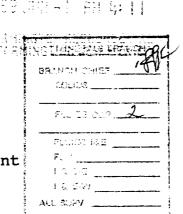
dugan production corp.



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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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Letter to Ron Fellows, BLM Re: Jeffers Federal No. 2-23 May 30, 1989 Page 2

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

Engineer

cg/venting\jeffers

Ken Townsend

TABLE HO		-16695	-15095		26747		5 yr TOTALS
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25, 1989 APPERATIONS ONLY HET INVESTMENT PRESENT TORTH FRESENT TORT	butane\propane or electrical power.	7025	7029		7058		1989-90
25, 1989 E HO. 1 NET	power source will have to be purchased, either	0		0			SAS
25, 1989 E INO.1 APPROPRIATIONS ONLY PRODUCTION REVENUE	produced to fuel lease equipment and another	CUMULATIVE	HANDAL				
25, 1989 E HO. 1 APT NET NET INVESTMENT PRESENT WORTH Sevenue	(6) Indicates that there will not be enough gas			(‡)	REVENUE		YEAR
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25, 1989 Apple Ap		-61780	-61730		-80977	-2340	5 yr TOTALS
25, 1939 NET NOTICIN REVENUE (\$) PRODUCTION REVENUE (\$) PROPERATIONS ONLY PR		-61780	-9728		-16200	-397	1998-94
25, 1989 NET NET NVESTMENT PRESENT CORTH (1) (\$) (8) REVENUE (2)	Annual lease fuel = 1870 MCF	-52052	-10886		-16200	-822	1992-93
PREMATIONS ONLY PRODUCTION REVENUE REVENUE STATES PRODUCTION REVENUE REVENUE STATES	less lease requirements of 4.3 MCFD for equipment.	-41156	-12203		-16200	-739	1991-92
PREMATIONS ONLY PRODUCTION REVENUE REVENUE REVENUE STATE REVENUE REVENUE REVENUE STATE STATE STATE STATE STATE STATE STATE STATE STATE S	1060 sof/bbl (as tested NMOCD form C-116)	+28953	-13667		-16200		1990-91
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PERATIONS ONLY PRESENT	when production rate stablizes to the rate prior to	SFIT	PEVENUE -	€	REVENUE	PRODUCTION	TIME TO
PERATIONS ONLY	initial decline rate of 92% for approx. 7 months	ROBTH	PRESENT	INVESTMENT		(4) NET	
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PERATIONS ONLY PRESENT WESTMENT PRESENT WESTM		45088	45085		54230	4588	5 yr TOTALS
25, 1989 Part	factors.	45088	3390		5658	635	1993-94
25, 1989 E NO.1 NET NET NET NET NET NET NET NET NET NE	~	41698	4666		6983	706	1992-93
25, 1989 E NO.1 NET NET NVESTMENT PRESENT VORTH (1) PRODUCTION REVENUE (\$) REVENUE - 5FIT (2) PRODUCTION REVENUE (\$) ANNUAL CUMULATIVE GIO PRODUCTION REVEN		37029	6306		8392	784	1991-92
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25, 1989 E NO.1 NET NET INVESTMENT PRESENT WORTH (1) Sevenue - Seit (2) Oil PRODUCTION REVENUE (3) ANNUAL COMPLATIVE Great Coil Sevenue - Seit (2) Oil PRODUCTION REVENUE (3) ANNUAL COMPLATIVE Great Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil Oil	Gas price assumed to be \$1.50/MCF.	22315	22315		23235	1592	
25, 1989 ENO.1 NET NET INVESTMENT PRESENT CORTH (1) PRODUCTION REVENUE (\$) REVENUE - 5FIT (2) OII BBLYEAR (1) ANNUAL CUMULATIVE gro	Oil price assumed to be \$20.00/bbl.			0			OIL OPERATIONS ONLY
25, 1989 E NO.1 NET NET INVESTMENT PRESENT WORTH (2) (1) PRODUCTION REVENUE (\$) REVENUE - SEIT (2) (1)	gross revenue after royalty and \$0.1304/net MCF.	CUMULATIVE	ANNUAL		(1)	BBL\YEAR	
25, 1989 ENO.1 NET NET INVESTMENT PRESENT WORTH (1)	Oil production tax=8.1991%, gas prod. tax=4.4491%	(T)		⊕	REVENUE		YEAR
25, 1989 ENO. 1		Signal II	PRESENT	INVESTMENT	NET	NET	
25, 1989 E NO. 1	San Juan County, NM						
25, 1989 ENO. +	Sec. 2, T23N, R8W						
25, 1989	Jeffers Federal #2-23						TABLE NO. 1
25, 1989	Federal Lease No. NM 29860						
	Dugan Production Corp.						15.3 (2)
	Application to Vent Casinghead Gas						

1.00