

dugan production corp.

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July 26, 1984

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which time approximately \$210,593 (\$210,713 discounted at 12%) will be unrecovered of our original drilling investment. Table No. 2 presents the economics of continuing our current operations with oil sales only, and we have indicated our estimate of the revenue that would be generated from the sale of casinghead gas from the Pittam Pond #4. In order to obtain a pipeline connection we would be required to spend approximately \$57,000 which would generate a revenue of \$910 from gas sales and result in a negative cash flow of \$56,090 (-\$56,195 discounted at 12%) and will never payout. This is further emphasized with the combined oil and gas cash flow presented on Table No. 2. Should gas venting not be permitted and Dugan Production be required to make the investment in order to facilitate gas sales the negative cash flow for Dugan Production would be increased from -\$210,593 (-\$210,713 discounted at 12% before FIT) to -\$266,683 BFIT (-\$266,908 discounted at 12%). Therefore, based upon economics presented on Table No. 2, it is our opinion that the volumes of gas available for sale from the Pittam Pond #4 do not warrant the investments that would be necessary to connect the well for pipeline sales. The base data included in the economics is presented on Table No. 2 under the remarks and notes column.

As you are probably aware the Pittam Pond #4 is located within the bounds of EPNG's San Juan River Plant yard, and Dugan Production on several occasions has attempted to negotiate with El Paso for this minor amount of gas from the Pittam Pond #4 for use in their plant or field camp operations. These conversations have met with little interest on the part of El Paso Natural Gas and under the current market conditions, which have been in effect for some time now, El Paso Natural Gas is not making and does not plan to make any new contracts for gas in the near future. The gas for the Pittam Pond #4 is not dedicated. We have had conversations with Intrastate Gathering System, which also has a pipeline in this general area and does gather casinghead gas from several of the wells completed in the general vicinity. The line currently is located approximately 2200' to the Southwest of the Pittam Pond #4 however a crossing under Highway 550 would be required which would make this connection prohibitive considering the productivity of the Pittam Pond #4. The next nearest point to obtain a pipeline connection on Intrastate's system would be directly west of the Pittam Pond #4 approximately 6200' over some fairly rough terrain and almost parallel to Highway 550. Our economics presented in Table No. 2 make the assumption that a well recently completed by Southern Union Exploration in the NE/4 SW/4 of Section 2 will be connected to Intrastate Gathering System (it is currently not connected) and thus our connection to Intrastate Gathering System could be made at a point near their well rather than laying the total distance to Intrastate's current system. We have had conversations with Intrastate Gathering System as recent as January of this year and it is the opinion of Intrastate Gathering System that the volumes of gas available from the Pittam Pond #4 do not justify the expenditures necessary to connect the well for gas sales and thus they have no further interest in connecting the Pittam Pond #4.

Dugan Production is making this request to vent the casinghead gas; however, it is our intention to continue efforts to obtain some market for the gas produced since the economics of the well considering only oil sales are poor and any revenue generated from the gas sales will aid in recovering our drilling costs.

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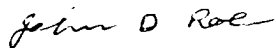
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However, with the current development in the area and the existing pipeline systems, and considering the current and prior attitudes of EPNG regarding the Pittam Pond #4 it is not economically feasible to connect the Pittam Pond #4 for gas sales at this time and it is impossible to predict when the gas sales might occur, if ever. Should we not be permitted to vent this gas, our only other alternative at this time would be to shut-in this well and risk not producing approximately 600 bbls. of oil estimated to remain before reaching the economic limit.

In view of the above it is requested that you authorize the venting of a very minor amount of casinghead gas so that we might realize a maximum return on our drilling investment being aware that even at best this well will never payout. Should you have any questions regarding this application, please feel free to contact me.

Sincerely,



John D. Roe

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