dugan production corp.

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OIL CON. DIV

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FARMINGTON RESOURCE AREA

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Ron Fellows
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Re: Application for Long-Term Approval to Vent Casinghead Gas
Dugan Production Corp's Jeffers Federal No. 2-23
Lease No. NM-29560
NE/4 SW/4 Section 2, T-23N, R-8W, NMPM
San Juan County, NM

Dear Mr. Fellows:

With this letter, Dugan Production Corp. is requesting approval for long-term venting of a minor amount of casinghead gas produced from the subject well.

The subject well was originally drilled by Kenai Oil and Gas Inc. to test the Dakota formation and following an unsuccessful test of the Dakota, the well was completed in the Nageezi Gallup Pool October 17, 1980 with an initial potential of one BOPD, gas rates TSTM and 15 BWPD from perforations 5349' to 6388'. Graham Royalty Ltd. acquired the well June 1, 1981 and with production averaging approximately 3 BOPD + 1/2 MCFD, following 4 years of production, they requested approval for long-term shut-in on October 28, 1986. The well was shut-in October 1986 and did not produce until Dugan Production Corp. purchased the well from Graham Royalty and returned the well to production during December 1988.

The well is currently producing from the Nageezi Gallup pool and during March 1989, following two months of production, production averaged 5.7 BOPD + 6.0 MCFD, of which 4.3 MCFD is utilized on the lease for fuel resulting in a venting of approximately 1.7 MCFD. Based upon past production history, we anticipate that production will stabilize at approximately 1 - 3 BOPD and ±5 MCFD which will result in a very minor amount of gas actually being vented (likely in the range of 1/2 to 1 MCFD).

The well is located approximately 1000' from the closest gas line which is operated by Gas Company of New Mexico. The line is a high pressure line which averages approximately 425 psi.

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NMOCD

This high line pressure will require the installation of a compressor for the Jeffers Federal No. 2-23 gas to be sold. The expenditure required to sell gas from the subject well cannot be justified by the minor amount of revenues that might be generated by any future gas sales. Economics in support of our position are presented on the attached Table No. 1. Based upon our experience in the area we expect production to decline at approximately 10% year after stabilizing. The Jeffers Federal #2-23 has actually demonstrated a greater decline, however, the 10% per year decline was used for our economic projection and we believe the resulting economics are very optimistic. An oil price of $20.00/bbl was used in the economics which is an optimistic value considering the current oil price and the instability of the oil market. The gas revenue forecast includes a gas price of $1.50/MCF which is also optimistic since the current wellhead gas price is actually averaging approximately $1.00/MCF and we are also finding it increasingly difficult to find buyers for our gas in the present gas market. Simply having gas for sale no longer guarantees the sale of the gas. Our gas sale economics assume daily delivery of gas, which may not be the actual performance of the well or the actual gas sales.

In summary, we are asking permission to vent a very minor amount of casinghead gas (currently 2 MCFD, but likely less than 1 MCFD upon production stabilizing) for an indefinite period of time. Due to the remoteness of the well, poor gas market conditions and the low volumes of gas available for sale, connecting the well for gas sales is not economically feasible at this time. Should any of these conditions change, we will re-evaluate the feasibility of selling gas from the Jeffers Federal #2-23 at that time.

Should you have questions regarding this matter, please feel free to contact me.

Sincerely,

Barbara Williams

Barbara Williams
Engineer

cg/venting\jeffers

Ken Townsend
FOR AREA MANAGER

May 25, 1989

TABLE NO. 1

Application to Vent Casinghead Gas
Dugan Production Corp.
Federal Lease No. NM 29560
Jeffers Federal #2-23
Sec.2, T23N, R8W
San Juan County, NM

YEAR	NET PRODUCTION BBL\YEAR	NET REVENUE (1)	INVESTMENT ($)	PRESENT WORTH REVENUE - BFIT (2) ANNUAL	CUMULATIVE
OIL OPERATIONS ONLY			0		
1969-90 (3)	1592	23235		22315	22315
1990-91	871	9992		8408	30723
1991-92	784	8392		6306	37029
1992-93	706	6953		4666	41695
1993-94	635	5658		3390	45085
5 yr TOTALS	4588	54230		45085	45085

YEAR	(4) NET PRODUCTION MCF\YEAR	NET REVENUE (5)	INVESTMENT ($)	PRESENT WORTH REVENUE - BFIT ANNUAL	CUMULATIVE
GAS OPERATIONS ONLY			0		
1989-90	118	-16177		-15286	-15286
1990-91	(6) -647	-16200		-13667	-28953
1991-92	-739	-16200		-12203	-41156
1992-93	-822	-16200		-10895	-52052
1993-94	-897	-16200		-9728	-61780
5 yr TOTALS	-2340	-80977		-61780	-61780

YEAR		NET REVENUE	INVESTMENT ($)	PRESENT WORTH REVENUE - BFIT ANNUAL	CUMULATIVE
OIL & GAS OPERATIONS			0		0
1989-90		7058		7029	7029
1990-91		-6208		-5259	1770
1991-92		-7808		-5897	-4127
1992-93		-9247		-6230	-10357
1993-94		-10542		-6338	-16695
5 yr TOTALS		-26747		-16695	-16695

(1) Total royalty burden on oil & gas is 12.5%
Oil production tax=8.1991%, gas prod. tax=4.4491%
gross revenue after royalty and $0.1304/net MCF.
Oil price assumed to be $20.00/bbl.
Gas price assumed to be $1.50/MCF.
Annual operating expense = $6000

(2) Present worth calculated at 12% using mid-year factors.

(3) Annual anticipated decline rate of 10% after initial decline rate of 92% for approx. 7 months when production rate stablizes to the rate prior to shut-in in October 1986.

(4) Gas available for sale = produced gas @GOR of 1060 scf/bbl (as tested NMOCD form C-116) less lease requirements of 4.3 MCFD for equipment. Annual lease fuel = 1570 MCF

(5) Assumes monthly compressor charge of $1350 which would be necessary to access GCNM line but does not include cost of alternative fuel source.

(6) Indicates that there will not be enough gas produced to fuel lease equipment and another power source will have to be purchased, either butane\propane or electrical power.