

dugan production corp.

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*Case 9252*

October 11, 1988

Mr. William LeMay  
New Mexico Oil Conservation Division  
310 Old Santa Fe Trail, Room 206  
Santa Fe, NM 87503

Re: Dugan Production Corp's  
Bridge Com #1  
Gavilan Mancos Oil Pool Extension  
Section 28, T-26N, R-2W, NMPM  
Rio Arriba County, New Mexico

Dear Mr. LeMay:

Attached for your files is a copy of the signed receipts which accompanied our September 20, 1988 letter to the working interest owners advising them of recommended reasonable well costs for the drilling and completion of the subject well as stipulated in Item (5) under the ordering provisions of Compulsory Pooling Order No. R-8567. It is our belief that we have provided the required notice to all working interest owners in the Bridge Com #1. In addition, you will note that we also provided notice to the law firm of White, Koch, Kelley and McCarthy in Santa Fe which is currently the designated statutory agent for Mountain States Natural Gas Corp. which is the only party actually subject to the terms of the Compulsory Pooling Order.

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

Sincerely,

*John D. Roe*

John D. Roe  
Petroleum Engineer

JDR/cg/bridge.4

enc.



pg # 2 of 2  
Bridge Com #1

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.  
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
†(Extra charge)† †(Extra charge)†

3. Article Addressed to:  Sun Exploration & Production Co. Attn: Ms. Linda Guerrero P.O. Box 1861 Midland, TX 79702	4. Article Number P 916 474 561 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Martha Stephens</i>	
7. Date of Delivery <i>22 Sept 88</i>	

PS Form 3811, Mar. 1987 \* U.S.G.P.O. 1987-178-268 JR DOMESTIC RETURN RECEIPT

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.  
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
†(Extra charge)† †(Extra charge)†

3. Article Addressed to:  Mr. Hunt Walker 621 17th Street, Suite 811 Denver, CO 80293	4. Article Number P 916 474 562 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Kim [unclear]</i>	
7. Date of Delivery <i>9/23/88</i>	

PS Form 3811, Mar. 1987 \* U.S.G.P.O. 1987-178-268 JR DOMESTIC RETURN RECEIPT

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1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
†(Extra charge)† †(Extra charge)†

3. Article Addressed to:  Mountain States Natural Gas Corp Attn. Mr Albert J. Blair, Jr. P.O. Box 35426 Tulsa, OK 74135	4. Article Number P 916 474 569 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[unclear]</i>	
7. Date of Delivery <i>9-23-88</i>	

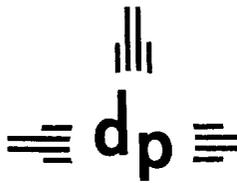
PS Form 3811, Mar. 1987 \* U.S.G.P.O. 1987-178-268 JR DOMESTIC RETURN RECEIPT

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1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
†(Extra charge)† †(Extra charge)†

3. Article Addressed to:  White, Koch, Kelly & McCarthy P.O. Box 787 Santa Fe, NM 87504	4. Article Number P 916 474 575 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[unclear]</i>	
7. Date of Delivery	

PS Form 3811, Mar. 1987 \* U.S.G.P.O. 1987-178-268 JR DOMESTIC RETURN RECEIPT



# dugan production corp.

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September 21, 1988

William J. LeMay, Director  
New Mexico Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87504-2088

*M.S.*

Re: Dugan Production Corp's  
Bridge Com #1  
Gavilan Mancos Oil Pool Extension  
Section 28, T-26N, R-2W, NMPM  
Rio Arriba County, NM

*Case 9252*

Dear Mr. LeMay:

We are writing this letter as a cover letter for the letter dated September 20, 1988 to the working interest owners in the captioned well that we inadvertently mailed to you yesterday without a transmittal letter.

All letters to working interest owners were sent certified mail return receipt requested and upon receiving the receipts for each working interest owner, we will forward a copy confirming working interest owner notification to your attention.

For your information, the Bridge Com #1 was spudded on May 12, 1988 prior to the June 1, 1988 deadline initially stipulated in the compulsory pooling order and, thus, the extension of time granted by your office was not necessary. We appreciate your granting the extension of time for the compulsory pooling order as it was possible that we would have needed it had our arrangements for a drilling contractor not worked out.

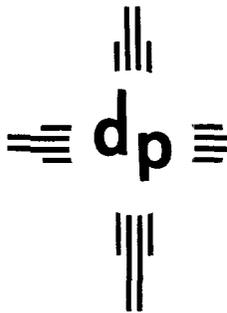
Again, thank you for your attention to this matter.

Sincerely,

*John D. Roe*

John D. Roe  
Petroleum Engineer

JDR/cg/bridge.ocd



# dugan production corp.

\* CERTIFIED MAIL \*

September 20, 1988

*Case 9252*

TO: Working Interest Owners

RE: Dugan Production Corp.'s  
Bridge Com # 1  
Gavilan Mancos Oil Pool Extension  
Section 28, T-26N, R-2W, NMPM  
Rio Arriba County, New Mexico

Dear Working Interest Owner:

Attached for your review is an itemized schedule of actual expenditures incurred in drilling, completing and equipping the subject well for production.

This information is being provided to you as stipulated in item (5) under the ordering provisions of compulsory pooling order No. R-8567. It is our belief that the total of \$468,208. represents a reasonable well cost for the subject well and should be accepted as the value for "reasonable well costs" as it pertains to the compulsory pooling order R-8567.

A copy of this letter and itemized expenditures is being sent to the New Mexico Oil Conservation Division (NMOCD) and it is our understanding that should there be any question and/or objection with respect to \$468,208. reflecting reasonable well costs for the Bridge Com No. 1, such objection should be directed to the NMOCD within 45 days of your receipt of this letter. Should there be any question and/or objection, we request that you also notify Dugan Production Corp.

Should you have any questions, please feel free to contact me, or our Land Manager, Mr. Rich Corcoran.

Sincerely,

DUGAN PRODUCTION CORP.

*John Roe, Jr.*

John Roe, Jr.  
Petroleum Engineer

JDR/cs

WORKING INTEREST OWNERS  
BRIDGE COM. WELL NO. 1  
NW/4 SE/4 Section 28, T-26N, R-2W NMPM  
Rio Arriba County, New Mexico

Participating

1. Amoco Production Co.  
Attn: Richard Jones-Room 2267  
P. O. Box 800  
Denver, CO 80201
2. Mr. R. L. Bayless  
P. O. Box 1541  
Farmington, NM 87499
3. Dugan Production Corp.  
Attn: Mr. Tom Dugan  
P. O. Box 5820  
Farmington, NM 87499
4. Jerome P. McHugh & Associates  
Attn: Kent Craig  
650 South Cherry, Suite 1225  
Denver, CO 80222
5. Sun Exploration & Production Co.  
Attn: Ms. Linda Guerrero  
P. O. Box 1861  
Midland, TX 79702
6. Mr. Hunt Walker  
621 17th Street, Suite 811  
Denver, CO 80293

Non-Participating - Subject to Compulsory Pooling Order R-8567.

Mountain States Natural Gas Corp.  
Attn: Mr. Albert J. Blair, Jr.  
P. O. Box 35426  
Tulsa, OK 74135

SUMMARY OF ACTUAL EXPENDITURES

WELL NAME AND NO. Bridge Com # 1 Date 9-20-88  
LOCATION 1650' FSL & 2200' FEL, Section 28, T-26N, R-2W, Rio Arriba County, NM

298 - TANGIBLES

Code	Description	Units	Amount
01	Surface Casing -	ft. of	3,002.
02	Prod. Casing -	ft. of	49,644.
	Casing -	ft. of	
04	Tubing -	ft. of	17,438.
	Tubing -	ft. of	
06	Packer and Tubing Equipment		
07	Wellhead Equipment		5,000.
08	Valves & Fittings		653.
09	Production Unit & Treaters		8,050.
10	Tank Battery		2,500.
11	Pumping Unit & Prime Mover		25,684.
12	Rods, Bottom-hole Pump, Aux Equip.		13,914.
13	Misc. Tangible Equipment		636.
14	Well Hookup		
15	Gas Lines and Installation		
16	Pipeline Installation		14,431.
	<b>TOTAL TANGIBLES</b>		<b>140,952.</b>

299 - INTANGIBLES

Code	Description	Units	Amount
30	Survey Archeologist		425.
31	Location Damages		5,000.
32	Road & Location Construction		15,896.
33	Water & Gas Lines		
40	Contract Drilling	ft. @ \$ /ft. plus tax	154,544.
41	Daywork	hrs. @ \$ /hr.	
43	Drill Stem Test & Cores		
44	Mud Logging		
45	Open Hole Logging		8,907.
46	Rental Tools		2,725.
47	Casing Float Equip. & Centralizer		4,873.
48	Trucking		1,050.
49	Mud		
50	Water - Drilling Oper.		1,000.
51	Casing Crew & Power Tongs		
52	Miscellaneous		817.
53	Testing Tubular Goods		6,492.
54	Tool & Equip. Repair		
55	Company & Contract Labor, Roustabouts		8,936.
56	Supplies		1,443.
60	Cementing Surface Casing		1,878.
61	Cementing Prod. Casing		13,548.
70	Completion Rig		27,024.
71	Perf. & Cased Hole Logging		6,555.
72	Acidizing		
73	Fracturing		36,970.
74	Tank Rental		
75	Trucking - Completion		5,839.
76	Water - Completion		5,148.
77	Rental Tools - Completion		1,154.
78	Clean-up Location		
79	Power Swivel, Pump & Pit Rental		
80	Contract Serv. & Labor - Completion		2,477.
90	Supervision - Administrative		6,064.
91	Supervision - Legal		216.
92	Supervision - Field		8,275.
	<b>TOTAL INTANGIBLES</b>		<b>327,256.</b>
	% Contingency		
	<b>TOTAL WELL COST</b>		<b>468,208.</b>

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS  
GOVERNOR

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

April 29, 1988

Dugan Production Company  
P.O. Box 208  
Farmington, NM 87499-0208

Attention: John D. Roe

RE: Request for Time Extension  
Compulsory Pooling Order No. R-8567  
Bridge Com Well No. 1  
Sec. 29, T-26N, R-2W,  
Rio Arriba County, New Mexico

Dear Mr. Roe:

Your request by letter dated April 27, 1988, to extend the time period by which to commence the drilling of the subject well from June 1, 1988, as provided for in Division Order No. R-8567, to August 1, 1988, is hereby approved.

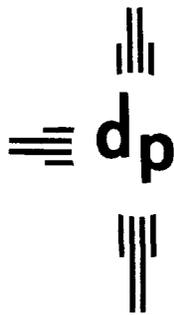
Sincerely,

A handwritten signature in black ink, appearing to read "William J. Lemay".

William J. Lemay  
Director

WJL/MES/ag

cc: Case File No. 9252 ✓



# dugan production corp.

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April 27, 1988

Mr. Bill LeMay, Division Director  
New Mexico Oil Conservation Division  
P O Box 2088  
Santa Fe, NM 87504-2088

Re: Request for Time Extension  
Compulsory Pooling Order #R-8567  
Dugan Production's Bridge Com Well No. 1  
Section 28, T26N, R2W, NMPM  
Rio Arriba County, NM

Dear Mr. LeMay:

We are writing to request that the captioned compulsory pooling order entered in Case #9252 be extended to August 1, 1988 from its current expiration date of June 1, 1988.

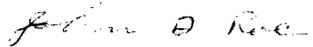
As you are probably aware, the recent decline in oil and gas prices has created a man power shortage which we are currently having to deal with. Dugan Production is currently drilling a well in Section 21, T26N, R2W (our Evans Com #1), however, at this time we are not certain that we will be able to move this rig (Four Corners Drilling Company Rig #14) from the Evans Com #1 to the Bridge Com #1 well since prior commitments by Four Corners Drilling Company may prevent drilling these wells in sequence. Although Four Corners Drilling Company has many rigs available, they do not have the manpower to operate these rigs and are reluctant to put additional rigs in service until the general drilling activity would support more rigs. Thus, in the event that we are required to release Four Corners Drilling Company upon completion of drilling on our Evans Com #1, we will not be able to commence drilling operations on the Bridge Com #1 prior to June 1, 1988.

As indicated in our letter of February 12, 1988 to the working interest owners (a copy of which was sent to the NMOCD) regarding this case, 75.77% of the working interest ownership did approve the drilling of this well and the compulsory pooling will apply only to Mountain States Natural Gas Corp.'s 24.23% working interest.

Letter to Bill Lemay  
Re: Compulsory Pooling Order #R-8567  
DPC's Bridge Com #1 Well  
April 27, 1988  
Page 2

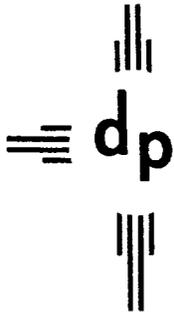
Should you have any questions regarding this request, please  
feel free to contact me.

Sincerely,



John D. Roe  
Manager of Engineering

JDR/cg/bc#1



# dugan production corp.

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February 12, 1988

*Case # 9252*

**TO: WORKING INTEREST OWNERS**

Dugan Production Corp's Proposed Bridge Com #1  
Gavilan Mancos Oil Pool Extension  
Section 28, T-26N, R-2W, NMPM  
Rio Arriba County, NM

Dear Working Interest Owners:

Attached for your file and information is a copy of NMOCD Order #R-8567 dated December 22, 1987. This order was issued in Case #9252 which was Dugan Production's application for compulsory pooling of the Mancos formation for the drilling of the subject well on a standard 640 acre spacing unit comprising all of Section 28.

At the time we initially submitted our A.F.E. in July of 1987, Dugan Production had planned to commence drilling prior to 1-1-88. We have since revised our plans and currently plan to commence drilling operations as soon as weather conditions permit; hopefully, by mid-April, 1988.

In accordance with Order #3 of the compulsory pooling order, attached is a copy of Dugan Production's A.F.E. dated September 16, 1987 which reflects a total estimated completed well cost of \$476,130. This A.F.E. was previously distributed to the working interest owners on September 16, 1987 and reflects our best estimate of drilling and completion costs for the subject well. As of 12-22-87 (the date of the compulsory pooling order), the working interest owners having executed the subject A.F.E. are presented on Attachment A and for those working interest owners, this A.F.E. is intended to be for informational purposes only. For working interest owners having not executed the subject A.F.E. as of 12-22-87 (listed on Attachment B), the attached A.F.E. is intended to serve as the schedule of estimated well costs referenced in Order #4 of the compulsory pooling order from which the non-consenting working interest owners identified on Attachment B may compute their respective share of the estimated well costs, should they now elect to participate under the terms of the compulsory pooling order.

Letter to WIOs - Bridge Com #1  
February 12, 1988  
Page 2

As set forth in Order #5, upon completion of the well, Dugan Production Corp. will furnish each non-consenting working interest owner a revised schedule reflecting actual well costs.

The working interest ownership presented on Attachment A will be invoiced for their share of actual costs as the individual costs are incurred throughout the drilling and completion operations of the well as would normally be the case in the absence of a compulsory pooling issue.

Should there be any questions regarding this matter, please contact Richard Corcoran or me at the letterhead address.

Sincerely,



John D. Roe  
Petroleum Engineer

JDR/cg/bridgeco

attachs.

cc: NMOCD - Santa Fe (Case #9252)

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 9252  
Order No. R-8567

APPLICATION OF DUGAN PRODUCTION  
CORPORATION FOR COMPULSORY POOLING,  
RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 4, 1987, and December 2, 1987, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of December, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Dugan Production Corporation, seeks an order pooling all mineral interests in the Undesignated Gavilan-Mancos Oil Pool underlying all of Section 28, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, to form a standard 640-acre oil spacing and proration unit for said pool.
- (3) The applicant has the right to drill and proposes to drill a well at a standard oil well location thereon.
- (4) There are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) To avoid the drilling of unnecessary wells, protect correlative rights, avoid waste, and afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in said pool, the subject application should be

approved by pooling all mineral interests, whatever they may be, within said unit.

(6) The applicant should be designated the operator of the subject well and unit.

(7) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) \$4000.00 per month while drilling and \$400.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) The operator should be obligated to sell and account for the production attributable to the interest of any party pooled under terms of this order, beginning with the first sale, until payout and thereafter until any such pooled party should elect, in writing, to separately contract for such sale.

(13) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) At the time of the hearing, the applicant requested an extended period of time in which to commence the drilling of the subject well so as to allow for additional time for unfavorable weather and road conditions in the area.

(15) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1988, the order pooling said unit should become null and void and of no effect whatsoever.

(16) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Undesignated Gavilan-Mancos Oil Pool underlying all of Section 28, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Undesignated Gavilan-Mancos Oil Pool;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1988, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Dugan Production Corporation is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within

30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$4000.00 per month while drilling and \$400.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) The operator shall be obligated to sell and account for the production attributable to the interest of any party pooled under terms of this order, beginning with the first sale, payout and thereafter until any such pooled party shall elect, in writing, to separately contract for each such sale.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(14) Should all parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced-pooling provisions of this order.

(16) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY  
Director

S E A L

ATTACHMENT A

2-12-88 Letter to Working Interest Owners  
Dugan Production's Proposed  
Bridge Com #1  
Section 28, T-26N, R-2W  
Rio Arriba County, NM

Working Interest Owners Electing to Participate in Subject Well as of  
12-22-87

<u>W.I. Owner</u>	<u>WI % Ownership of Sect. 28</u>	<u>Executed AFE</u>	<u>Executed Operating Agreement</u>
Dugan Production Corp.**	59.3750000	X	X
Amoco Production	1.2500000	X	X
Sun Exploration & Prod. Co.*	14.3750000	X	
Robert L. Bayless	0.5729165	X	X
Huntington T. Walker	0.1153565	X	X
Kindermac Partnership	<u>0.0791010</u>	X	X
Subtotal	75.7673740		

\*Includes an unrecorded lease from A.G. Hill, et.ux. to Sun Exploration dated September 30, 1987, amounting to 3.125% of the spacing unit (12.5% of the SE/4).

\*\*Includes the interest of Johnansen Energy Partnership (0.292960%), Mesa Grande Resources, Inc. (13.814620%), Peter C. Neumann (2.884610%), and Venada National (1.757810%) acquired through an acreage trade between Dugan Production Corp. & Mesa Grande Resources.

Certified Mail - Return Receipt Requested

ATTACHMENT B

2-12-88 Letter to Working Interest Owners  
Dugan Production's Proposed  
Bridge Com #1  
Section 28, T-26N, R-2W  
Rio Arriba County, NM

Working Interest Owners Not Electing to Participate in Subject Well as  
of 12-22-87

Working Interest Owner

Mountain States Natural Gas Corp.

WI% Ownership  
of Section 28

24.2326260

atb-bc-2

AUTHORIZATION FOR EXPENDITURE - AMENDED\*

WELL NAME AND NO. Bridge Com #1 Date 9-16-87  
LOCATION 1650' FSL & 2200' FEL, Section 28, T-26N, R-2W, Rio Arriba County, NM

298 - TANGIBLES

Code	Description	Quantity	Unit	Price	Amount
01	Surface Casing -	200	ft. of	9-5/8" @\$11.50/ft.	\$ 2,300
02	Prod. Casing -	8070	ft. of	5-1/2", 15# & 17# @\$5.75/ft	46,400
	Casing -		ft. of		
04	Tubing -	7600	ft. of	2-7/8", 6.5# \$2.25/ft.	17,100
	Tubing -		ft. of		---
06	Packer and Tubing Equipment				---
07	Wellhead Equipment				7,000
08	Valves & Fittings				2,500
09	Production Unit & Treaters				10,000
10	Tank Battery				12,500
11	Pumping Unit & Prime Mover				37,500
12	Rods, Bottom-hole Pump, Aux Equip.				12,500
13	Misc. Tangible Equipment				---
14	Well Hookup				---
15	Gas Lines and Installation				---
16	Pipeline Installation				3,000
	<b>TOTAL TANGIBLES</b>				<b>\$150,800</b>

299 - INTANGIBLES

Code	Description	Amount
30	Survey Archeologist	1,000
31	Location Damages	2,500
32	Road & Location Construction	5,000
33	Water & Gas Lines	---
40	Contract Drilling 8070 ft. @ \$ 12 /ft. plus tax	96,840
41	Daywork 48 hrs. @ \$ 190/hr.	9,120
43	Drill Stem Test & Cores	---
44	Mud Logging	---
45	Open Hole Logging	7,000
46	Rental Tools	---
47	Casing Float Equip. & Centralizer	4,000
48	Trucking	2,000
49	Mud	45,000
50	Water - Drilling Oper.	15,000
51	Casing Crew & Power Tongs	---
52	Miscellaneous	1,000
53	Testing Tubular Goods	---
54	Tool & Equip. Repair	---
55	Company & Contract Labor, Roustabouts	5,000
56	Supplies	500
60	Cementing Surface Casing	2,000
61	Cementing Prod. Casing	17,000
70	Completion Rig	15,000
71	Perf. & Cased Hole Logging	3,500
72	Acidizing	---
73	Fracturing	35,000
74	Tank Rental	2,200
75	Trucking - Completion	4,000
76	Water - Completion	6,000
77	Rental Tools - Completion	1,500
78	Clean-up Location	1,500
79	Power Swivel, Pump & Pit Rental	2,000
80	Contract Serv. & Labor - Completion	7,000
90	Supervision - Administrative	4,000
91	Supervision - Legal	500
92	Supervision - Field	7,500
	<b>TOTAL INTANGIBLES</b>	<b>\$302,660</b>
	±5 % Contingency	22,670

**TOTAL WELL COST** **\$476,130**

APPROVALS

Dugan Production Corp. By Thomas A. Dugan Date 9-16-87

Joint Interest Owner \_\_\_\_\_ By: \_\_\_\_\_ Date \_\_\_\_\_

\*AFE dated 7-16-87 amended from \$484,200 to \$476,130 to reflect a revision in estimated TD from 8360' to 8070'.

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS  
GOVERNOR

December 23, 1967

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-5800

Mr. Robert Stovall  
Attorney at Law  
P. O. Box 10021  
Farmington, New Mexico 87499

Re: CASE NO. 9252  
ORDER NO. R-3567

Applicant:  
Dugan Production Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

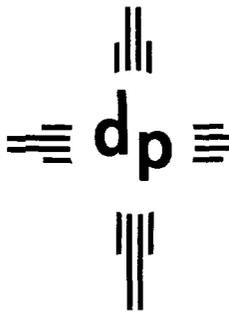
*Florene Davidson*

FLORENE DAVIDSON  
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD X  
Artesia OCD X  
Aztec OCD X

Other Perry Pearce



# dugan production corp.

December 3, 1987

New Mexico Oil Conservation Division  
ATTN: Michael E. Stogner  
P. O. Box 2008  
Santa Fe, New Mexico 87504-2008

RE: Case Nos. 9251 and 9252

Dear Mr. Stogner:

Pursuant to your instructions during the hearing of the captioned cases, enclosed is a copy of the correspondence you requested.

1. Letter dated November 18, 1987, received in our office on November 23, 1987, from Venada National.
2. Executed copies of AFEs from Johansen Energy Partnership for both wells.
3. Copy of letter dated November 13, 1987 from Mesa Grande Resources, Inc. to Dugan Production Corp. and a response from Dugan dated November 24, 1987.

Further, enclosed is a copy of our Exhibit #8 for Case #9251 with the decimal interest carried out far enough to add up to 100%. Exhibit #8 for Case #9252 totals 100% and didn't need any changes.

Finally, I am attaching a revised copy of the Exhibit "A" to the Operating Agreement for both wells, which was distributed to all parties on November 24, 1987.

Thank you for your patience in this matter and if there should be any questions, please contact me.

Sincerely,

  
Richard Corcoran, Landman

RC:jr

Enclosures

November 18, 1987

Mr. Richard Corcoran  
Dugan Production Corporation  
P.O. Box 208  
Farmington, New Mexico 87499-0208

Re: Your proposed Mancos wells  
Sections 21 & 28, T26N-R2W  
Rio Arriba County, New Mexico

Dear Mr. Corcoran:

We are in receipt of your letter of November 5, 1987 concerning your proposal to drill two wells in the above referenced properties.

Please be advised that it is our intention to participate in the drilling of those wells as working interest partners and to pay our share of drilling and completion costs. However the paper work which you sent along must first show our interest before we can properly execute same. I suggest that you send along new Exhibit "A"'s for the Operating Agreements and new AFE's that both would reflect our fractional interest in the ownership.

As to your acquiring an assignment from us I would say that this is possible. Our interest would be in an even trade for interests which you hold in other Gavilan acreage and I suggest that we would participate in the proposal that Mesa Grande Resources now has before you. Please advise.

Sincerely,



Ronald D. Leineke, President

**SIGN RETURN  
THIS COPY**

AUTHORIZATION FOR EXPENDITURE - AMENDED\*

WELL NAME AND NO. Evans Com #1 Date 9-16-87  
 LOCATION 1650' FNL & 1650' FWL, Section 21, T-26N, R-2W, Rio Arriba County, NM

298 - TANGIBLES

Code	Description	Quantity	Unit	Price	Amount
01	Surface Casing -	200	ft. of	9-5/8" @\$11.50/ft.	\$ 2,300
02	Prod. Casing -	8090	ft. of	5 1/2", 15 1/2 & 17# @\$5.75/ft.	46,520
	Casing -		ft. of		---
04	Tubing -	7600	ft. of	2-7/8", 6.5# @\$2.25/ft.	17,100
	Tubing -		ft. of		---
06	Packer and Tubing Equipment				---
07	Wellhead Equipment				7,000
08	Valves & Fittings				2,500
09	Production Unit & Treaters				10,000
10	Tank Battery				12,500
11	Pumping Unit & Prime Mover				37,500
12	Rods, Bottom-hole Pump, Aux Equip.				12,500
13	Misc. Tangible Equipment				---
14	Well Hookup				---
15	Gas Lines and Installation				---
16	Pipeline Installation				3,000
	<b>TOTAL TANGIBLES</b>				<b>\$150,920</b>

*1 ASE  
9251*

299 - INTANGIBLES

Code	Description	Quantity	Unit	Price	Amount
30	Survey Archeologist				1,000
31	Location Damages				2,500
32	Road & Location Construction				5,000
33	Water & Gas Lines				---
40	Contract Drilling	8090 ft.	@ \$ 12 /ft.	plus tax	97,080
41	Daywork	48 hrs.	@ \$ 190 /hr.		9,120
43	Drill Stem Test & Cores				---
44	Mud Logging				---
45	Open Hole Logging				7,000
46	Rental Tools				---
47	Casing Float Equip. & Centralizer				4,000
48	Trucking				2,000
49	Mud				45,000
50	Water - Drilling Oper.				15,000
51	Casing Crew & Power Tongs				---
52	Miscellaneous				1,000
53	Testing Tubular Goods				---
54	Tool & Equip. Repair				---
55	Company & Contract Labor, Roustabouts				5,000
56	Supplies				500
60	Cementing Surface Casing				2,000
61	Cementing Prod. Casing				17,000
70	Completion Rig				15,000
71	Perf. & Cased Hole Logging				3,500
72	Acidizing				---
73	Fracturing				35,000
74	Tank Rental				2,200
75	Trucking - Completion				4,000
76	Water - Completion				6,000
77	Rental Tools - Completion				1,500
78	Clean-up Location				1,500
79	Power Swivel, Pump & Pit Rental				2,000
80	Contract Serv. & Labor - Completion				7,000
90	Supervision - Administrative				4,000
91	Supervision - Legal				500
92	Supervision - Field				7,500
	<b>TOTAL INTANGIBLES</b>				<b>\$302,900</b>
	<b>+5 % Contingency</b>				<b>22,780</b>
	<b>TOTAL WELL COST</b>				<b>\$476,600</b>

APPROVALS

Dugan Production Corp. By: *J. H. Dugan* Date 9-16-87

Joint Interest Owner *J. H. Dugan* By: *J. H. Dugan* Date 11-16-87

*DUGAN PRODUCTION CORP.*

\*AFE dated 7-16-87 amended from \$482,600 to \$476,600 to reflect a revision in estimated

AUTHORIZATION FOR EXPENDITURE - AMENDED\*

WELL NAME AND NO. Bridge Com #1 Date 9-16-87  
LOCATION 1650' FSL & 2200' FEL, Section 28, T-26N, R-2W, Rio Arriba County, NM

298 - TANGIBLES

Code	Description	Quantity	Unit	Price	Amount
01	Surface Casing -	200	ft. of	9-5/8" @ \$11.50/ft.	\$ 2,300
02	Prod. Casing -	8070	ft. of	5-1/2", 15# & 17# @ \$5.75/ft	46,400
	Casing -		ft. of		
04	Tubing -	7600	ft. of	2-7/8", 6.5# \$2.25/ft.	17,100
	Tubing -		ft. of		---
06	Packer and Tubing Equipment				---
07	Wellhead Equipment				7,000
08	Valves & Fittings				2,500
09	Production Unit & Treaters				10,000
10	Tank Battery				12,500
11	Pumping Unit & Prime Mover				37,500
12	Rods, Bottom-hole Pump, Aux Equip.				12,500
13	Misc. Tangible Equipment				---
14	Well Hookup				---
15	Gas Lines and Installation				---
16	Pipeline Installation				3,000
	<b>TOTAL TANGIBLES</b>				<b>\$150,800</b>

*Case*  
*9252*

299 - INTANGIBLES

Code	Description	Amount
30	Survey Archeologist	1,000
31	Location Damages	2,500
32	Road & Location Construction	5,000
33	Water & Gas Lines	---
40	Contract Drilling <sup>8070</sup> ft. @ \$ 12 /ft. plus tax	96,840
41	Daywork 48 hrs. @ \$ 190/hr.	9,120
43	Drill Stem Test & Cores	---
44	Mud Logging	---
45	Open Hole Logging	7,000
46	Rental Tools	---
47	Casing Float Equip. & Centralizer	4,000
48	Trucking	2,000
49	Mud	45,000
50	Water - Drilling Oper.	15,000
51	Casing Crew & Power Tongs	---
52	Miscellaneous	1,000
53	Testing Tubular Goods	---
54	Tool & Equip. Repair	---
55	Company & Contract Labor, Roustabouts	5,000
56	Supplies	500
60	Cementing Surface Casing	2,000
61	Cementing Prod. Casing	17,000
70	Completion Rig	15,000
71	Perf. & Cased Hole Logging	3,500
72	Acidizing	---
73	Fracturing	35,000
74	Tank Rental	2,200
75	Trucking - Completion	4,000
76	Water - Completion	6,000
77	Rental Tools - Completion	1,500
78	Clean-up Location	1,500
79	Power Swivel, Pump & Pit Rental	2,000
80	Contract Serv. & Labor - Completion	7,000
90	Supervision - Administrative	4,000
91	Supervision - Legal	500
92	Supervision - Field	7,500

**TOTAL INTANGIBLES** **\$302,660**  
±5 % Contingency 22,670

**TOTAL WELL COST** **\$476,130**

**APPROVALS**  
Dugan Production Corp. By: J. H. Dugan Date 9-16-87

Joint Interest Owner W. HANSEN ENERGY, INC. By: [Signature] Date 11-16-87

\*AFE dated 7-16-87 amended from \$484,200 to \$476,130 to reflect a revision in estimated TD from 8360' to 8070'.

**MESA GRANDE RESOURCES, INC.**

**1200 PHILTOWER BUILDING  
TULSA, OKLAHOMA 74103  
(918) 587-8494**

November 13, 1987

Dugan Production Corporation  
Post Office Box 208  
Farmington, New Mexico 87499-0208

Attention: Mr. Rich Corcoran

RE: Gavilan Acreage Farmout Offer

Dear Rich,

Please review the enclosed in order to confirm our conversation of November 5, 1987 and our understanding that the anticipated mutual farmout agreement between Mesa Grande Resources, Inc. ("Mesa Grande") and Dugan Production Corporation ("Dugan") will include the following terms and provisions:

(1) Mesa Grande will farmout our acreage in Sections 21, 27 and 28 of Township 26 North, Range 2 West, Rio Arriba County, New Mexico to Dugan. Dugan will farmout their acreage to Mesa Grande in Sections 3, 4, 11, and 23 of Township 25 North, and 29, 32, 33, and 34 of Township 26 North, all in Range 2 West, of Rio Arriba County, New Mexico. The acreage of both parties will be referred to herein as "the Subject Acreage".

(3) There will be two separate farmout agreements; one covering the Mesa Grande to Dugan farmout and the other covering the Dugan to Mesa Grande farmout. Each Farmout Agreement will contain substantially the same terms and provisions; it is recognized that certain terms may need to be different to maintain an equivalent trade.

(4) Each agreement will require the drilling of all acreage covered or the inclusion of the acreage covered in an approved Gavilan Mancos (or similiar pool) drilling unit by June 30, 1992. There will be no requirement to establish commercial production to earn.

(5) Assignments of interest are to be delivered upon execution and acceptance of the respective farmout agreements.

(6) The geologic horizons to be included in the agreements will cover everything from the base of the Pictured Cliffs to basement.

-----Rich, this was an area in which we had not agreed. Alex and I both feel that this is a requirement in order to achieve the separation that is desired.-----

(7) The farmout agreements will provide for the delivery of a 79% NRI lease by the farmor, on all tracts to be included, with the farmor retaining any residual interest as an overriding royalty interest in the respective leases.

-----We are willing to allow for delivery of any NRI between 78% and 79% for each agreement.-----

(8) Upon 150% payout of costs, as defined, Dugan and Mesa Grande will have the option to convert 0.5% of their retained ORRI in the respective acreage to a one-eighth working interest which will be subject to all royalties and burdens of record on the date of execution of the agreements.

-----Rich, the amount of ORRI converted will be contingent upon the amount of the NRI delivered. It is also understood by Mesa Grande that the one-eighth working interest for which our ORRI will be converted will represent the entire one-eighth reversionary interest due to Northwest and that Dugan will not retain any responsibility for that burden.-----

(9) Payout will be that point when the Farmee has recovered from the Net Proceeds from the sale of production from all wells drilled within a proration unit containing the Subject Acreage or upon lands pooled therewith, one hundred and fifty percent (150%) of the total of (i) the total costs for the drilling, testing, completing and equipping of a well for the taking of production (including the installation of all necessary surface equipment) and for the plugging and abandonment of the same in the event a well is completed as a dry hole (whether or not a completion attempt is made). (ii) all costs incurred in operations in preparation for drilling, all costs incurred for the settlement of damage claims and the cost of restoring the well site in accordance with applicable government and/or lease requirements.

(10) Net Proceeds as used in (10) above will for the purpose of this agreement be defined as gross proceeds from the sale of production attributable to the Subject Acreage less royalties, overriding royalties and other lease burdens (including the ORRI retained by the farmor referred to in (7) and (8) above, but excluding any overrides created by farmee, its successors or assigns subsequent to execution of the Agreements) and less severance taxes, gross production taxes and other similar taxes, windfall profit taxes and operating costs. In computing payout, any amounts realized from the sale or salvage of equipment attributable to the Subject Acreage shall be applied in reduction of equipment costs.

(11) Both Farmors shall prior to consummation of these intended farmout arrangements, provide to Farmees an opinion from their legal counsel which will provide assurance that this

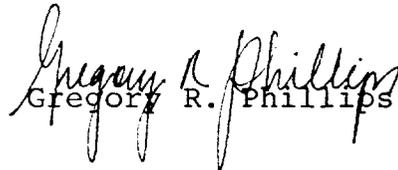
November 13, 1987  
Dugan Production Corp.  
Page Three

Agreement and all agreements associated herewith are not a violation of any previous agreements or assurances made to any party or person, including without limitation the Agreement for Purchase and Sale between Mesa Grande and Northwest Pipeline Corporation dated as of the 1st day of August, 1986.

(12) The documents which will govern the development of the Subject Acreage will be the most current forms/editions of the A.A.P.L. Model Form Operating Agreement and COPAS Accounting Procedure for Joint Operations.

Please review for completeness and accuracy. We will wait for your response to proceed further.

Sincerely,

  
Gregory R. Phillips

GRP:wp



# dugan production corp.

---

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November 24, 1987

Mesa Grande Resources, Inc.  
1200 Philtower Building  
Tulsa, Oklahoma 74103

ATTN: Gregory R. Phillips

RE: Mutual Farmout Agreements  
Township 26 North, Range 2 West  
Parts of Sections 21, 27, 28, 29, 32, 33, 34  
Township 25 North, Range 2 West  
Parts of Sections 3, 4, 1, 11, 23

Dear Greg:

Reference is made to your letter dated November 13, 1987 and to our various phone conversations regarding the terms under which Mesa Grande Resources, Inc. (MGR) and Dugan Production Corp. (DPC) agree to exchange farmout agreements covering their respective interest in the captioned lands.

As we discussed, this letter is an effort to clarify certain terms of the above mentioned letter.

DPC and MGR agree that the following changes, additions and/or deletions reflect their intentions and will be incorporated in some form in the formal farmout agreements.

1. Page 1, paragraph 4, add "However, completion as a producer of oil and/or gas shall be required to earn the acreage included within the approved drilling unit."
2. Page 1, paragraph 5, add "Said assignment shall provide that the interest being assigned will revert to the ASSIGNOR on June 1, 1992, unless a well capable of producing oil and/or gas has been completed on the subject lands or lands pooled therewith."
3. Page 2, paragraph 8, line 2, after "0.5%" delete "of their retained".

Mesa Grande Resources, Inc.

Page 2 of 2

RE: Mutual Farmout Agreements

Township 26 North, Range 2 West

Parts of Sections 21, 27, 28, 29, 32, 33, 34

Township 25 North, Range 2 West

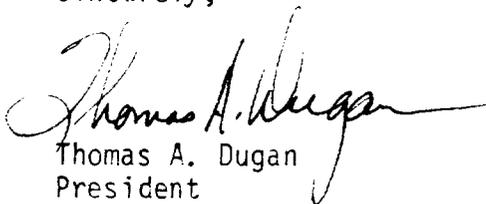
Parts of Sections 3, 4, 1, 11, 23

November 24, 1987

4. Page 2, paragraph 9, line 6, change "equipping of a well for the" to "equipping of all wells for the"
5. Page 2, end of paragraph 9, add "Any costs related to drainage issues shall not be included in payout computations."
6. Add preferential right to purchase language to the body of the agreement.
7. Page 3, paragraph 12, change to "The Operating Agreement and accounting procedures attached hereto will be used to govern the development and operation of the subject lands."
8. The formal agreement will provide the FARMEE with all geologic and well information normally given to a working interest owner.

If the foregoing meets with your understanding and approval, please execute and return one copy hereof to the undersigned within fifteen (15) days of the date of this letter. Such execution will constitute a contract sufficient to bind MGR and DPC until January 2, 1988, or until the formal farmout agreements have been executed, whichever first occurs.

Sincerely,

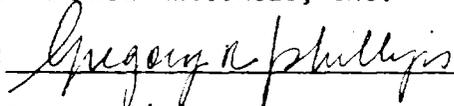
  
Thomas A. Dugan  
President

TAD:jfr

Enclosures

AGREED TO AND ACCEPTED this 15<sup>th</sup> day of December, 1987.

MESA GRANDE RESOURCES, INC.

By:   
Title: VICE PRESIDENT

NMCCD Case # 9251 (Re-opened)  
December 2, 1987

DUGAN PRODUCTION CORP.'S EXHIBIT #8

Dugan Production Corp.'s Evans Com #1 Well  
Revised Working Interest Tabulation  
Township 26 North, Range 2 West, NMPM  
Section 21: All  
Rio Arriba County, New Mexico

<u>Company</u>	<u>Working Interest %</u>	<u>Executed AFE</u>	<u>Executed Operating Agreement</u>
Dugan Production Corp.	40.62500000	X	X
Mountain States Natural Gas Co.	35.88018875		
Mesa Grande Resources, Inc.	6.90732000		
Peter C. Neumann	1.44230000		
Venada National	0.87890000		
Johnansen Energy Partnership	0.14648000	X	
Robert L. Bayless*	13.82812475	X	
Huntington T. Walker	0.17303450	X	X
Kindermac Partnership	0.11865200	X	X
Total	<u>100.00000000%</u>		

\*Includes a farmout of the interest leased to Alinda Hunt Hill Trust and Margaret Hill.

M'CD Case # 9252 (Continued)  
December 2, 1987

DUGAN PRODUCTION CORP.'S EXHIBIT #8

Dugan Production Corp.'s Bridge Com #1 Well  
Revised Working Interest Tabulation  
Township 26 North, Range 2 West, NMPM  
Section 28: All  
Rio Arriba County, New Mexico

<u>Company</u>	<u>Working Interest %</u>	<u>Executed AFE</u>	<u>Executed Operating Agreement</u>
Dugan Production Corp.	40.6250000	X	X
Mountain States Natural Gas Co.	24.2326260		
Mesa Grande Resources, Inc.	13.8146200		
Peter C. Neumann	2.8846100		
Verada National	1.7578100		
Johnansen Energy Partnership	0.2929600	X	
Amoco Production	1.2500000		
Sun Exploration & Prod. Co.*	14.3750000	X	
Robert L. Bayless	0.5729165	X	
Huntington T. Walker	0.1153565	X	X
Kindermac Partnership	0.0791010	X	X
Total	<u>100.0000000%</u>		

\*Includes an unrecorded lease from A. G. Hill, et.ux. to Sun Exploration dated September 30, 1987, amounting to 3.125% of the spacing unit (12.5% of the SE/4).

Attached to and made a part of that certain Operating Agreement dated September 16, 1987 by and between DUGAN PRODUCTION CORP., as Operator and MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL GAS, ROBERT L. BAYLESS, MARGARET HILL, PETER C. NEUMANN, VENADA NATIONAL, JOHANSEN ENERGY PARTNERSHIP, ALINDA HUNT HILL TRUST HUNTINGTON T. WALKER, and KINDERMAC PARTNERS, as Non-Operators

1. LANDS SUBJECT TO THIS AGREEMENT.

Township 26 North, Range 2 West, NMPM  
Section 21: All  
 Rio Arriba County, New Mexico

2. DEPTH RESTRICTIONS.

All interests in the Gallup formation only are subject to this Agreement.

3. The percentages of the parties to this Agreement are as follows:

	WI BPO	WI APO	APO (200% PENALTY)
Robert L. Bayless	13.82812475%	10.70312470%	10.70312470%
Dugan Production Corp.	85.88018875%	84.70831375%	48.82812500%
Margaret Hill	0%	1.56250000%	1.56250000%
Alinda Hunt Hill Trust	0%	1.56250000%	1.56250000%
Johansen Energy Partnership	0%	0.01831000%	0.01831000%
Kindermac Partners	0.11865200%	0.11865200%	0.11865200%
Mtn. States Natl. Gas Corp.	0%	0%	35.88018875%
Mesa Grande Resources, Inc.	0%	0.86341500%	0.86341500%
Peter C. Neumann	0%	0.18028750%	0.18028750%
Venada National	0%	0.10986250%	0.10986250%
Huntington T. Walker	0.17303450%	0.17303450%	0.17303450%
Totals	100.00000000%	100.00000000%	100.00000000%

4. Oil and Gas Leases.

A. Tract #1  
Township 26 North, Range 2 West, NMPM  
Section 21: NE/4 NE/4  
 Rio Arriba County, New Mexico

Federal Oil and Gas Lease NM-04077A insofar as the lease covers the NE/4 NE/4 of subject section.

B. Tract #2  
Township 26 North, Range 2 West, NMPM  
Section 21: SE/4 NE/4  
 Rio Arriba County, New Mexico

Federal Oil and Gas Lease NM-04077 insofar as the lease covers the SE/4 NE/4 of subject section.

C. Tract #3  
Township 26 North, Range 2 West, NMPM  
Section 21: W/2 NE/4  
 Rio Arriba County, New Mexico

Federal Oil and Gas Lease NM-01397 insofar as the lease covers the W/2 NE/4 of subject section.

D. Tract #4  
Township 26 North, Range 2 West, NMPM  
Section 21: SE/4  
 Rio Arriba County, New Mexico

Fee Oil and Gas Lease from O. C. Evans and C. C. Evans as Lessors, to Dugan Production Corp. as Lessee, insofar as the lease covers the SE/4 of subject section.

Attached to and made a part of that certain  
 Operating Agreement dated September 16, 1987  
 by and between DUGAN PRODUCTION CORP., as Operator and  
 MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL  
 GAS, ROBERT L. BAYLESS, MARGARET HILL, PETER C. NEUMANN,  
 VENADA NATIONAL, JOHANSEN ENERGY PARTNERSHIP, ALINDA HUNT HILL TRUST,  
 HUNTINGTON T. WALKER, and KINDERMAC PARTNERS, as Non-Operators

4. Oil and Gas Leases (continued).

- E. Tract #5  
Township 26 North, Range 2 West, NMPM  
 Section 21: SE/4 NW/4 and NE/4 SW/4  
 Rio Arriba County, New Mexico  
 Federal Oil and Gas Lease NM-58135 to Dugan Production Corp. as Lessee, insofar as the lease covers the SE/4 NW/4 and NE/4 SW/4 of subject section.
- F. Tract #6  
Township 26 North, Range 2 West, NMPM  
 Section 21: N/2 NW/4, SW/4 NW/4, NW/4 SW/4, S/2 SW/4  
 Rio Arriba County, New Mexico  
 Numerous fee oil and gas leases from various owners of undivided mineral interests covering 240.0 gross acres, held by Mountain States Natural Gas Corp. insofar as the leases cover the lands subject to this Agreement.
- G. Tract #6  
Township 26 North, Range 2 West, NMPM  
 Section 21: N/2 NW/4, SW/4 NW/4, NW/4 SW/4, S/2 SW/4  
 Rio Arriba County, New Mexico  
 Fee oil and gas lease dated March, 1986, from Katherine V. Winter, as Lessor, and H. T. Walker, as Lessee, recorded in Book 111 OG at Page 580 in the records of Rio Arriba County, New Mexico.
- H. Tract #6  
Township 26 North, Range 2 West, NMPM  
 Section 21: N/2 NW/4, SW/4 NW/4, NW/4 SW/4, S/2 SW/4  
 Rio Arriba County, New Mexico  
 Fee oil and gas lease dated November 20, 1985, from Horace N. Gibson, Jr., as Lessor, and Hunt Walker, as Lessee, recorded in Book 109 OG at Page 775 in the records of Rio Arriba County, New Mexico.
- I. Tract #6  
Township 26 North, Range 2 West, NMPM  
 Section 21: N/2 NW/4, SW/4 NW/4, NW/4 SW/4, S/2 SW/4  
 Rio Arriba County, New Mexico  
 Fee oil and gas lease dated March 28, 1985, from The Leota Jones Trust, as Lessor, and Robert L. Bayless, as Lessee, recorded in Book 107 OG at Page 859 in the records of Rio Arriba County, New Mexico.
- J. Tract #7  
Township 26 North, Range 2 West, NMPM  
 Section 21: N/2 NW/4, SW/4 NW/4, NW/4 SW/4, S/2 SW/4  
 Rio Arriba County, New Mexico  
 Fee oil and gas lease dated March 28, 1985, from Annie M. White, as Lessor, and Robert L. Bayless, as Lessee, recorded in Book 107 OG at Page 857 in the records of Rio Arriba County, New Mexico.

Attached to and made a part of that certain  
Operating Agreement dated September 16, 1987  
by and between DUGAN PRODUCTION CORP., as Operator and  
MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL  
GAS, ROBERT L. BAYLESS, MARGARET HILL, PETER C. NEUMANN,  
VENADA NATIONAL, JOHANSEN ENERGY PARTNERSHIP, ALINDA HUNT HILL TRUST  
HUNTINGTON T. WALKER, and KINDERMAC PARTNERS, as Non-Operators

5. The addresses of the parties to this Operating Agreement for notice purposes:

Dugan Production Corp.  
P. O. Box 208  
Farmington, NM 87499  
ATTN: Thomas A. Dugan, President

Robert L. Bayless  
P. O. Box 1541  
Farmington, NM 87499

Margaret Hill  
5000 Thanksgiving Tower  
Dallas, Texas 75201  
ATTN: Philip Garner

Johansen Energy Partnership  
7188 Envoy  
Dallas, Texas 75247

Kindermac Partners  
650 South Cherry Street, Suite 1225  
Denver, Colorado 80222  
ATTN: Kent C. Craig

Mesa Grande Resources, Inc.  
1200 Philtower Building  
Tulsa, Oklahoma 74103  
ATTN: Greg Phillips

Mountain States Natural Gas Corp.  
P. O. Box 35426  
Tulsa, Oklahoma 74135  
ATTN: Albert J. Blair, Jr.

Mountain States Natural Gas Corp.  
c/o Thomas W. Kellahin, Statutory Agent  
P. O. Box 2265  
Santa Fe, New Mexico 87504

Peter C. Neumann  
P. O. Box 1170  
Reno, Nevada 89504-1170

Venada National  
2580 Sierra Blvd., Suite A  
Sacramento, California 95825  
ATTN: Ron D. Leineke, President

Huntington T. Walker  
P. O. Box 2409  
Denver, Colorado 80201

Attached to and made a part of that certain  
 Operating Agreement dated September 16, 1987  
 by and between DUGAN PRODUCTION CORP., as Operator and  
 MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL  
 GAS, ROBERT L. BAYLESS, SUN EXPLORATION AND PRODUCTION CO.,  
 HUNTINGTON T. WALKER, KINDERMACH PARTNERS, PETER C. NEUMANN,  
 AMOCO PRODUCTION COMPANY, JOHANSEN ENERGY PARTNERSHIP,  
 and VENADA NATIONAL, as Non-Operators

1. LANDS SUBJECT TO THIS AGREEMENT.

Township 26 North, Range 2 West, NMPM  
Section 28: All  
 Rio Arriba County, New Mexico

2. DEPTH RESTRICTIONS.

All interests in the Gallup formation only are subject to this Agreement.

3. The percentages of the parties to this Agreement are as follows:

	<u>WI BPO</u>	<u>WI APO</u>	<u>APO (200% PENALTY)</u>
Dugan Production Corp.	33.6076260%	81.26387600%	57.03125000%
Mountain States Natural Gas Corp.	0%	0%	24.23262600%
Mesa Grande Resources, Inc.	0%	1.72682750%	1.72682750%
Robert L. Bayless	.5729165%	.57291650%	.57291650%
Sun Exploration & Production Co.	14.3750000%	14.37500000%	14.37500000%
Huntington T. Walker	0.1153565%	.11535650%	.11535650%
Kindermach Partners	0.0791010%	.07910100%	.07910100%
Peter C. Neumann	0%	.36057625%	.36057625%
Johansen Energy	0%	.03662000%	.03662000%
Venada National	0%	.21972625%	.21972625%
Amoco Production Company	<u>1.2500000%</u>	<u>1.25000000%</u>	<u>1.25000000%</u>
Totals	100.0000000%	100.00000000%	100.00000000%

4. Oil and Gas Leases.

A. Tract #1

Township 26 North, Range 2 West, NMPM

Section 28: NE/4

Rio Arriba County, New Mexico

Fee Oil and Gas Lease from O. C. Evans and C. C. Evans as Lessors, to Dugan Production Corp. as Lessee, insofar as the lease covers the NE/4 of subject section.

B. Tract #2

Township 26 North, Range 2 West, NMPM

Section 28: SW/4

Rio Arriba County, New Mexico

Federal Oil and Gas Lease NM-01806 insofar as the lease covers the SW/4 of subject section.

C. Tract #3

Township 26 North, Range 2 West, NMPM

Section 28: SE/4

Rio Arriba County, New Mexico

A. Fee Oil and Gas Lease from Mittie E. Bridge as Lessor, to Howard E. Henderson as Lessee, recorded in Book 83 at Page 869, in the records of Rio Arriba County, New Mexico.

B. That certain unrecorded fee oil and gas lease between A. G. Hill, et. ux. as Lessor, and Sun Exploration and Production Company, as Lessee.

Attached to and made a part of that certain  
 Operating Agreement dated September 16, 1987  
 by and between DUGAN PRODUCTION CORP., as Operator and  
 MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL  
 GAS, ROBERT L. BAYLESS, SUN EXPLORATION AND PRODUCTION CO.,  
 HUNTINGTON T. WALKER, KINDERMAC PARTNERS, PETER C. NEUMANN,  
 AMOCO PRODUCTION COMPANY, JOHANSEN ENERGY PARTNERSHIP,  
 and VENADA NATIONAL, as Non-Operators

4. Oil and Gas Leases (continued).

C. Tract #3 (continued)

Township 26 North, Range 2 West, NMPM

C. Separate fee oil and gas leases between Erema S. Boring, William Joseph Boring, Edgar Alfred Boring, Janice E. Robertson, Susan Elizabeth Schulze, Linda Murial Adkins, Myra Loudene Jones as Lessors, and Jerome P. McHugh as Lessee, recorded in various books and pages in the records of Rio Arriba County, New Mexico.

D. Fee oil and gas lease dated July 2, 1984, between Melvin D. Reuckhaus, as Lessor, and Huntington T. Walker, as Lessee, recorded in Book 103 at Page 976, in the records of Rio Arriba County, New Mexico.

D. Tract #4

Township 26 North, Range 2 West, NMPM

Section 28: NW/4

Rio Arriba County, New Mexico

A. Fee oil and gas lease dated March, 1986, from Katherine V. Winter as Lessor and H. T. Walker as Lessee, recorded in Book 111 OG at Page 580 in the records of Rio Arriba County, New Mexico.

B. Fee oil and gas lease dated March 28, 1985, from the Leota Jones Trust as Lessor to Robert L. Bayless as Lessee, recorded in Book 107 OG at Page 859 in the records of Rio Arriba County, New Mexico.

C. Fee oil and gas lease dated November 20, 1985, from Horace N. Gibson, Jr., as Lessor, and Hunt Walker, as Lessee, recorded in Book 109 OG at Page 775 in the records of Rio Arriba County, New Mexico.

D. Fee oil and gas lease dated March 28, 1985, from Annie M. White, as Lessor, and Robert Bayless, as Lessee, recorded in Book 107 at Page 857 in the records of Rio Arriba County, New Mexico.

E. Numerous fee oil and gas leases from various owners of undivided mineral interests covering 160.0 gross acres held by Mountain States Natural Gas Corp. insofar as the leases cover the lands subject to this Agreement.

5. The addresses of the parties to this Operating Agreement for notice purposes are as follows:

Dugan Production Corp.  
 P. O. Box 208  
 Farmington, New Mexico 87499  
 ATTN: Thomas A. Dugan, President

Mountain States Natural Gas Corp.  
 P. O. Box 35426  
 Tulsa, Oklahoma 74135  
 ATTN: Albert J. Blair, Jr.

Mountain States Natural Gas Corp.  
 c/o Thomas W. Kellahin, Statutory Agent  
 P. O. Box 2265  
 Santa Fe, New Mexico 87504

Attached to and made a part of that certain  
Operating Agreement dated September 16, 1987  
by and between DUGAN PRODUCTION CORP., as Operator and  
MESA GRANDE RESOURCES, INC., MOUNTAIN STATES NATURAL  
GAS, ROBERT L. BAYLESS, SUN EXPLORATION AND PRODUCTION CO.,  
HUNTINGTON T. WALKER, KINDERMAC PARTNERS, PETER C. NEUMANN,  
AMOCO PRODUCTION COMPANY, JOHANSEN ENERGY PARTNERSHIP,  
and VENADA NATIONAL, as Non-Operators

5. The addresses of the parties to this Operating Agreement for notice purposes are continued:

Mesa Grande Resources, Inc.  
1200 Philtower Building  
Tulsa, Oklahoma 74103  
ATTN: Greg Phillips

Robert L. Bayless  
P. O. Box 1541  
Farmington, New Mexico 87499

Huntington T. Walker  
P.O. Box 2409  
Denver, Colorado 80201

Kindermac Partners  
650 S. Cherry St., Suite 1225  
Denver, Colorado 80222

Peter C. Neumann  
P.O. Box 1170  
Reno, Nevada 89504-1170

Venada National  
2580 Sierra Blvd., Suite A  
Sacramento, California 95825  
ATTN: Ron D. Leineke, President

Johansen Energy Partnership  
7188 Envoy  
Dallas, Texas 75247

Amoco Production Company  
1670 Broadway  
Denver, Colorado 80201

\*Sun Operating Limited Partnership  
P.O. Box 2880  
Dallas, Texas 75221-2880

\* Please note, in order to ensure that all of Sun's joint interest billings are received, processed and paid within the stipulated 15 day period, joint interest billings should be directed to the attention of Joint Interest/OBO Accounting.



STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

GARREY CARRUTHERS  
GOVERNOR

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

*M.S.*

*9252*

M E M O R A N D U M

TO: MIKE STOGNER, VIC LYON, ERNIE BUSCH,  
AND FRANK CHAVEZ

FROM: WILLIAM J. LEMAY *WJL*

SUBJECT: DUGAN GAVILAN COMPULSORY POOLING CASES

Let's adopt the following procedure:

Prepare nomenclature case (Ernie and Frank) for Gavilan and bring in the adjacent producing unit to Dugan. After case is advertised, then schedule Tom's 640-acre compulsory pooling cases.

Frank - call Tom and explain why we must take this route; otherwise spacing unit would be 40 acres as per our statewide rules.

In the future we must have a quarterly (minimum) nomenclature case on the docket for Northwest New Mexico to accommodate cases such as this one -- also so the operators know where they stand on spacing.

October 1, 1987  
fd/