



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

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June 12, 1996

Dugan Production Corporation
Attn. John Alexander
PO Box 420
Farmington NM 87499-0420

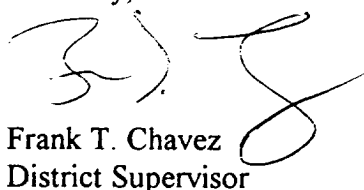
RE: Violations at the Sapp C #5 , H-5-T23N-07W, 30-039-24462

Dear Mr. Alexander:

On a field inspection on March 3, 1996, we noted that the Sapp C #5 had oil on the earthen drilling reserve pit and no pit netting in place. It was also noted that the production equipment was plumbed to dump produced water into the reserve pit. On March 22, 1996, Denny Foust from our office met with John Lane of Dugan Production to review problems in the field including those on the Sapp C #5. Mr. Lane agreed that the oil should be removed from the reserve pit. They discussed the alternatives to re-plumb the well to a new pit or to net the existing reserve pit. Subsequent visits to the well site on May 1 and May 30 show no evidence that any action had been taken to correct these problems. Oil on the pit is violating Commission Rule 3B and Order R-8952 requires the pit be netted. You are to immediately bring the well into compliance with Rule 3B and order R-8952.

The Sapp C #5 well is marginally outside what is defined as the "third year" vulnerable area in Order R-7940C. Looking at the topographic quadrangle "Crow Mesa East" the well lies within the 40-60' contour interval above a defined drainage. We recommend that you consider using a lined pit on this location after evaluating the possibility of the presence of protectable ground water.

Sincerely,



Frank T. Chavez
District Supervisor

FTC\sh