



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

December 14, 2004

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

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

Attention: **Kurt H. Fagrelus**
Geologist

Case 13399

Re: *Administrative application for an exception to the well location provisions of the Basin-Fruitland Coal (Gas) Pool (71629) for Dugan Production Corporation's proposed Federal "I" Com. Well No. 103 (API No. 30-045-32587) to be drilled at an unorthodox coal gas well location within the W/2 equivalent of Section 12, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, being a standard 320-acre, more or less, stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool, 1775 feet from the North line and 10 feet from the West line (Unit E) of Section 12 (administrative application reference No. pMES0-433151972).*

Dear Mr. Fagrelus:

I have reviewed your application and due to the extreme nature of the proposed unorthodox location and being so close to Dugan's Basin-Fruitland coal gas production in the E/2 equivalent of offsetting Section 11, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico (King Com. Well No. 90 - API No. 30-045-29883), which appears to have different royalty interest owners than the proposed Federal "I" Com. Well No. 3. A well that is only 10 feet away from a spacing unit line is going to drain the other communitized property. Even though Dugan is presumably the only working interest in both communitized units. The correlative rights of the offsetting royalty interests will be violated.

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for January 6, 2005. Please be prepared to provide evidence that correlative rights will be protected from drainage and that these affected royalty interest owners were notified.

In order to expatiate this matter I have prepared the following advertisement in this matter:

"Application of Dugan Production Corporation for an unorthodox coal gas well location, San Juan County, New Mexico. Applicant seeks approval to drill its proposed Federal "I" Com. Well No. 103 (API No. 30-045-32587) at an unorthodox coal gas well location within the W/2 equivalent of Section 12, Township 29 North, Range 14 West, being a standard 320-acre, more or less, stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool (71629), 1775 feet from the North line and 10 feet from the West line (Unit E) of Section 12. This unit is located approximately one mile west of the Four Corners Regional Airport in Farmington, New Mexico."

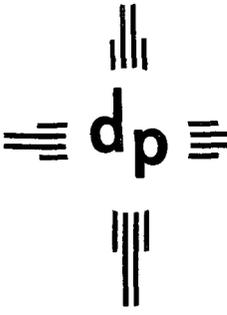
Should you have any questions, please contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421.

Sincerely



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington
Ms. Florene Davidson, Staff Specialist - NMOCD, Santa Fe
William F. Carr, Legal Counsel for Dugan Production Corporation - Santa Fe



dugan production corp.

Susp: 11-29-2004
P.A.E.S.O. - 433151972

*12-13-04 (1:29 PM)
K. Fagrelius called
assuming I'd
voice mail message
at the status of
the appl.
MS. Stogner*

*11-17-2004
11:25 AM - Kurt Fagrelius called
to inquire about this
application.
MS.*

November 3, 2004

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Certified - 7002 2410 0001 0134 1518

RECEIVED

Case 13399

NOV 8 2004

Re: Application for Administrative Approval of
Unorthodox Location for Dugan Production Corp.'s Federal I Com #103
Unit E, Section 12, T29N, R14W
1775' FNL & 10' FWL (W/2 - 320)

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Dear Mr. Stogner:

Dugan Production hereby requests approval for an unorthodox location for the referenced well. Attached for you reference are the following exhibits:

1. Well location and acreage dedication plat (NMOCD Form C-102)
2. Topographic map
3. Fruitland Coal - Offsetting Working Interest Owners Map
4. Plat map of Harper Hill Industrial Subdivision
5. Detailed drawing of subdivision and well pad

The unorthodox location is necessary due to topographic conditions.

The subject well is located inside the Farmington city limits. Existing and proposed commercial and industrial developments occupy all favorable topographic and orthodox areas within the proration unit. After an extended period of time planning, surveying and negotiating with surface owners in the immediate area and consideration of existing city streets, utilities and zoning setback requirements, it was determined that the subject non-standard location was the only acceptable location to all involved parties. Since the proposed well pad and pipeline will be located on a lot on the outer boundary of the subdivision, surface impact within the Farmington city limits will be minimized. Once an agreement on the location of the well pad and pipeline had been reached, Dugan Production Corp. then purchased the lot on which to drill from Dimmick realty.

By certified mail, a copy of this application and request for administrative approval has been sent to all Fruitland Coal offsetting working interest owners, the Bureau of Land Management and the City of Farmington.

Please contact me if you have any questions or need additional information.

Sincerely,



Kurt Fagrelus
Geologist

Attachments

Cc:

Bureau of Land Management – 1235 La Plata Hwy., Farmington, NM 87401

(Certified Return Receipt Requested – 7002 2410 0001 0134 1440)

NMOCD - 1000 Rio Brazos Road, Aztec, NM 87410

(Certified Return Receipt Requested – 7002 2410 0001 0134 1457)

City of Farmington – 800 Municipal Drive, Farmington, NM 87401

(Certified Return Receipt Requested – 7002 2410 0001 0134 1471)

Lance Oil Company, Inc. – P.O. Box 70, Kirtland, NM 87417

(Certified Return Receipt Requested – 7002 2410 0001 0134 1488)

State Highway Department of New Mexico, P.O. Box 1149, Santa Fe, NM 87504

(Certified Return Receipt Requested – 7002 2410 0001 0134 1495)

Atchison, Lee – P.O. Box 15069, Farmington, NM 87499

(Certified Return Receipt Requested – 7002 2410 0001 0134 1501)

ABOVE THIS LINE FOR DIVISION USE ONLY

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



Case 13399

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

[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.

Kurt Fagrelius	<i>Kurt Fagrelius</i>	Geologist	11/3/2004
Print or Type Name	Signature	Title	Date
kfagrelius@duganproduction.com			
e-mail Address			

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

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

Form
Revised February 21,
Instructions on
Submit to Appropriate District C
State Lease - 4 C
Fee Lease - 3 C

AMENDED REP

EXHIBIT 1.

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL	
*Property Code	*Property Name FEDERAL I COM			*Well Number 103
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION			*Elevation 5473'

¹⁰ Surface Location

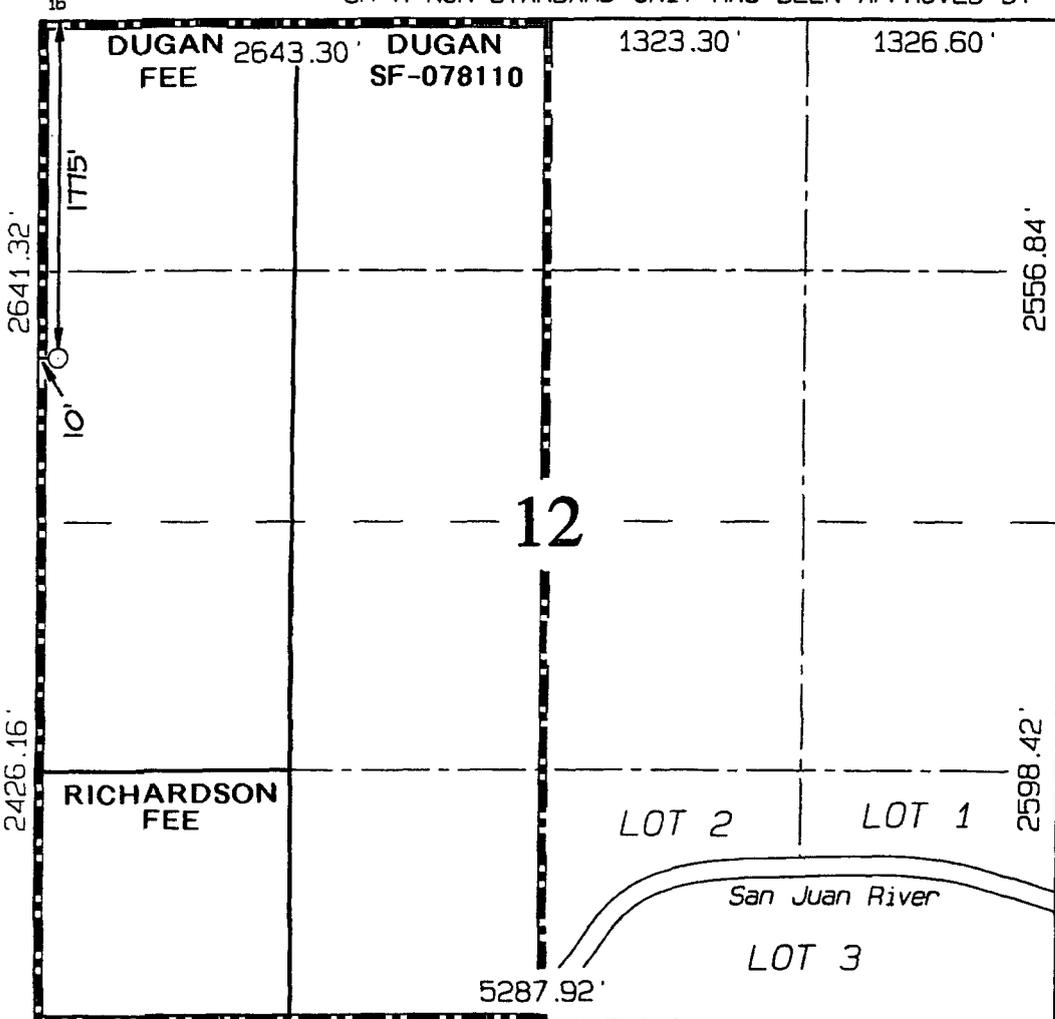
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	12	29N	14W		1775	NORTH	10	WEST	SAN JUAN

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 320.0 Acres - (W/2)	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



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 6, 2004
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 16, 2004
Signature and Seal of Professional Surveyor

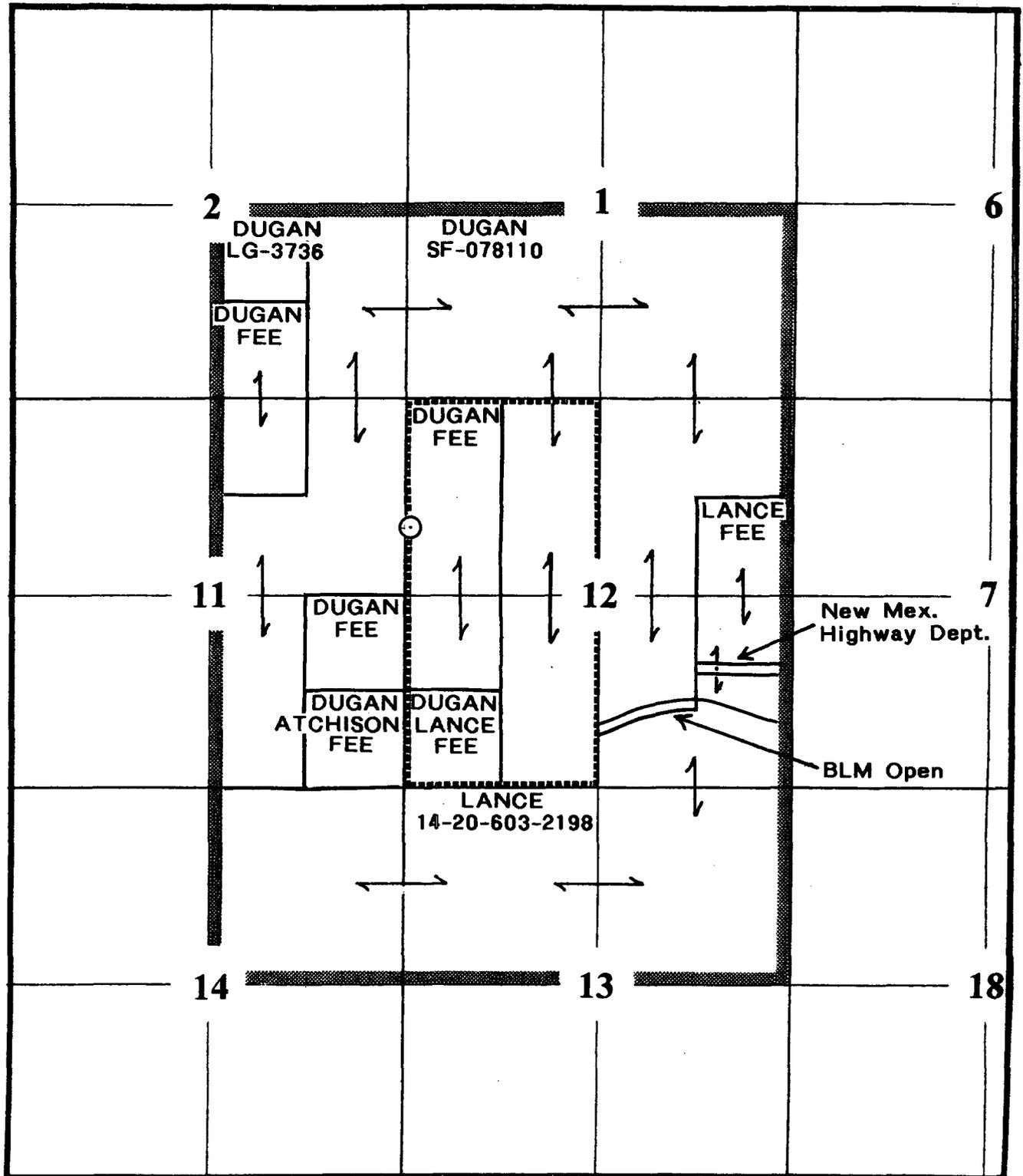
JASON C. EDWARDS
Certificate Number 15269

DUGAN PRODUCTION CORPORATION: FEDERAL I COM #103
1775' FNL & 10' FWL, SECTION 12, T29N, R14W, N.M.P.M.
SAN JUAN COUNTY, NEW MEXICO

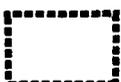
EXHIBIT 2.



Fruitland Coal - Offsetting Working Interest Owners Map



Offsetting Notification Area



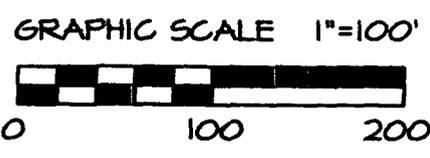
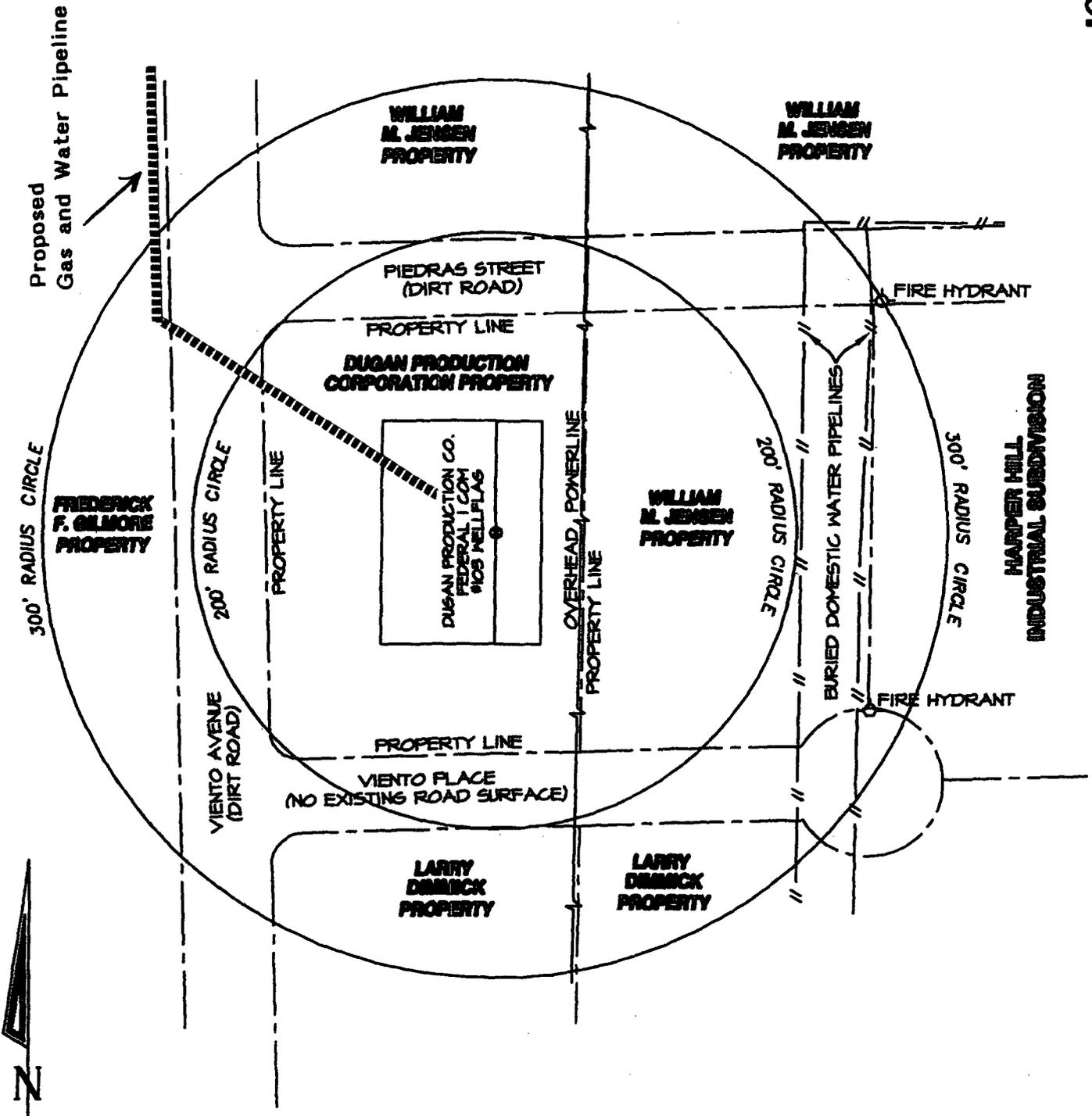
Spacing Unit

T29N - R14W

DUGAN PRODUCTION CORP.
Federal I Com #103
Application for Unorthodox Location
Basin Fruitland Coal Pool
San Juan County, New Mexico

**DUGAN PRODUCTION CORPORATION FEDERAL I COM #103
 1775' FNL & 10' FWL, SECTION 12, T29N, R14W, NMPM
 SAN JUAN COUNTY, NEW MEXICO GROUND ELEVATION: 5473'**

EXHIBIT 5.



**HARPER HILL
 INDUSTRIAL SUBDIVISION**