamonds #2 | 30-045-23427 | 1800' FSL + 1800' FWL | K-10-30N-13W |
| Five of Diamonds #25 | 30-045-24557 | 1840' FSL + 790' FWL | L-10-30N-13W |
| Five of Diamonds #90 | 30-045-29425 | 1740' FSL + 1230' FWL | L-10-30N-13W |
| Mexico Federal L #1R | 30-045-25461 | 1850' FSL + 1650' FWL | K-10-30N-13W |

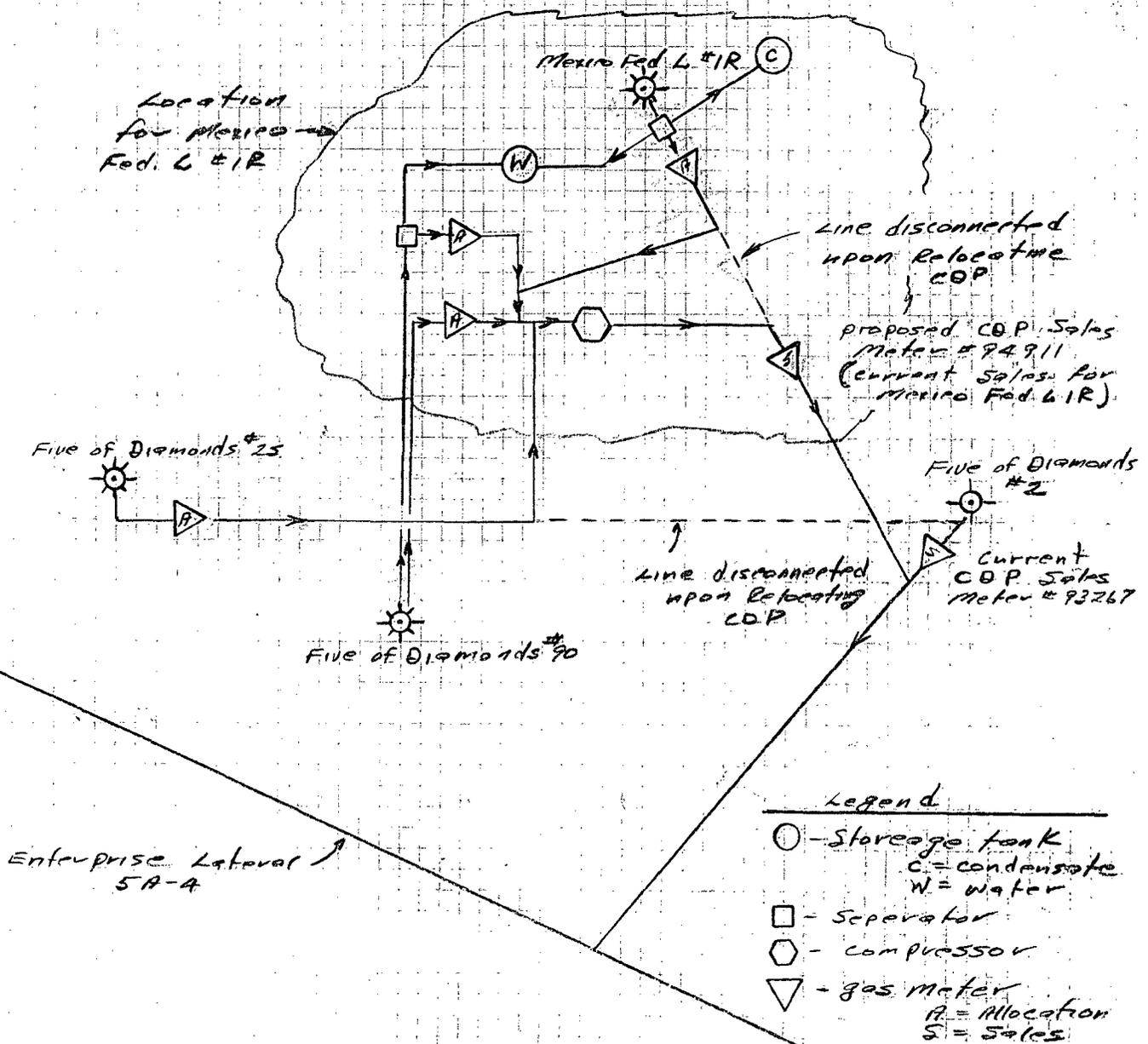
Approximate Distances

Five of Diamonds 25 to 90 \approx 451'

Five of Diamonds 90 to #2 \approx 573'

Five of Diamonds 2 to Mexico Fed L #1R \approx 158'

Five of Diamonds 25 to Mexico Fed L #1R \approx 866'

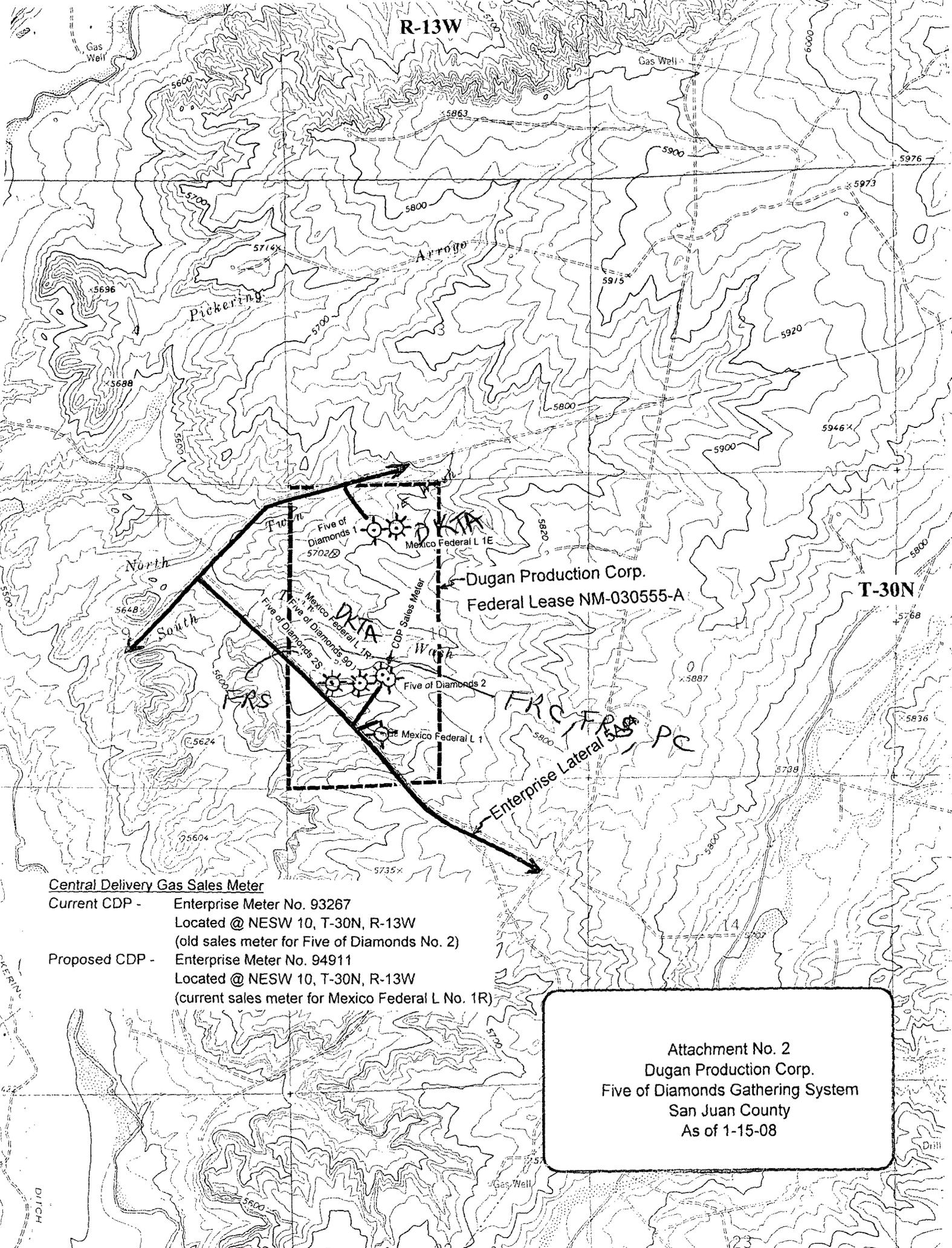


Legend

- - Storage tank
C = condensate
W = water
- - Separator
- ⬡ - Compressor
- ▽ - gas meter
- A = Allocation
- S = Sales

- Not Drawn to Scale

Section
 9 10
 16 15



Central Delivery Gas Sales Meter

- Current CDP - Enterprise Meter No. 93267
 Located @ NESW 10, T-30N, R-13W
 (old sales meter for Five of Diamonds No. 2)
- Proposed CDP - Enterprise Meter No. 94911
 Located @ NESW 10, T-30N, R-13W
 (current sales meter for Mexico Federal L No. 1R)

Attachment No. 2
Dugan Production Corp.
Five of Diamonds Gathering System
San Juan County
As of 1-15-08

**Attachment No. 3
Dugan Production Corp.**

| <u>Well Name</u> | <u>Pool & (Pool Code)</u> | <u>Location</u> | <u>Spacing Unit</u> |
|-----------------------|--|-----------------|---------------------|
| Five of Diamonds 2S ① | Wildcat; Choke Cherry Fruitland Sand (96327) | L 10-30N-13W | SW/4-160.0A |
| Five of Diamonds 90 ① | Wildcat; Choke Cherry Fruitland Sand (96330) | L 10-30N-13W | SW/4-160.0A |
| Five of Diamonds 90 | Basin Fruitland Coal (71629) | L 10-30N-13W | W/2-320.0A |
| Mexico Federal L 1R | Basin Dakota (71599) | K 10-30N-13W | W/2-320.0A |

| <u>INTEREST OWNER</u> | <u>INTEREST%</u> | |
|---|-------------------|-------------------|
| | <u>Gross</u> | <u>Net</u> |
| <u>Working Interest</u> Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420 | 100.000000 | 82.500000 |
| <u>Royalty</u> USA – Federal Lease NM-030555-A c/o Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401 | -0- | 12.500000 |
| <u>Overriding Royalty Interest</u> Jerry W. Massengale 9107 Arbor Park Drive Dallas, TX 75243 | -0- | 0.500000 |
| Hoover H. & Betty R. Wright 410 17 th Street, Suite 1340 Denver, CO 80202 | -0- | 4.500000 |
| TOTAL WELL | 100.000000 | 100.000000 |

Note 1

The Wildcat Choke Cherry Fruitland Sand is currently producing in the Five of Diamonds 2S and is scheduled to be tested in the Five of Diamonds 90. Depending upon test results in the No. 90, only one completion in the Wildcat Choke Cherry Fruitland Sand will be produced and the other will be plugged. In addition, the NMOCD is expanding the Flora Vista Fruitland Sand pool (76600) to include the SW/4 of Section 10, T-30N, R-13W and will also abolish the Wildcat Choke Cherry Fruitland Sand pool (codes 96327 and 96330).

ATTACHMENT NO. 4
Proposed Allocation Procedures
Dugan Production Corp.'s
Five of Diamonds Gathering System
Current CDP – Enterprise Meter No. 93267 Located @ NESW 10, T-30N, R13W
(old sales meter for Five of Diamonds No. 2)
Proposed CDP – Enterprise Meter No. 94911 Located @ NESW 10, T-30N, R13W
(current sales meter for Mexico Federal L No. 1R
San Juan County, New Mexico

Base Data:

U = Water Volume (BWPD) from Periodic Well Test x days operated during allocation period.

V = Water Volume (bbl) at Central Battery during allocation period.

W = Gas Volume (MCF) from allocation meters at individual wells and central battery separator during allocation period.

X = Gas Volume (MCF) from CDP Sales Meter during allocation period.

Y = BTU's from CDP Sales Meter during allocation period.

Allocation Period is typically a calendar month and will be the same for all wells.

1. Individual Well Gas Production = A + B + C + D + E + F

A = Allocated Sales Volume, MCF = $(W/SUM W) \times X$

B = On lease fuel usage, MCF. Determined from equipment specification and operating conditions.

C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefiting from the equipment using allocation factors determined by W/SUM W for the wells involved.

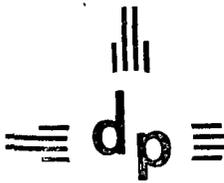
E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by W/SUM W.

F = Allocated gas sales volume (MCF) associated with water production = (A) in mcf for the central battery separator multiplied by a factor of $(U/SUM U)$ for wells delivering gas and water to the central battery separator.

2. Allocated Individual Well BTU's = $((W \times \text{Individual well BTU}) / \text{Sum } (W \times \text{individual well BTU})) \times Y$.

Individual well gas heating values to be determined in accordance with BLM regulations (currently Onshore Order No. 5).

3. Individual Well Water Production = Allocated production volume, bbl = $(U/\text{Sum } U) \times V$.



dugan production corp.

Attachment
NO. 5
pg 1 of 1

January 15, 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Jerry W. Massengale
9107 Arbor Park Drive
Dallas, TX 75243

Hoover H. & Betty R. Wright
410 17th Street, Suite 1340
Denver, CO 80202

Re: Addition of two wells to
Dugan Production's Five of Diamonds
Central Delivery Sales Meter
San Juan County, New Mexico

Dear Interest Owner,

Attached for your information and review is a complete copy of Dugan's application to the New Mexico Oil Conservation Division and Bureau of Land Management requesting their approvals to add two wells to the central delivery gas sales meter (CDP) currently approved for Dugan Production's Five of Diamonds No. 2S and Five of Diamonds No. 90. According to our records, each of you has an overriding royalty interest in the two wells that are proposed to be added along with the two wells currently approved for the Five of Diamonds CDP. The wells in which you have an interest are listed on Attachment No. 3 to our application. Dugan Production will install, operate and maintain the gathering system and will pay all costs associated with this proposal. As an overriding royalty interest owner you will have no costs associated with this proposal and your interest in these wells should not be affected, other than to hopefully increase revenues as a result of improved Fruitland Sand production in the Five of Diamonds No. 90 plus the benefit of compression for the Mexico Federal L No. 1R.

This matter does not require any action on your part. NMOCD regulations require that all interest owners receive notice of our application. Should you have any questions, need additional information, or have any concern as to our application, please let me know. Should you have an objection to our application, please let me know and you should contact the New Mexico Oil Conservation Division directly within 20 days from the date the NMOCD receives our application which will be approximately 1/17/08. The mailing address for the NMOCD is 1220 South St. Francis Drive in Santa Fe, New Mexico 87505. We would appreciate receiving a copy of your objection.

Sincerely,

John D. Roe
Engineering Manager

Attachments

xc: New Mexico Oil Conservation Division, Bureau of Land Management

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Attachment
No. 6
Pg 1 of 1

FORM APPROVED
Budget Bureau No. 1004-0135
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT -" for such proposals

SUBMIT IN TRIPLICATE

Type of Well
 Oil Well Gas Well Other

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OCT 17 2007

5. Lease Designation and Serial No.
NM 030555A

6. If Indian, Allotted or Tribe Name

Name of Operator
Lugan Production Corp.

Department of the Interior
Bureau of Land Management

7. If Unit or CA, Agreement Designation

8. Well Name and No.
Five of Diamonds #90

Address and Telephone No.
P.O. Box 420, Farmington, NM 87499 (505) 325 - 1821

9. API Well No.
30 045 29425

Location of Well (Footage, Sec., T., R., M., or Survey Description)

740' FSL & 1230' FWL (NW/4 SW/4)
Unit L, Sec. 10, T30N, R13W

10. Field and Pool, or Exploratory Area

Basin Fruitland Coal

11. County or Parish, State
San Juan, NM

2. CHECK APPROPRIATE BOX(s) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION | |
|--|--|--|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Abandonment | <input type="checkbox"/> Change of Plans |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Recompletion | <input type="checkbox"/> New Construction |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Plugging Back | <input type="checkbox"/> Non-Routine Fracturing |
| | <input type="checkbox"/> Casing Repair | <input type="checkbox"/> Water Shut-Off |
| | <input type="checkbox"/> Altering Casing | <input type="checkbox"/> Conversion to Injection |
| | <input checked="" type="checkbox"/> Other <u>Complete Fruitland Sand</u> | <input type="checkbox"/> Dispose Water |

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

3. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

Operator requests approval to complete the Fruitland Sand in this well. A C-102 for the Fruitland Sand is attached.

Set a bridge plug at approximately 1600'. The Fruitland Coal is perforated 1692'-1703'.
Perforate Fruitland Sand interval 1293'-1303' and 1356'-1372'.
Fracture stimulate the Fruitland Sand interval.
Test the Fruitland Sand production.
Apply to commingle the Fruitland Coal with the Fruitland Sand.

4. I hereby certify that the foregoing is true and correct

Signed John Alexander Title Vice-President Date 10/15/2007
John Alexander

This space for Federal or State office use)

Approved by [Signature] Title PE Date OCT 18 2007

Conditions of approval, if any:

Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*See Instruction on Reverse Side
OPERATOR

Attachment
No. 7
Pg 1 of 2

Form 3160-5
June 1990)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
Budget Bureau No. 1004-0135
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT -" for such proposals

SUBMIT IN TRIPLICATE

5. Lease Designation and Serial No.
NM 030555A

6. If Indian, Allotted or Tribe Name

7. If Unit or CA, Agreement Designation

8. Well Name and No.
Five of Diamonds #2S

9. API Well No.
30 045 24557

10. Field and Pool, or Exploratory Area

WC; Choke Cherry FR Sand

11. County or Parish, State
San Juan, NM

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Bureau of Land Management
Farmington Field Office

1. Type of Well
 Oil Well
 Gas Well
 Other

2. Name of Operator
Dugan Production Corp.

3. Address and Telephone No.
P.O. Box 420, Farmington, NM 87499 (505) 325 - 1821

Location of Well (Footage, Sec., T., R., M., or Survey Description)

1840' FSL & 790' FWL (NW/4 SW/4)
Unit L, Sec. 10, T30N, R13W

12. CHECK APPROPRIATE BOX(S) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION | |
|--|---|--|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Abandonment | <input type="checkbox"/> Change of Plans |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Recompletion | <input type="checkbox"/> New Construction |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Plugging Back | <input type="checkbox"/> Non-Routine Fracturing |
| | <input type="checkbox"/> Casing Repair | <input type="checkbox"/> Water Shut-Off |
| | <input type="checkbox"/> Altering Casing | <input type="checkbox"/> Conversion to Injection |
| | <input checked="" type="checkbox"/> Other <u>Pool Name Change</u> | <input type="checkbox"/> Dispose Water |

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

13. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

The NMOCD is expanding the Flora Vista Fruitland Sand (Code 76600) to include the SW/4 Section 10, T-30N, R-13W and also plans to abolish the Wildcat Choke Cherry Fruitland Sand pool (OCD Codes 96330 and 96327). An amended C-102 reflecting the new pool name is attached.

Old Pool Name: Wildcat Choke Cherry Fruitland Sand (Code 96327)
New Pool Name: Flora Vista Fruitland Sand (76600)

14. I hereby certify that the foregoing is true and correct

Signed John D. Roe Title Engineering Manager Date 1/4/2008

ACCEPTED FOR RECORD

This space for Federal or State office use)

Approved by _____ Title _____ Date _____

JAN 11 2008

Conditions of approval, if any:

FARMINGTON FIELD OFFICE
BY _____

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

OPERATOR

*See Instruction on Reverse Side

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Attachment
No. 7
pg 2 of 2

FORM APPROVED
Budget Bureau No. 1004-0135
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT -" for such proposals.

RECEIVED

SUBMIT IN TRIPLICATE JAN 7 2008

| | | | |
|---|--|--|---|
| 1. Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other | | bureau of Land Management Farmington Field Office | 5. Lease Designation and Serial No. NM 030555A |
| 2. Name of Operator Dugan Production Corp. | | | 6. If Indian, Allotted or Tribe Name |
| 3. Address and Telephone No. P.O. Box 420, Farmington, NM 87499 (505) 325 - 1821 | | | 7. If Unit or CA, Agreement Designation |
| Location of Well (Footage, Sec., T., R., M., or Survey Description) 1740' FSL & 1230' FWL (NW/4 SW/4) Unit L, Sec. 10, T30N, R13W | | | 8. Well Name and No. Five of Diamonds #90 |
| | | | 9. API Well No. 30 045 29425 |
| | | | 10. Field and Pool, or Exploratory Area Wildcat; Choke Cherry Fruitland Sand |
| | | | 11. County or Parish, State San Juan, NM |

12. CHECK APPROPRIATE BOX(S) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION |
|--|---|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Abandonment |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Recompletion |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Plugging Back |
| | <input type="checkbox"/> Casing Repair |
| | <input type="checkbox"/> Altering Casing |
| | <input checked="" type="checkbox"/> Other <u>Pool Name Change</u> |
| | <input type="checkbox"/> Change of Plans |
| | <input type="checkbox"/> New Construction |
| | <input type="checkbox"/> Non-Routine Fracturing |
| | <input type="checkbox"/> Water Shut-Off |
| | <input type="checkbox"/> Conversion to Injection |
| | <input type="checkbox"/> Dispose Water |

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

13. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

The NMOCD is expanding the Flora Vista Fruitland Sand (Code 76600) to include the SW/4 Section 10, T-30N, R-13W and also plans to abolish the Wildcat Choke Cherry Fruitland Sand pool (OCD Codes 96330 and 96327). An amended C-102 reflecting the new pool name is attached.

Old Pool Name: Wildcat Choke Cherry Fruitland Sand (Code 96330)
New Pool Name: Flora Vista Fruitland Sand (76600)

14. I hereby certify that the foregoing is true and correct

Signed John D. Roe Title Engineering Manager Date 1/4/2008

(This space for Federal or State office use)

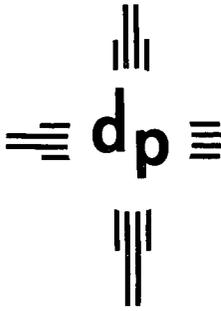
Approved by _____ Title _____ Date JAN 11 2008

Conditions of approval, if any: _____

FARMINGTON FIELD OFFICE
BY _____

File 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*See Instruction on Reverse Side
OPERATOR



dugan production corp

RECEIVED

2008 FEB 8 PM 1 08

February 6, 2008

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

Re: Dugan Production's Application dated 1-15-08
To add two wells and one pool
Dugan Production's Five of Diamonds CDP
San Juan County, New Mexico

Dear Mr. Fesmire,

Attached for your consideration of the captioned application are copies of the certified mail return receipts for all interest owners in the wells proposed to be added to Dugan's Five of Diamonds CDP.

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

John D. Roe
Engineering Manager

JDR/tmf

enclosure

Five of Diamonds CDP

| | | | |
|--|--|---|--|
| SENDER: COMPLETE THIS SECTION | | COMPLETE THIS SECTION ON DELIVERY | |
| <ul style="list-style-type: none"> 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. | | <p>A. Signature <input checked="" type="checkbox"/> <i>H. P. Pearson</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery <i>H. P. Pearson</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p> | |
| 1. Article Addressed to: <i>Bureau of Land Management 1235 La Plata Highway Farmington, NM 87404</i> | | 3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. | |
| 2. Article Number (Transfer from service label) 7005 2570 0001 3772 1511 | | 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes | |
| PS Form 3811, February 2004 | | Domestic Return Receipt 102595-02-M-1540 | |

Five of Diamonds CDP

| | | | |
|--|--|---|--|
| SENDER: COMPLETE THIS SECTION | | COMPLETE THIS SECTION ON DELIVERY | |
| <ul style="list-style-type: none"> 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. | | <p>A. Signature <input checked="" type="checkbox"/> <i>J. Messinger</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery <i>J. Messinger</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p> | |
| 1. Article Addressed to: <i>Jerry W. Messinger 9107 Arbor Park Drive Dallas, TX 75243</i> | | 3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. | |
| 2. Article Number (Transfer from service label) 7005 2570 0001 3772 1528 | | 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes | |
| PS Form 3811, February 2004 | | Domestic Return Receipt 102595-02-M-1540 | |

Five of Diamonds CDP

| | | | |
|--|--|---|--|
| SENDER: COMPLETE THIS SECTION | | COMPLETE THIS SECTION ON DELIVERY | |
| <ul style="list-style-type: none"> 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. | | <p>A. Signature <input checked="" type="checkbox"/> <i>Rick Wright</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery <i>Rick Wright</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p> | |
| 1. Article Addressed to: <i>Florence H + Betty R. Wright P.O. Box 2312 Santa Fe, NM 87501</i> | | 3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. | |
| 2. Article Number (Transfer from service label) 7005 2570 0001 3772 1498 | | 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes | |
| PS Form 3811, February 2004 | | Domestic Return Receipt 102595-02-M-1540 | |



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



1935 - 1985

TONEY ANAYA
GOVERNOR

July 23, 1985

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Attachment
No. 4
Pg 1 of 1

Dugan Production Corp.
P. O. Box 208
Farmington, New Mexico 87401

Re: Gas Commingling

Gentlemen:

Based upon your applications filed in this matter, authority is hereby granted for surface commingling of the production from the Five of Diamonds Well No. 2 in Unit K and Well No. 2S in Unit L of Section 10, Township 30 North, Range 13 West, Undesignated Fruitland Gas Pool, San Juan County, New Mexico.

The production from said wells shall be allocated on the basis of periodic individual well tests through the sales meter.

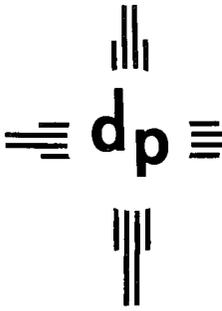
Sincerely,

R. L. STAMETS
Director

RLS/fd

cc: Frank Chavez

ORIGINAL



dugan production corp.

RECEIVED
2008 FEB 15 PM 12 21

February 13, 2008

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

Re: Dugan Production's Application dated 1-15-08
To add two wells and one pool
Dugan Production's Five of Diamonds CDP
San Juan County, New Mexico

Dear Mr. Fesmire,

Attached for your consideration of the captioned application is a copy of the subject application letter reflecting that on 2-11-08 the Farmington Field Office of the Bureau of Land Management accepted Dugan's application for record purposes. As presented in our application, since all wells were located on a common Federal lease and only one lease was involved, a formal approval from the BLM was not required and our application to them was for information and record purposes only.

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

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

enclosure



dugan production corp.

RECEIVED

JAN 15 2008

January 15, 2008

Bureau of Land Management
Farmington Field Office

ACCEPTED FOR RECORD

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

Mr. Steve Henke, Manager
Bureau of Land Management
1235 La Plata Highway, Suite A
Farmington, NM 87401

FEB 11 2008

FARMINGTON FIELD OFFICE
BY

Re: Application to add two wells and one pool to the Surface Commingling and Central Delivery Sales Meter currently approved by NMOCD Commingling Order PC-950 Dugan Production's Five of Diamonds CDP San Juan County, New Mexico

Dear Mr. Fesmire and Mr. Henke,

We are writing to request your administrative approvals to add the proposed Wildcat Fruitland Sand completion in Dugan Production's Five of Diamonds No. 90 plus Dugan Production's Mexico Federal L No. 1R, which is completed in the Basin Dakota gas pool to the central delivery gas sales meter (CDP) currently approved by NMOCD Commingling Order PC-950 for Dugan Production's Five of Diamonds No. 2S (Wildcat Choke Cherry Fruitland Sand pool) and Dugan's Five of Diamonds No. 90 (Basin Fruitland Coal pool). All wells are located upon Federal lease NM-030555-A which consists of the W/2 of Section 10, T-30N, R-13W and is the only lease within the spacing units for all wells. Dugan Production is the operator and holds 100% of the working interest for all wells. The interest ownership is identical for all wells and the CDP gas sales meter is located "on-lease". Since all wells are located upon a common federal lease and only one lease is involved, it is our understanding that a formal approval from the BLM is not required for the proposed surface commingling and that for the BLM, this application is for information and file purposes.

In addition to requesting that two wells and one pool be added to the current surface commingling, we are also requesting approvals to;

1. Relocate the CDP sales meter from the current Enterprise Meter No. 93267 (which was the old sales meter for Dugan's Five of Diamonds No. 2) approximately 160' to the northwest to Enterprise Meter No. 94911 (which is the current gas sales meter for Dugan's Mexico Federal L No. 1R), plus;
2. Amend the allocation of CDP gas volumes and revenues from the current factors based upon annual well tests to factors determined from allocation meters located at each well, plus;
3. We are requesting that the Wildcat Choke Cherry Fruitland Sand pool be changed to the Flora Vista Fruitland Sand gas pool.

- defer to NMOCD

NMOCD Form 107-B is attached in support of this application. Attachment No. 1 presents a facility diagram and well information for the wells that are connected (or proposed to be connected) to the Five of Diamonds CDP. Attachment No. 2 presents a map showing the wells along with Dugan Production's leasehold interest in the W/2 of Section 10, T-30N, R-13W. This map was reproduced from the Farmington, North Quadrangle USGS topographic map.

We do not anticipate any commingling of oil or condensate since condensate production from the Dakota completion in the Mexico Federal L No. 1R is separated from the gas and is stored at the well. There is no condensate or oil production from the Fruitland Sand and Fruitland Coal completions.

Attachment No. 3 presents a summary of the interest owners in the wells to be connected to the Five of Diamonds CDP. All interest owners in these wells are receiving a complete copy of this application. Attachment No. 5 includes a copy of the notice letter sent to the interest owners. All letters have been sent by certified, return receipt mail and upon receiving the receipts; copies will be forwarded to the NMOCD.

RECEIVED
709 E. MURRAY DR.
FEB 12 2008

Attachment No. 6 presents a copy of the 10-15-07 sundry proposing the Fruitland Sand be completed and tested in Dugan's Five of Diamonds No. 90 well which is currently producing from the Basin Fruitland Coal. If successful, we will submit an application to downhole commingle the Fruitland Sand with the Basin Fruitland Coal and will discontinue producing the Fruitland Sand in Dugan's Five of Diamonds No. 2S as both completions will have the SW/4 as the proration unit. The Five of Diamonds No. 2S was completed 9-17-82 with 2-7/8" casing and was stimulated using 250 gallons acid. We believe there may be more potential for the Fruitland Sand than currently is exhibited by the 2S well however, the 2-7/8" casing is a limitation and the 4 1/2" csg in the No. 90 makes it a more desirable test location, particularly if any water production occurs.

In addition to adding the Mexico Federal L No. 1R plus the Fruitland Sand completion in the Five of Diamonds No. 90, we are proposing to move the CDP sales meter from its current location (at the now plugged No. 2 location – Enterprise Meter No. 93267) to the current sales meter for Dugan's Mexico Federal L No. 1R, Enterprise Meter No. 94911. The meters are approximately 160' apart and upon converting the sales meter for the Mexico Federal L No. 1R to the CDP sales meter, meter no. 93267 will be removed from service. In addition to moving the CDP meter, we plan to relocate the compressor (currently serving the Five of Diamonds No. 2S and Five of Diamonds No. 90) to the Mexico Federal L No. 1R location (to serve the Five of Diamonds No. 90 and the Mexico Federal L No. 1R, assuming the Fruitland Sand is produced in the Five of Diamonds No. 90 rather than the No. 2S). This will put the CDP sales meter and compressor at the same location, and will allow the Mexico Federal L No. 1R to benefit from compression

We are also proposing to amend Surface Commingling Order PC-950 to use allocation meters at each well rather than annual well tests for determining the allocation factors for allocating production and revenues from the CDP sales meter to each well. Each well will be equipped with a continuous recording dry flow gas allocation meter (or some form of approved alternative measurement) operated and maintained by Dugan Production. Prior to converting any gas measurement from a conventional gas meter to an alternative measurement method, we will seek formal approvals. The charts from each allocation meter will be integrated by a commercial integration service and the volumes recorded utilized to determine factors for allocating CDP volumes, BTU's and revenues to the individual wells. The proposed allocation procedures are presented on Attachment No. 4.

NMOCD Commingling Order PC-950 dated 10-6-97 authorizes the surface commingling of two pools, Wildcat Choke Cherry Fruitland Sand (pool code 96330) from Dugan's Five of Diamonds No. 2S with Basin Fruitland Coal (pool code 71629) from Dugan's Five of Diamonds No. 90. To date, production from Dugan's Five of Diamonds No. 2S has been reported under Wildcat Choke Cherry Fruitland Sand (pool code 96327) and upon preparing the subject application, conversations with the Aztec office of the NMOCD confirmed that both pools exist (Wildcat Choke Cherry Fruitland Sand codes 96327 & 96330) and that neither pool has formally been established. Rather than set the Wildcat Choke Cherry Fruitland Sand pool for hearing, it was agreed that the acreage in question was within 1 mile of the Flora Vista Fruitland Sand pool (code 76600) and that this pool should be extended to include the subject acreage and replace the Wildcat Choke Cherry Fruitland Sand pools (codes 96327 & 96330). Attachment No. 7 is a copy of our sundries requesting this change in pool names for Dugan's Five of Diamonds No. 2S and No. 90.

Should you need additional information or have questions regarding any of this information, please let me know.

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

JDR/tmf

enclosures

cc: NMOCD – Aztec
All interest owners

ACCEPTED FOR RECORD

FEB 11 2008

FARMINGTON FIELD OFFICE
BY 