$= dp = \frac{dugan production corp.}{0 \text{ October 23, NMOCD Case N}}$ 

September 16, 1997

October 23, 1997 NMOCD Case No. 11863 Dugan Production Corp. Exhibit No. <u>3</u>

Mr. Bill LeMay New Mexico Oil Conservation Division 2040 South Pacheco Street Santa Fe, NM 87505

Re: Dugan Production's 8-19-97 Application Surface Commingling and Off-Lease Measurement Proposed Federal I Central Gathering System San Juan County, New Mexico

Dear Mr. LeMay:

Attached for your review and file in considering the captioned application are copies of return receipts as evidence of notification to the interest ownership involved. Please note that of the 7 leases and 6 wells involved, we have receipts from all ownership for 5 of the wells (Camp David Com #1, Federal I # 4, 5R, and 6, plus the Winifred #2). However, for the O'Henry No. 1, we only have receipts for 98.32% of the ownership. To date, we have not received, or have been unable to locate 6 overriding royalty interest owners with a combined interest of 1.68%. We will continue to locate these 6 parties, however at this time believe we have made a reasonable effort to contact these parties.

To aid in this issue, I have attached the interest ownership detail (Attachment No. 7) included in our 8-19-97 application and have highlighted in blue the owners that we have been unable to locate. In addition, I'm attaching a copy of the 8-26-97 letter from the State Land Office approving our application. Please let me know if you have questions or need additional information.

Sincerely,

John D. Roe

John D. Roe Engineering Manager

JDR/tmf

attachs.

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ATTACHMENT NO. 7 INTEREST OWNERSHIP PROPOSED FEDERAL I CENTRAL GATHERING SYSTEM DUGAN PRODUCTION CORP. SAN JUAN COUNTY, NEW MEXICO

		avid Com #1			O'Henry	/ #1	Winifred	#2
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Working Interest Owners								·····
Dugan Production	1.0000	0.8326	1.0000	0.8750	1.0000	0.7024	1.0000	0.8650
Royalty Interest Owners								
USA-Federal				0.1250				0.0625
State of New Mexico		0.1250				0.1250		
Joseph O. & Cicily Muench								0.03125
Patricia Harbin								0.03125
Overriding Royalty Owners		0.0068				0.1504		
Conoco Anne B. Little		0.0051	<u> </u>			0.1504		
Sylvia Little		0.0051	<u> </u>					
Texaco Exploration		0.0253						
Edward & Juanita Lopez !		0.0233				0.0036		
Ruby Maculsay						0.0012		
Martin A. Moe, Jr. 3						0.0036 /	· · · · · · · · · · · · · · · · · · ·	
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State of New Mexico

Commissioner of Public Lands

Ray Powell, M.S., D.V.M.

310 Old Santa Fe Trall, P. O. Box 1148

Phone (505)-827-5760, Fax (505)-827-5766

Santa Fe, New Mexico 87504-1148

COMMERCIAL REBOURCES (505)-827-5724

SURFACE RESOURCES (SOS)-827-5793

MINERAL RESOURCES (505)-827-5744

> ROYALTY (505)-827-5772

> > August 26, 1997

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

Attn: Mr. John D. Roe

Re: Application for Surface Commingling and Off-Lease Measurement
 Proposed Federal I Central Gathering System NE/4NW/4 Sec. 1-29N-14W
 Camp David Com #1, Federal I wells No. 4, 5R & 6, O'Henry #1, & Winifred #2
 San Juan County, New Mexico

Dear Mr. Roe:

We have received your letter of August 19, 1997, wherein you requested our approval for the proposed surface commingling of production (natural gas and water) from the abovecaptioned 6 wells which are being operated by Dugan Production.

We understand that Dugan Production plans to install a central gathering system to collect natural gas and water from the 6 low volume gas wells and use a central facility to separate the gas and water. Natural gas will be delivered to El Paso Field Services at their CPD sales meter and will be allocated to each well using allocation factors determined from periodic individual well tests. The water production will be transferred by pipeline and will be disposed of at Dugan's water disposal well in the NW/4NW/4 of Section 36-30N-14W.

Since it appears that there will be no loss of revenue to the State of New Mexico's beneficiaries as a result of your proposed operation, your request is hereby approved. Our approval is given with the understanding that the Commissioner of Public Lands reserves the right to amend or withdraw his approval, should this operation prove to be unprofitable to the state at any time in the future. Also, our approval is subject to like approval by the New Mexico Oil Conservation Division and the Bureau of Land Management. Our approval is also contingent upon Dugan Production securing the appropriate right-of-way and salt water disposal easements.

PUBLIC AFFAIRS (505)-827-5765

ADMINISTRATIVE MOMT. (505)-827-5700

> LEOAL (305)-827-5713

PLANNING (505)-827-5752

Alig 199

Please submit a copy of the Bureau of Land Management's approval and a copy of the New Mexico Oil Conservation Division's approval order.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M. COMMISSIONER OF PUBLIC LANDS

BY:

JAMI BAILEY, Director Oil, Gas and Minerals Division (505) 827-5744 RP/JB/pm encls.

Ē

xc: Reader file
 OCD Attn: Mr. David Catanach, Mr. Ben Stone
 BLM Farmington Attn: Mr. Duane Spencer
 Debbie Padilla
 Joseph Lopez



