

ABOVE THIS LINE FOR DIVISION USE ONLY

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



191

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]

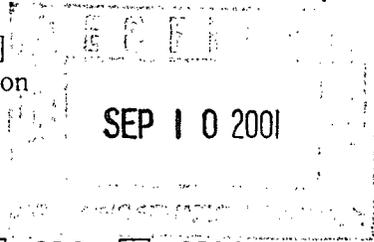
- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

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

**- copies of letter providing notice are included in application as Attachment No. 8. Copies of certified return receipts will be mailed to NMCD upon receiving.*

[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.

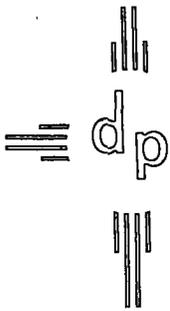
John D. Roe
Print or Type Name

John D. Roe
Signature

Engineering Manager
Title

9/6/01
Date

dugan@cptnet.com
e-mail Address



dugan production corp.

September 6, 2001

Ms. Lori Wrotenbery
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Steve Henke
Bureau of Land Management-FFO
1235 La Plata Highway
Farmington, NM 87401

Re: Proposed surface commingling & off-lease measurement
Nine wells operated by Dugan Production Corp.
Dugan Production's Proposed Big Band Gas Gathering System
San Juan County, New Mexico

Dear Ms. Wrotenbery and Mr. Henke:

We are writing to request your approvals for the surface commingling and off-lease measurement of natural gas produced from nine wells (seven existing plus two proposed locations) operated by Dugan Production Corp. and completed in the Bisti Chacra and/or Basin Fruitland Coal pools. These nine wells are located upon six federal leases (NM-8902, NM-57445, NM-90471, NM-90472, NM-93253 & NM-94067) and will be connected to a new gas gathering system currently being installed by Dugan Production Corp. This new gathering system will be known as the Big Band Gas Gathering System and will deliver natural gas to a central delivery sales meter (CDP) operated and maintained by PNM on their main line in the NENE of Section 27, T-22N, R-8W. Only natural gas will be surface commingled. All liquids will be separated, stored and disposed of at each individual well. We do not anticipate any liquid hydrocarbon production. All leasehold interest is federal and is held 100% by Dugan Production.

Attachment No. 1 was reproduced from portions of the Fire Rockwell and Lybrook NW USGS Quadrangle topography maps and presents Dugan's proposed Big Band Gas Gathering System along with the nine wells proposed to initially be connected to the system. In addition, Dugan Production's leasehold interest in this area is also presented. This gathering system will consist of approximately 26,700' of buried 2" to 8", 160# working pressure, new polyethylene pipe. We will pressure test all lines to approximately 120 psi and anticipate maintaining a system gathering pressure of ± 30 psi. We will be dehydrating the gas to approximately 7 pounds of water per million cubic feet and using a 3-stage compressor located at the CDP to deliver gas into PNM's pipeline which is currently averaging 350 to 550 psi. Each well will be equipped with continuous recording allocation meters (Barton dry-flow or similar) which will be maintained by Dugan Production in accordance with state and federal regulations (currently Onshore Order No. 5).

The monthly charts from each allocation meter will be integrated by a commercial integration company and the volumes recorded will be used to determine factors for allocating sales volumes, BTU's and revenues from the CDP sales meter to each well.

Attachment No. 2 presents well and lease information for each of the nine wells to be connected to the gathering system.

Attachment No. 3 presents the C-102's for each of the wells along with the dedicated spacing units and associated leases. Attachment No. 4 presents the ownership for each of the nine wells and Attachment No. 5 presents the proposed allocation procedures.

The nine wells to be connected to this gathering system are completed in the Bisti Chacra or the Basin Fruitland Coal pools and the natural gas is believed to be mutually compatible. Since all wells have been shut in much of the time since completion and none have produced other than during completion or short term production testing subsequent to completion, we have very little information about the productivity of each well. Based upon testing to date and our experience with other similar completions in the general area along with the Rusty Chacra gas pool, approximately four miles to the east, it is our belief that these nine wells will not be large volume producers. The nearest established Chacra production is from Dugan Production's Dome Rusty 20-22-7 No. 1 located approximately four miles to the east (P-20-22N-7W). The production history for this well is presented in Attachment No. 6 and during the past 19 years, a total of ± 33 million cubic feet of gas have been produced with initial production averaging approximately 35 mcf/d. The nearest established production from the Fruitland Coal is from Dugan Production's Sapp No. 90 (B-29-24N-8W) approximately 12 miles to the north. The production history for this well is also presented in Attachment No. 6. A total of 133.4 million cubic feet of gas have been produced from this well during the past seven years with initial production averaging approximately 300 mcf/d but declining fairly rapidly to ± 30 mcf/d.

Gas analysis from these two wells are presented in Attachment No. 7 and are believed to be representative of the production from Bisti Chacra and Basin Fruitland Coal in the nine wells to be connected to the Big Band Gathering System.

As previously stated, Dugan Production is the operator and holds 100% of the working interest in all nine wells. Since the spacing units for each of the nine wells encompasses only federal leases, all royalty interest is held by the U.S. government. Dugan Production does have a state lease in Section 36, T-22N, R-8W, however this lease is not included in the spacing units of any of the nine wells to be connected to our gathering system. We are sending notice of our application to all overriding royalty interest owners and Attachment No. 8 is a copy of our letter to them. All interest owner notification was sent by certified return-receipt mail and upon receiving the return receipts, we will provide copies to the NMOCD as evidence of interest owner notification.

In summary, Dugan Production Corp. is installing a new gas gathering system which will gather produced natural gas from nine wells (seven existing plus two proposed) and deliver the gas to a CDP sales meter belonging to PNM. Dugan Production is the operator of all nine wells and will operate the newly installed Big Band Gas Gathering System. This will allow these nine wells, all located on

federal leases, and in an area that has no other options for a pipeline connection, to begin producing. All nine wells are considered to be fairly low volume producers (probably less than 100 mcf per well) however, hopefully will have long producing lives and will develop significant gas reserves. A gathering system compressor will be installed which will allow all wells to benefit from the operation of one compressor and will eliminate the need for individual well head compressors (which may not be economically feasible for some wells). A central compressor as opposed to individual well head compressors will provide an overall more efficient operation, reducing the volumes of compressor fuel needed, plus will reduce compressor noise and exhaust emissions. All gas volumes, BTU's and revenues will be allocated from the CDP to the individual wells using allocation factors determined from gas volumes recorded by allocation meters located at each well and BTU's determined for each well. This should help to insure that the proposed surface commingling and off-lease measurement will not diminish the production value of any one well.

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

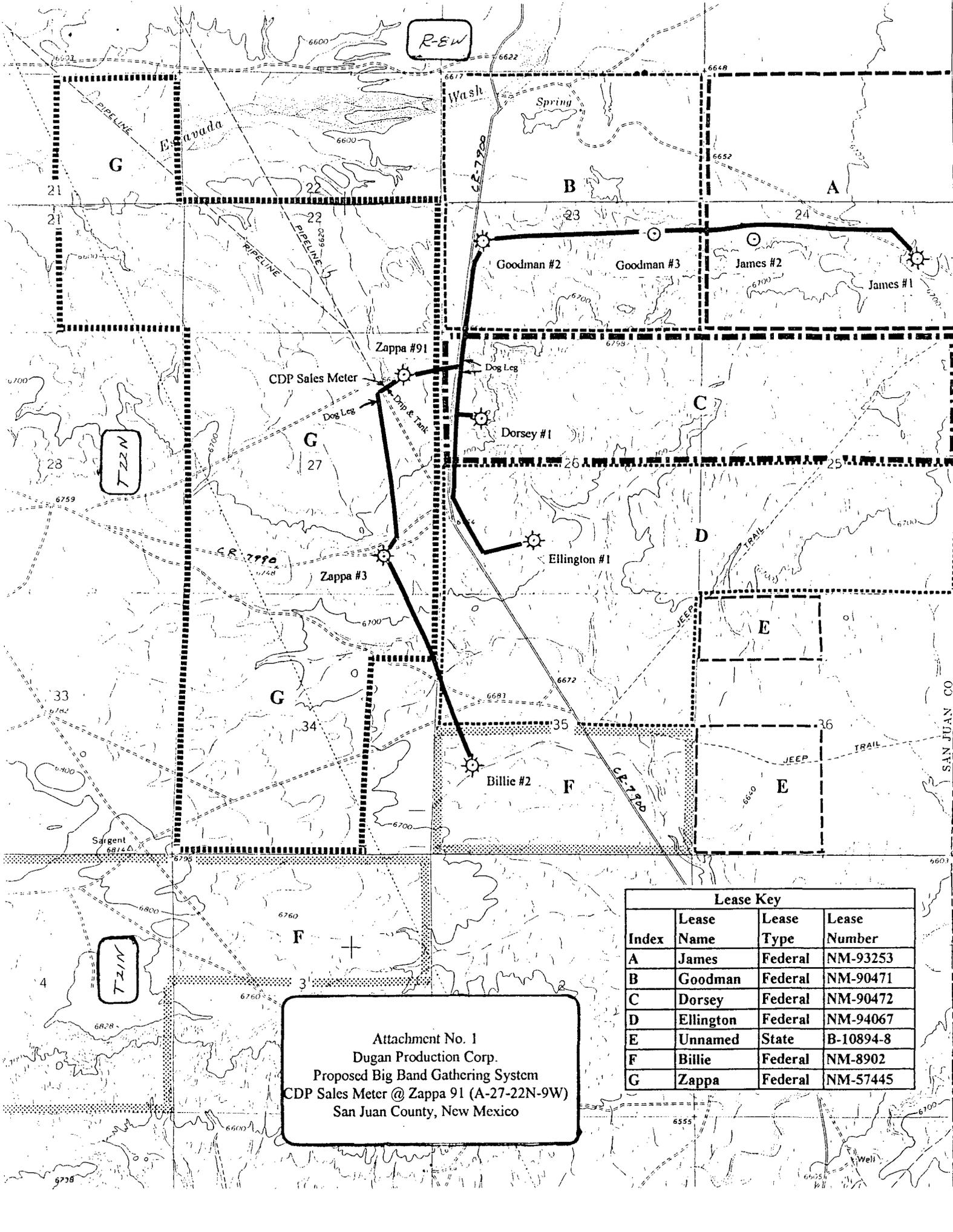
Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

xc: NMOCD-Aztec



Attachment No. 1
 Dugan Production Corp.
 Proposed Big Band Gathering System
 CDP Sales Meter @ Zappa 91 (A-27-22N-9W)
 San Juan County, New Mexico

Lease Key			
Index	Lease Name	Lease Type	Lease Number
A	James	Federal	NM-93253
B	Goodman	Federal	NM-90471
C	Dorsey	Federal	NM-90472
D	Ellington	Federal	NM-94067
E	Unnamed	State	B-10894-8
F	Billie	Federal	NM-8902
G	Zappa	Federal	NM-57445

**ATTACHMENT NO. 2
 DUGAN PRODUCTION CORP.
 PROPOSED BIG BAND GATHERING SYSTEM AND CDP
 SAN JUAN COUNTY, NEW MEXICO**

Well Name	API Number	Well Location		Well Location		CA Number	Pool	Completion Date	Current Prod.		Spacing Unit
		UL-Sec-Twn-Rng	Lease No.	Lse Type	MCFD				BC/D		
WELLS TO BE ADDED TO SYSTEM											
Billie No. 2	23386	L-35-22N-8W	NM-8902	Federal	N/A	Bisti Chacra	1/31/81	117	0	1	SW/4-160A
Dorsey No. 1	29909	E-26-22N-8W	NM-90472	Federal	N/A	Bisti Chacra Ext.	12/1/99	100	0	1	NW/4-160A
Ellington No. 1	29907	N-26-22N-8W	NM-94067	Federal	N/A	Bisti Chacra Ext.	10/6/99	179	0	0	SW/4-160A
Goodman No. 2	29191	L-23-22N-8W	NM-90471	Federal	N/A	Bisti Chacra Ext.	1/4/95	184	0	0	SW/4-160A
Goodman No. 3	pending	I-23-22N-8W	NM-90471	Federal	N/A	Bisti Chacra Ext.	Location	100	0	0	SE/4-160A
James No. 1	29910	I-24-22N-8W	NM-93253	Federal	N/A	Bisti Chacra Ext.	12/31/99	100	0	0	SE/4-160A
James No. 2	pending	L-24-22N-8W	NM-93253	Federal	N/A	Bisti Chacra Ext.	Location	100	0	0	SW/4-160A
Zappa No. 3	29908	P-27-22N-8W	NM-57445	Federal	N/A	Bisti Chacra & Basin FR Coal	12/2/99	60	0	12	SE/4 & S/2
Zappa No. 91	29997	A-27-22N-8W	NM-57445	Federal	N/A	Basin Fruitland Coal	2/2/01	30	0	30	N/2-320A

Notes:

N/A - Not applicable or not needed.

1. Since all wells proposed for this gathering system have been shut in since completion, the production data reflects either the initial potential test or results from short term production testing subsequent to the initial completion testing. Rates for undrilled wells represent estimated initial potential.
2. APD submitted 8/8/01.
3. Zappa No. 3 was completed in the Bisti Chacra 12/2/99 with a SE/4-160A spacing unit. The Basin Fruitland Coal was perforated and fracture stimulated on 1/29/01 in conjunction with the Chacra frac job. The well is currently being production tested with the Bisti Chacra and Basin Fruitland Coal being downhole commingled (DHC-2673). The Fruitland Coal spacing unit comprises the S/2-320A and the unorthodox SE/4 Fruitland Coal completion is authorized by Administrative Order NSL-4418. Commingled gas production is allocated 50% each to the Chacra and Fruitland Coal. Commingled water production is allocated 20% Chacra and 80% Fruitland Coal. We are pumping 125-140 BWPD and gas production has increased from nothing to ±3 mcf/d and appears to be exhibiting performance typical to dewatering Fruitland Coal. We anticipate 30 to 60 mcf/d plus 6 to 12 BWPD as dewatering progresses.
4. Rod pump artificial lift equipment was installed 2/22/01 and a rate of 5 mcf/d plus 30 BWPD was tested on 6/1/01. Based upon testing to date, the performance appears to be typical for dewatering Fruitland Coal. We anticipate ±30 mcf/d as dewatering progresses.

District I
 PO Box 1900, Hobbs, NM 88241-1900
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brans Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

Attachment
 No. 3
 Pg 1 of 10

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 23386		2 Pool Code -96031 96166		3 Pool Name Bisti Chacra	
4 Property Code		5 Property Name Billie			6 Well Number 2
7 OGRID No. 006515		8 Operator Name Dugan Production Corp.			9 Elevation 6663' GL

10 Surface Location

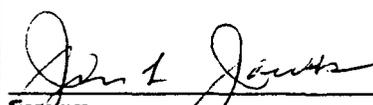
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
L	35	22N	8W		1850	South	790	West	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 160	13 Joint or Infill	14 Consolidation Code	15 Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature Jim L. Jacobs Printed Name Vice-President Title 4/6/94 Date
		Sec. 35		18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. 11/10/80 Date of Survey Signature and Seal of Professional Surveyor: Original surveyed by Edgar L. Risenhoover Certificate Number 5979
	Dugan Prod. NM 8902			
	790'			
			1850'	

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

State of New Mexico
 Energy, Minerals & Natural Resources Department

Attachment
 No. 3
 Pg 2 of 10

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30-045-29909		2 Pool Code 96166		3 Pool Name W/C Chacra Bisti Chacra	
4 Property Code		5 Property Name Dorsey			6 Well Number 1
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6680' Estimated

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	26	22N	8W		1720	North	790	West	San Juan

11 Bottom Hole Location If Different From Surface

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

11 Dedicated Acres 160	12 Joint or Infill	13 Consolidation Code	14 Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16 	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i> Signature Sherman E. Dugan Printed Name Vice-President Title 8/29/94 Date
	18 SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> August 3, 1994 Date of Survey Signature and Title of Surveyor: Certificate Number

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

State of New Mexico
 Energy, Minerals & Natural Resources Department

Attachment
 No. 5
 Pg 5 of 10

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30 045 29907		Pool Code 96166	Pool Name Bisti Chacra Ext.
Property Code	Property Name Ellington		Well Number 1
OGRID No. 006515	Operator Name Dugan Production Corporation		Elevation 6722'

¹⁰ Surface Location

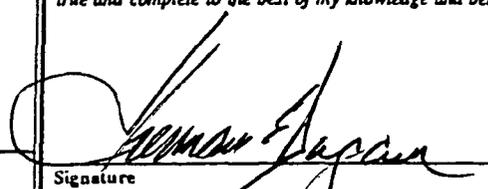
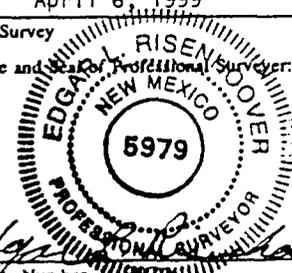
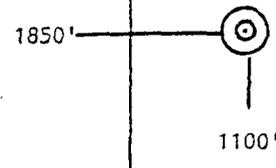
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
N	26	22N	8W	N	1100	South	1850	West	San Juan

¹¹ Bottom Hole Location If Different From Surface

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

¹² Dedicated Acres 160	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature Sherman E. Dugan Printed Name Vice-President Title 4-19-99 Date
		Section 26		¹⁸ SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. April 6, 1999 Date of Survey Signature and Seal of Professional Surveyor:  Certificate Number
	Dugan Prod. NM 94067			
				

*Attachment
No. 3
Pg 2 of 10*

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

State of New Mexico
Energy, Minerals & Natural Resources Department

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

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Revised February 21, 1994
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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30-045-29191		1 Pool Code 96166		1 Pool Name W/C Bisti Chacra E & F.	
4 Property Code		4 Property Name Goodman			4 Well Number 2
7 OGRID No. 006515		7 Operator Name Dugan Production Corporation			7 Elevation 6632 Estimated

10 Surface Location

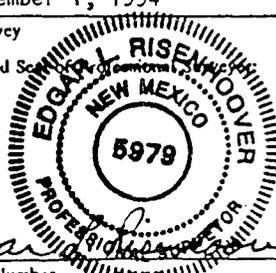
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	23	22N	8W		1850	South	810	West	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 160	13 Joint or Infill	14 Consolidation Code	15 Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief <i>Sherman E. Dugan</i> Signature Sherman E. Dugan Printed Name Vice-President Title 9/12/94 Date
	Section 23			18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. September 1, 1994 Date of Survey Signature and Seal  Edgar J. Risenhoover Certificate Number
	Dugan Prod. NM 90471			
	810'			
	1850'			

District I,
PO Box 1960, Hobbs, NM 88241-1960

District II,
PO Drawer 00, Artesia, NM 88211-0719

District III,
1000 Rio Brazos Rd., Aztec, NM 87410

District IV,
PO Box 2068, Santa Fe, NM 87504-2068

State of New Mexico
Energy, Minerals & Natural Resources Department

Attachment
No. 3
Pg 5 of 10

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30 045 <i>Pending</i>		*Pool Code 96166	*Pool Name BISTI-CHACRA
*Property Code	*Property Name GOODMAN		*Well Number 3
*CGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6670'

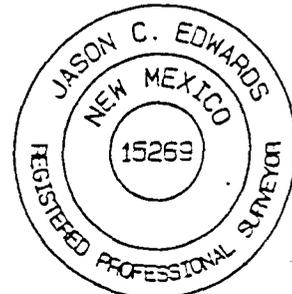
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County
I	23	22N	8W		1700	SOUTH	1030	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County
					¹² Joint or Infill	¹⁴ Consolidation Code	¹³ Order No.		
¹² Dedicated Acres 160 ACRES - (SE/4)									

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>5313.00'</p> <p>5295.50'</p> <p>23</p> <p>Dugan Prod.</p> <p>NM - 90471</p> <p>1030'</p> <p>1700'</p> <p>5334.78'</p> <p>5229.13'</p>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>Kurt Fagrelius</i> Signature</p> <p>Kurt Fagrelius Printed Name</p> <p>Geologist Title</p> <p>August 8, 2001 Date</p>
	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>Date of Survey: JULY 15, 2001</p> <p>Signature and Seal of Professional Surveyor</p> <div style="text-align: center;">  </div> <p><i>JASON C. EDWARDS</i> Certificate Number 15259</p>

District I
 PO Box 1980, Hobbs, NM 88241-1980
 District II
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 1000 Rio Brazos Rd., Aztec, NM 87410
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State of New Mexico
 Energy, Minerals & Natural Resources Department

*A Handbook
 No. 3
 PG 6 of 10*

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 29910		2 Pool Code 96166		3 Pool Name Bisti Chacra Ext.	
4 Property Code		5 Property Name James			6 Well Number 1
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6705'

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
I	24	22N	8W	1	1475	South	878	East	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 160	13 Joint or Infill	14 Consolidation Code	15 Order No.
---------------------------	--------------------	-----------------------	--------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				<p>17 OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i></p> <p><i>Sherman E. Dugan</i> Signature Sherman E. Dugan Printed Name Vice-President Title 4/19/99 Date</p>
		Section 24		
			<p>Dugan Prod. NM 93253</p> <p>878'</p> <p>1475'</p>	<p>18 SURVEYOR CERTIFICATION</p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i></p> <p>April 6, 1999 Date of Survey Signature and Seal of Surveyor</p> <p><i>Edgar Bisenhaver</i> Signature EDGAR BISENHAVER NEW MEXICO 5979 PROFESSIONAL SURVEYOR Certificate Number</p>

District I.
 PO Box 1980, Hobbs, NM 88241-1980

District II
 PO Drawer 00, Artesia, NM 88211-0719

District III
 1000 Rio Brazos Rd., Aztec, NM 87410

District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

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

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

Attachment
No. 3
Pg 7 of 10
 AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30 045 <i>Pending</i>		*Pool Code 96166	*Pool Name BISTI-CHACRA
*Property Code	*Property Name JAMES		*Well Number 2
*CGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6688'

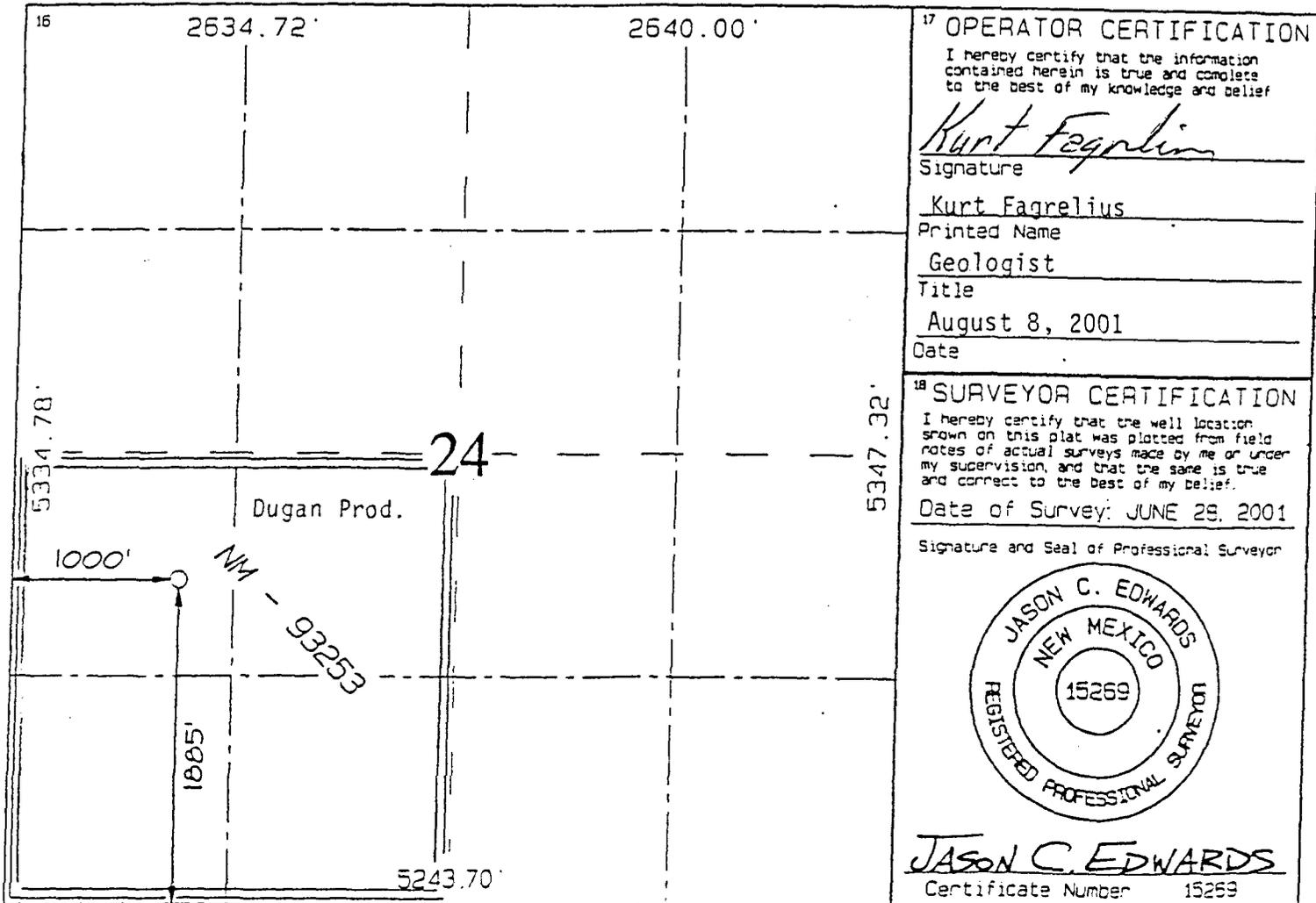
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County
L	24	22N	8W		1885	SOUTH	1000	WEST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County
*Dedicated Acres 160 ACRES - (SW/4)					*Joint or Infill	*Consolidation Code	*Order No.		

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



¹⁷ OPERATOR CERTIFICATION

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

Kurt Fagrelius
 Signature

Kurt Fagrelius
 Printed Name

Geologist
 Title

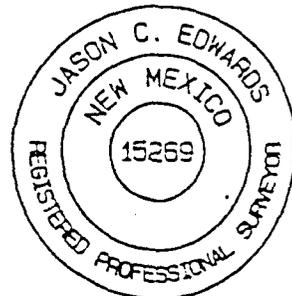
August 8, 2001
 Date

¹⁸ SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey: JUNE 29, 2001

Signature and Seal of Professional Surveyor



JASON C. EDWARDS
 Certificate Number 15269

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

State of New Mexico
 Energy, Minerals & Natural Resources Department

Attachment
 No. 3
 Pg 8 of 10

Form C-102
 Revised February 21, 1994
 Instructions on back
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OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 29908		2 Pool Code 96166		3 Pool Name Bisti Chacra Ext.	
4 Property Code 013361		5 Property Name Zappa			6 Well Number 3
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6738'

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	27	22N	8W	P	790	South	1190	East	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 160	13 Joint or Infill	14 Consolidation Code	15 Order No. DHC-2673
---------------------------	--------------------	-----------------------	--------------------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				<p>17 OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>Sherman E. Dugan</i></p> <p>Signature Sherman E. Dugan Printed Name Vice-President Title 4/19/99 Date</p>
				<p>18 SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>April 6, 1999 Date of Survey</p> <p>Signature and Seal of Professional Surveyor:  <i>Edgar L. Risenhover</i> Certificate Number 5979</p>
			<p>Dugan Prod. NM 57445</p> <p>1190' 790'</p>	

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

State of New Mexico
 Energy, Minerals & Natural Resources Department

*Attachment
 No. 3
 pg 10 of 10*

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 29997		2 Pool Code 71629		3 Pool Name Basin Fruitland Coal	
4 Property Code 013361		5 Property Name Zappa			6 Well Number 91
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6648'

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
A	27	22N	8W	A	790	North	790	East	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code	15 Order No.
---------------------------	--------------------	-----------------------	--------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16 Dugan Production NM 57445 Section 27		17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i> Signature Sherman E. Dugan Printed Name Vice-President Title Date
		18 SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> September 2 Date of Survey Signature and Seal 5979 Certificate Number

ATTACHMENT 4-PAGE 2 OF 7
Dugan Production Corp.
Billie No. 2
Bisti Chacra Pool
Well Location: NWSW 35, T-22N, R-8W
Spacing Unit: SW/4 (160.0A)
San Juan County, New Mexico

<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	81.250000
<u>Royalty</u>		
USA - Bureau of Land Management 1235 La Plata Hwy. Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u>		
G. J. Fellis & Irene R. Fellis P. O. Box 10541 Albuquerque, NM 87184-0541	-0-	3.125000
Billie Robinson P. O. Box 1281 Santa Fe, NM 87501-1281	-0-	3.125000
TOTAL WELL	100.000000	100.000000

ATTACHMENT 4-PAGE 3 OF 7
Dugan Production Corp.
Dorsey No. 1
Bisti Chacra Pool
Well Location: SWNW 26, T-22N, R-8W
Spacing Unit: NW/4 (160.0A)
San Juan County, New Mexico

<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	87.500000
 <u>Royalty</u>		
USA - Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
 TOTAL WELL	<u>100.000000</u>	<u>100.000000</u>

ATTACHMENT 4-PAGE 4 OF 7
Dugan Production Corp.
Ellington No. 1
Bisti Chacra Pool
Well Location: SESW 26-T-22N, R-8W
Spacing Unit: SW/4 160.0A
San Juan County, New Mexico

INTEREST OWNER	INTEREST%	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u> Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420	100.000000	80.000000
<u>Royalty</u> USA-Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
<u>Overriding Royalty Interest</u> Christine V. Grimm P. O. Box 1453 Roswell, NM 88202-1453	-0-	1.104167
F. Andrew Grooms P. O. Box 2328 Roswell, NM 88202-2328	-0-	3.750000
Kellie M. Kross P. O. Box 1453 Roswell, NM 88202-1453	-0-	1.104167
David T. Sorenson P. O. Box 1453 Roswell, NM 88202-1453	-0-	0.437500
Matthew N. Sorenson P. O. Box 1453 Roswell, NM 88202-1453	-0-	1.104166
TOTAL WELL	100.000000	100.000000

ATTACHMENT 4-PAGE 5 OF 7
Dugan Production Corp.

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Goodman No. 2	Bisti Chacra	NWSW 23, T-22N, R-8W	SW/4-160A
Goodman No. 3	Bisti Chacra	NESE 23, T-22N, R-8W	SE/4-160A

<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	87.500000
<u>Royalty</u> USA - Bureau of Land Management 1235 La Plata Hwy. Farmington, NM 87401	-0-	12.500000
TOTAL WELL	<u>100.000000</u>	<u>100.000000</u>

ATTACHMENT 4-PAGE 6 OF 7
Dugan Production Corp.

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
James No. 1	Bisti Chacra	NESE 24, T-22N, R-8W	SE/4-160A
James No. 2	Bisti Chacra	NWSW 24, T-22N, R-8W	SW/4-160A

<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	87.500000
<u>Royalty</u> USA - Bureau of Land Management 1235 La Plata Hwy. Farmington, NM 87401	-0-	12.500000
TOTAL WELL	<u>100.000000</u>	<u>100.000000</u>

**ATTACHMENT 4 - PAGE 7 OF 7
Dugan Production Corp.**

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Zappa No. 3	Basin Fruitland Coal	SESE 27, T-22N, R-8W	S/2-320A
“ ”	Bisti Chacra	“ ”	SE/4-160A
Zappa No. 91	Basin Fruitland Coal	NENE 27, T-22N, R-8W	N/2-320A

INTEREST OWNER

INTEREST

	<u>Gross</u>	<u>Net</u>
--	--------------	------------

Working Interest

Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420	100.000000	80.500000
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Royalty Interest

USA - Bureau of Land Management 1235 La Plata Highway Farmington, NM 87401	-0-	12.500000
--	-----	-----------

Overriding Royalty

Charles Breck Adams & Susan J. Adams 979 Windflower Way San Diego, CA 92106	-0-	1.000000
---	-----	----------

Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420	-0-	4.000000
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Unknown	-0-	2.000000
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TOTAL	<u>100.000000</u>	<u>100.000000</u>
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ATTACHMENT No. 5
Proposed Allocation Procedures
Dugan Production Corp.'s
Proposed Big Band Gas Gathering System
CDP Gas Sales Meter: NENE 27-22N-8W (New PNM Meter)
San Juan County, New Mexico

Base Data:

W = Gas Volume (MCF) from allocation meters at individual wells 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

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.

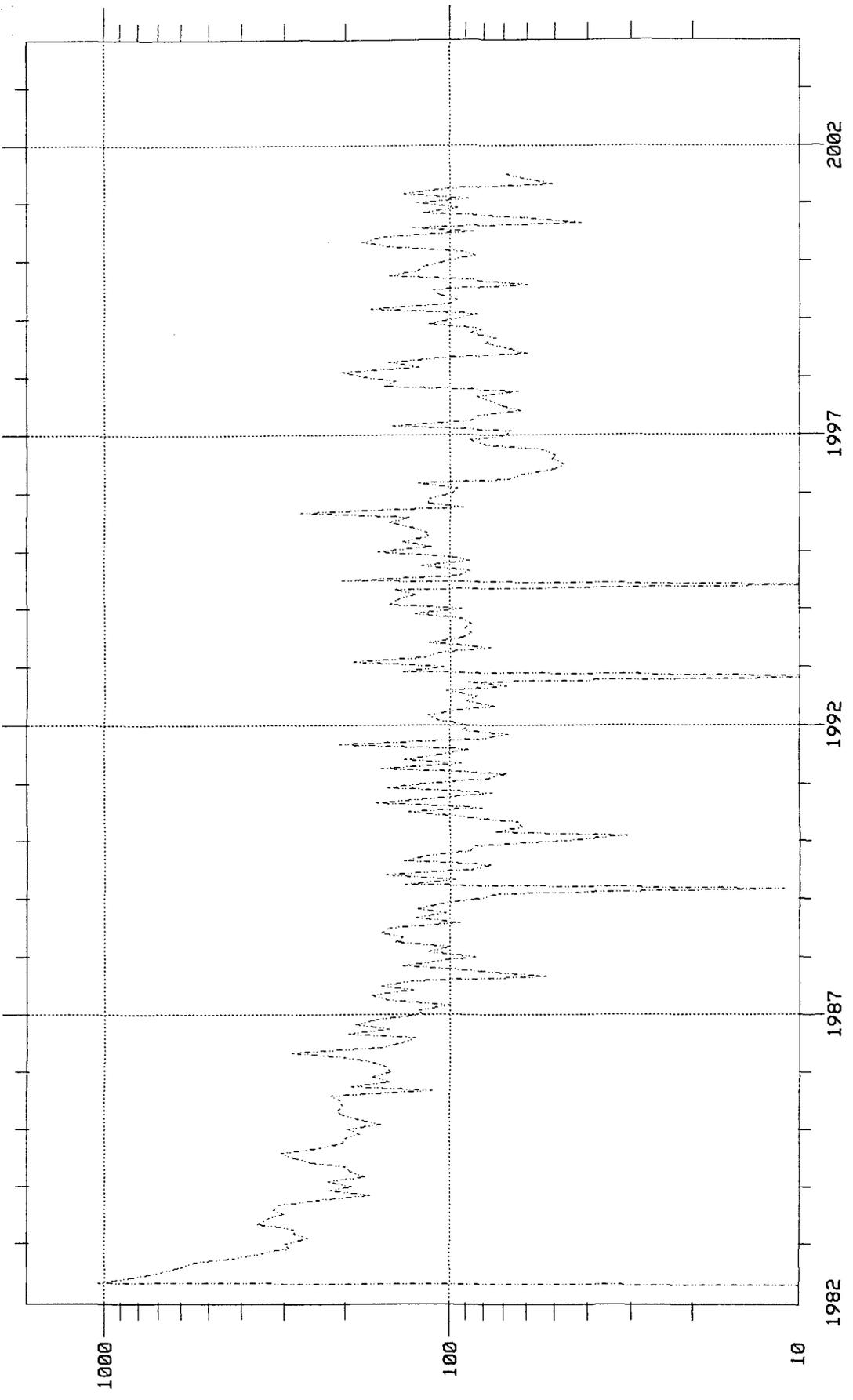
E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering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

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 On shore Order No. 5).

Production
 Oil ———
 Gas - - - -
 Water ·····

*Attachment
 No. 6
 PP10f2*

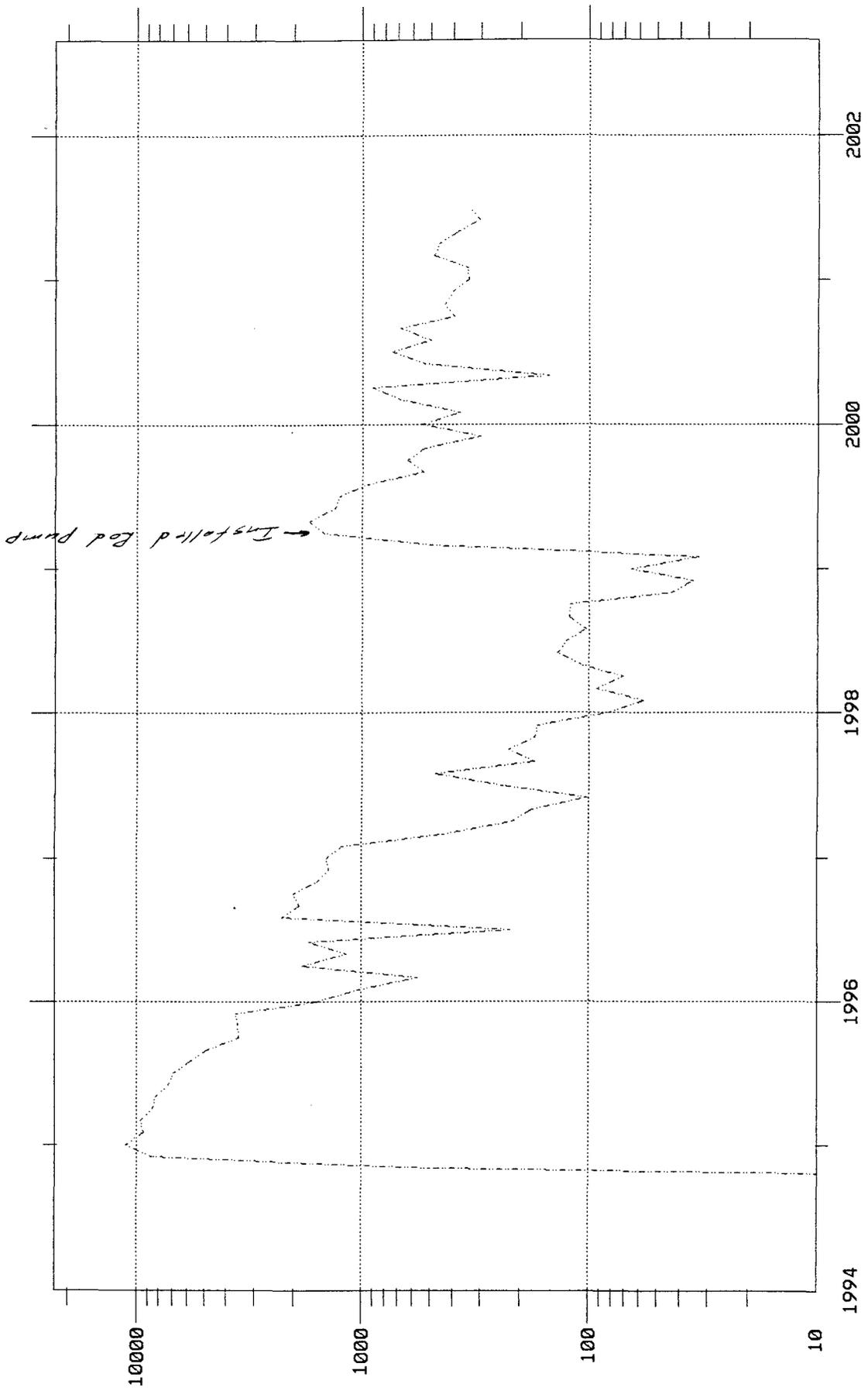
DUGAN PRODUCTION CORP.
 Gas Production Rate vs Time
 Mcf/Mo vs Months
 DOME RUSTY 20-22-7 No. 1 (P-20-22N-7W)
 RUSTY CHACRA



DUGAN PRODUCTION CORP.
 Gas Production Rate vs Time
 Mcf/Mo vs Months
 SAPP No. 90 (B-29-24N-8W)
 BASIN FRUITLAND COAL

*Attachment
 No. 6
 P52 of 2*

Production
 Oil _____
 Gas _____
 Water _____





2030 AFTON PLACE
 FARMINGTON, N.M. 87401
 (505) 325-6622

ANALYSIS NO. DU210043
 CUST. NO. 23000 - 10630

WELL/LEASE INFORMATION

*Attachment
 No. 7
 Pg 1 of 2*

CUSTOMER NAME	DUGAN PRODUCTION CORP.	SOURCE	N/A
WELL NAME	DOMO RUSTY 20-22-7 #1	PRESSURE	40 PSIG
COUNTY/ STATE	SANDOVAL NM	SAMPLE TEMP	DEG.F
LOCATION	P20-22N-07W	WELL FLOWING	Y
FIELD		DATE SAMPLED	3/27/01
FORMATION	RUSTY CHACRA	SAMPLED BY	J. DAVIS
CUST.STN.NO.	202A252607	FOREMAN/ENGR.	TOM BLAIR

REMARKS

ANALYSIS

COMPONENT	MOLE %	GPM**	B.T.U.*	SP.GR *
NITROGEN	0.933	0.0000	0.00	0.0090
CO2	0.108	0.0000	0.00	0.0016
METHANE	89.307	0.0000	904.05	0.4947
ETHANE	5.922	1.5841	105.04	0.0615
PROPANE	2.335	0.6435	58.89	0.0356
I-BUTANE	0.387	0.1266	12.61	0.0078
N-BUTANE	0.481	0.1517	15.73	0.0097
I-PENTANE	0.162	0.0593	6.50	0.0040
N-PENTANE	0.100	0.0362	4.02	0.0025
HEXANE PLUS	0.265	0.1156	13.62	0.0085
TOTAL	100.000	2.7170	1,120.46	0.6349

* @ 14.730 PSIA DRY & UNCORRECTED FOR COMPRESSIBILITY

** @ 14.730 PSIA & 60 DEG. F.

COMPRESSIBILITY FACTOR (1/Z) 1.0027
 BTU/CU.FT (DRY) CORRECTED FOR (1/Z) 1,123.6
 BTU/CU.FT (WET) CORRECTED FOR (1/Z) 1,104.1
 REAL SPECIFIC GRAVITY 0.6367

ANALYSIS RUN AT 14.730 PSIA & 60 DEGREES F

DRY BTU @ 14.650 1,117.5
 DRY BTU @ 14.696 1,121.0
 DRY BTU @ 14.730 1,123.6
 DRY BTU @ 15.025 1,146.1

CYLINDER # K013
 CYLINDER PRESSURE 48 PSIG
 DATE RUN 4/5/01
 ANALYSIS RUN BY DAWN BLASSINGAME



2030 AFTON PLACE
 FARMINGTON, N.M. 87401
 (505) 325-6622

ANALYSIS NO. DUG00047
 CUST. NO. 23000- 10055

WELL/LEASE INFORMATION

CUSTOMER NAME	DUGAN PRODUCTION CORP.	SOURCE	METER RUN
WELL NAME	SAPP 90	PRESSURE	45 PSIG
COUNTY/STATE	SAN JUAN NM	SAMPLE TEMP	DEG.F
LOCATION	29-24N-08W	WELL FLOWING	Y
FIELD		DATE SAMPLED	7/24/00
FORMATION	FRUITLAND COAL	SAMPLED BY	J. DAVIS
CUST.STN.NO.	202E-4314	FOREMAN/ENGR.	TOM BLAIR

*Attachment
 No. 7
 pg 2 of 2*

REMARKS

ANALYSIS

COMPONENT	MOLE %	GPM**	B.T.U.*	SP.GR *
NITROGEN	1.588	0.0000	0.00	0.0154
CO2	0.550	0.0000	0.00	0.0084
METHANE	92.453	0.0000	935.90	0.5121
ETHANE	3.340	0.8934	59.24	0.0347
PROPANE	1.023	0.2819	25.80	0.0156
I-BUTANE	0.296	0.0968	9.65	0.0059
N-BUTANE	0.282	0.0889	9.22	0.0057
I-PENTANE	0.132	0.0483	5.29	0.0033
N-PENTANE	0.077	0.0279	3.09	0.0019
HEXANE PLUS	0.259	0.1130	13.32	0.0083
TOTAL	100.000	1.5503	1,061.51	0.6112

* @ 14.730 PSIA DRY & UNCORRECTED FOR COMPRESSIBILITY

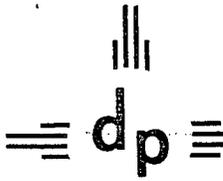
** @ 14.730 PSIA & 60 DEG. F.

COMPRESSIBILITY FACTOR	(1/Z)	1.0024
BTU/CU.FT (DRY) CORRECTED FOR	(1/Z)	1,064.2
BTU/CU.FT (WET) CORRECTED FOR	(1/Z)	1,045.7
REAL SPECIFIC GRAVITY		0.6129

ANALYSIS RUN AT 14.730 PSIA & 60 DEGREES F

DRY BTU @ 14.650 1,058.4
 DRY BTU @ 14.696 1,061.8
 DRY BTU @ 14.730 1,064.2
 DRY BTU @ 15.025 1,085.5

CYLINDER # K098
 CYLINDER PRESSURE 30 PSIG
 DATE RUN 7/31/00
 ANALYSIS RUN BY DAWN OLDS



dugan production corp.

September 6, 2001

Attachment
No. 8
Pg 1 of 3

To: Overriding Royalty Interest Owners (Address list on Attachment No. 1)
Application to connect nine wells
Dugan Production Corp.'s
Proposed Big Band Gathering System
San Juan County, New Mexico

Dear Overriding Royalty Interest Owner:

Dugan Production Corp. has submitted an application to connect nine wells (seven existing and two to be drilled) to our Big Band Gas Gathering system which is currently being constructed. Our application requests approvals from the Bureau of Land Management (BLM) and the New Mexico Oil Conservation Division (NMOCD) to surface commingle gas produced from each well and to deliver the gas in Dugan's Big Band Gas Gathering System to a central delivery sales meter (CDP) located on PNM's pipeline in the NENE of Section 27, T-22N, R-8W of San Juan County. Each well will be equipped with a standard, continuous recording gas meter which will be used to allocate gas sales volumes, BTU's and revenues from the CDP sales meter to each individual well. This should insure that the value of production from each well will be preserved for all interest owners.

As an interest owner in one or more of these wells, you are entitled to receive notice of our application and should you desire to review the application, we will be happy to provide you with a copy. The wells in which you have an interest are presented on Attachment No. 1 and Attachment No. 2 presents basic well and lease information for each of the nine wells.

All wells to be added to the gathering system are located some distance from existing gas pipelines and do not qualify for individual well head pipeline connections. It is our belief that this proposed gathering system is the only option available to place these wells on production. A benefit to the operation of a gas gathering system is that a central compressor can be used for all wells which will eliminate the need for compressors at each well (which might not be economically feasible for some wells). The operation of a central compressor, as opposed to individual well head compressors, will be more efficient, will use less compressor fuel (which will increase the volumes available for sale), and will result in reduced exhaust and noise emissions.

Should you have any questions or desire to receive a copy of our application, please let me know. Should you have an objection to our application, you should contact the New Mexico Oil Conservation Division by mail at 1220 South St. Francis Drive, Santa Fe, NM 87505, or by phone at (505) 476-3440 within 20 days from the date of this letter. We would appreciate receiving a copy of any objection filed.

Sincerely,

John D. Roe

John D. Roe
Engineering Manager

JDR/tmf

attachments

C:\TF\Johnroe\BigBand\ltrorriroyown.wpd

Interest Owners Address List

(a = Billie No. 2; b = Dorsey No. 1; c = Ellington No. 1; d = Goodman No. 2; e = Goodman No. 3; f = James No. 1;
g = James No. 2; h = Zappa No. 3; i = Zappa No. #91)

Attachment No. B
Pg 2 of 3

Working Interest Owners

Dugan Production Corp. (a,b,c,d,e,f,g,h,i)
P. O. Box 420
Farmington, NM 87499-0420

Royalty Interest Owners

USA - Bureau of Land Management (a,b,c,d,e,f,g,h,i)
1235 LaPlata Hwy
Farmington, NM 87401

Overriding Royalty Interest Owners

Charles Breck Adams & Susan J. Adams (h,i)
979 Windflower Way
San Diego, CA 92106

Dugan Production Corp. (h,i)
P. O. Box 420
Farmington, NM 87499-0420

G. J. Fellis & Irene R. Fellis (a)
P. O. Box 10541
Albuquerque, NM 87184-0541

Christine V. Grimm (c)
P. O. Box 1453
Roswell, NM 88202-1453

F. Andrew Grooms (c)
P. O. Box 2328
Roswell, NM 88202-2328

Kellie M. Kross (c)
P. O. Box 1453
Roswell, NM 88202-1453

Billie Robinson (a)
P. O. Box 1281
Santa Fe, NM 87501-1281

David T. Sorenson (c)
P. O. Box 1453
Roswell, NM 88202-1453

Matthew N. Sorenson (c)
P. O. Box 1453
Roswell, NM 88202-1453

**ATTACHMENT NO. 2
DUGAN PRODUCTION CORP.
PROPOSED BIG BAND GATHERING SYSTEM AND CDP
SAN JUAN COUNTY, NEW MEXICO**

Well Name	API Number 30-045-	Well Location		Well Location		CA Number	Pool	Completion Date	Current Prod. ①			Spacing Unit
		UL-Sec-Twn-Rng	Lease No	Lse Type	MCFD				BC/D	BW/D		
WELLS TO BE ADDED TO SYSTEM												
Billie No. 2	23386	L-35-22N-8W	NM-8902	Federal	N/A	Bisti Chacra	1/31/81	117	0	1	SW/4-160A	
Dorsey No. 1	29909	E-26-22N-8W	NM-90472	Federal	N/A	Bisti Chacra Ext.	12/1/99	100	0	1	NW/4-160A	
Ellington No. 1	29907	N-26-22N-8W	NM-94067	Federal	N/A	Bisti Chacra Ext.	10/6/99	179	0	0	SW/4-160A	
Goodman No. 2	29191	L-23-22N-8W	NM-90471	Federal	N/A	Bisti Chacra Ext.	1/4/95	184	0	0	SW/4-160A	
Goodman No. 3	pending	I-23-22N-8W	NM-90471	Federal	N/A	Bisti Chacra Ext.	Location	100	0	0	SE/4-160A	
James No. 1	29910	I-24-22N-8W	NM-93253	Federal	N/A	Bisti Chacra Ext.	12/31/99	100	0	0	SE/4-160A	
James No. 2	pending	L-24-22N-8W	NM-93253	Federal	N/A	Bisti Chacra Ext.	Location	100	0	0	SW/4-160A	
Zappa No. 3	29908	P-27-22N-8W	NM-57445	Federal	N/A	Bisti Chacra & Basin FR Coal	12/2/99	60	0	12	SE/4 & S/2	
Zappa No. 91	29997	A-27-22N-8W	NM-57445	Federal	N/A	Basin Fruitland Coal	2/2/01	30	0	30	N/2-320A	

Notes:

N/A - Not applicable or not needed.

1. Since all wells proposed for this gathering system have been shut in since completion, the production data reflects either the initial potential test or results from short term production testing subsequent to the initial completion testing. Rates for undrilled wells represent estimated initial potential.
2. APD submitted 8/8/01.
3. Zappa No. 3 was completed in the Bisti Chacra 12/2/99 with a SE/4-160A spacing unit. The Basin Fruitland Coal was perforated and fracture stimulated on 1/29/01 in conjunction with the Chacra frac job. The well is currently being production tested with the Bisti Chacra and Basin Fruitland Coal being downhole commingled (DHC-2673). The Fruitland Coal spacing unit comprises the S/2-320A and the unorthodox SE/4 Fruitland Coal completion is authorized by Administrative Order NSL-4418. Commingled gas production is allocated 50% each to the Chacra and Fruitland Coal. Commingled water production is allocated 20% Chacra and 80% Fruitland Coal. We are pumping 125-140 BWPD and gas production has increased from nothing to ±3 mcf and appears to be exhibiting performance typical to dewatering Fruitland Coal. We anticipate 30 to 60 mcf plus 6 to 12 BWPD as dewatering progresses.
4. Rod pump artificial lift equipment was installed 2/22/01 and a rate of 5 mcf plus 30 BWPD was tested on 6/11/01. Based upon testing to date, the performance appears to be typical for dewatering Fruitland Coal. We anticipate ±30 mcf as dewatering progresses.

*Attachment
No. B
Pg 3 of 3*

September 6, 2001

Ms. Lori Wrottenbery
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Steve Henke
Bureau of Land Management-FFO
1235 La Plata Highway
Farmington, NM 87401

Re: Proposed surface commingling & off-lease measurement
Nine wells operated by Dugan Production Corp.
Dugan Production's Proposed Big Band Gas Gathering System
San Juan County, New Mexico

Dear Ms. Wrottenbery and Mr. Henke:

We are writing to request your approvals for the surface commingling and off-lease measurement of natural gas produced from nine wells (seven existing plus two proposed locations) operated by Dugan Production Corp. and completed in the Bisti Chacra and/or Basin Fruitland Coal pools. These nine wells are located upon six federal leases (NM-8902, NM-57445, NM-90471, NM-90472, NM-93253 & NM-94067) and will be connected to a new gas gathering system currently being installed by Dugan Production Corp. This new gathering system will be known as the Big Band Gas Gathering System and will deliver natural gas to a central delivery sales meter (CDP) operated and maintained by PNM on their main line in the NENE of Section 27, T-22N, R-8W. Only natural gas will be surface commingled. All liquids will be separated, stored and disposed of at each individual well. We do not anticipate any liquid hydrocarbon production. All leasehold interest is federal and is held 100% by Dugan Production.

Attachment No. 1 was reproduced from portions of the Fire Rockwell and Lybrook NW USGS Quadrangle topography maps and presents Dugan's proposed Big Band Gas Gathering System along with the nine wells proposed to initially be connected to the system. In addition, Dugan Production's leasehold interest in this area is also presented. This gathering system will consist of approximately 26,700' of buried 2" to 8", 160# working pressure, new polyethylene pipe. We will pressure test all lines to approximately 120 psi and anticipate maintaining a system gathering pressure of ± 30 psi. We will be dehydrating the gas to approximately 7 pounds of water per million cubic feet and using a 3-stage compressor located at the CDP to deliver gas into PNM's pipeline which is currently averaging 350 to 550 psi. Each well will be equipped with continuous recording allocation meters (Barton dry-flow or similar) which will be maintained by Dugan Production in accordance with state and federal regulations (currently Onshore Order No. 5).

The monthly charts from each allocation meter will be integrated by a commercial integration company and the volumes recorded will be used to determine factors for allocating sales volumes, BTU's and revenues from the CDP sales meter to each well.

Attachment No. 2 presents well and lease information for each of the nine wells to be connected to the gathering system.

Attachment No. 3 presents the C-102's for each of the wells along with the dedicated spacing units and associated leases. Attachment No. 4 presents the ownership for each of the nine wells and Attachment No. 5 presents the proposed allocation procedures.

The nine wells to be connected to this gathering system are completed in the Bisti Chacra or the Basin Fruitland Coal pools and the natural gas is believed to be mutually compatible. Since all wells have been shut in much of the time since completion and none have produced other than during completion or short term production testing subsequent to completion, we have very little information about the productivity of each well. Based upon testing to date and our experience with other similar completions in the general area along with the Rusty Chacra gas pool, approximately four miles to the east, it is our belief that these nine wells will not be large volume producers. The nearest established Chacra production is from Dugan Production's Dome Rusty 20-22-7 No. 1 located approximately four miles to the east (P-20-22N-7W). The production history for this well is presented in Attachment No. 6 and during the past 19 years, a total of ± 33 million cubic feet of gas have been produced with initial production averaging approximately 35 mcf/d. The nearest established production from the Fruitland Coal is from Dugan Production's Sapp No. 90 (B-29-24N-8W) approximately 12 miles to the north. The production history for this well is also presented in Attachment No. 6. A total of 133.4 million cubic feet of gas have been produced from this well during the past seven years with initial production averaging approximately 300 mcf/d but declining fairly rapidly to ± 30 mcf/d.

Gas analysis from these two wells are presented in Attachment No. 7 and are believed to be representative of the production from Bisti Chacra and Basin Fruitland Coal in the nine wells to be connected to the Big Band Gathering System.

As previously stated, Dugan Production is the operator and holds 100% of the working interest in all nine wells. Since the spacing units for each of the nine wells encompasses only federal leases, all royalty interest is held by the U.S. government. Dugan Production does have a state lease in Section 36, T-22N, R-8W, however this lease is not included in the spacing units of any of the nine wells to be connected to our gathering system. We are sending notice of our application to all overriding royalty interest owners and Attachment No. 8 is a copy of our letter to them. All interest owner notification was sent by certified return-receipt mail and upon receiving the return receipts, we will provide copies to the NMOCD as evidence of interest owner notification.

In summary, Dugan Production Corp. is installing a new gas gathering system which will gather produced natural gas from nine wells (seven existing plus two proposed) and deliver the gas to a CDP sales meter belonging to PNM. Dugan Production is the operator of all nine wells and will operate the newly installed Big Band Gas Gathering System. This will allow these nine wells, all located on

federal leases, and in an area that has no other options for a pipeline connection, to begin producing. All nine wells are considered to be fairly low volume producers (probably less than 100 mcf per well) however, hopefully will have long producing lives and will develop significant gas reserves. A gathering system compressor will be installed which will allow all wells to benefit from the operation of one compressor and will eliminate the need for individual well head compressors (which may not be economically feasible for some wells). A central compressor as opposed to individual well head compressors will provide an overall more efficient operation, reducing the volumes of compressor fuel needed, plus will reduce compressor noise and exhaust emissions. All gas volumes, BTU's and revenues will be allocated from the CDP to the individual wells using allocation factors determined from gas volumes recorded by allocation meters located at each well and BTU's determined for each well. This should help to insure that the proposed surface commingling and off-lease measurement will not diminish the production value of any one well. ~~The operation of this gathering system is the only economically viable option available to place these nine wells on production~~

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

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

xc: NMOCD-Aztec