

# dugan production corp.

NMOCD CASE NO. <u>9327</u>
March 16, 1988
Dugan Production Corp.
Exhibit No. <u>3</u>

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 29, 1988

TO: WORKING INTEREST OWNERS (Address List Attached)  
Section 22, Township 26 North, Range 2 West, NMPM  
Rio Arriba County, NM

Gentlemen:

Dugan Production Corp. has leasehold interest comprising the NW/4 of the captioned section. It is our intention to develop this acreage with respect to the Gavilan Mancos Oil Pool on or before April 15, 1988. The Gavilan Mancos pool rules provide for 640 acre spacing units, effective as of 6-8-87, and it is Dugan Production's belief that most wells completed within the Mancos interval will drain at least 640 acres.

Amoco Production completed the Seifert Gas Com A Well No. 1 (located in the SE/4 SE/4 of the subject section) on June 28, 1987 with an initial potential pumping 54 BOPD + 120 MCFD (GOR = 2222). It is our understanding that, as of this date, Amoco has produced very little from this well. A review of production records on file at the Aztec office of the New Mexico Oil Conservation Division (NMOCD) through November 1987 reflect that 1930 barrels of oil were produced during June 1987 in an unspecified number of days. The well was shut-in July thru November awaiting a pipeline connection for gas sales. As reflected on Amoco's form C-102 filed for the Seifert Gas Com A Well No. 1, the E/2 of Section 22 has been dedicated to the well and it is our understanding that the working interest ownership is as follows:

Amoco Production	57.26562%
Kindermac Partners	36.48438%
Meridian Inc.	6.25000%

Our review of leasehold records also indicates that ownership of the W/2 of Section 22 is as follows:

Dugan Production Corp.	50.000000%
Reading & Bates Petroleum Co.	16.666665%
Hooper, Kimbell & Williams Inc.	16.666665%
Ibex Partnership	7.804365%
P.C., Ltd.	7.804365%
Carolyn Clark Oatman	0.437420%
Warren Clark Trust	0.406900%
Warren Clark Testamentary Trust	0.213620%

Letter to Working Interest Owners  
January 29, 1988  
Page 2

In view of Section 22 being within the boundary of the Gavilan Mancos Oil Pool and considering that the spacing for this area was set at 640 acres per well (effective 6-8-87), we propose that the working interest owners within Section 22 negotiate mutually satisfactory terms for the participation in a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 comprising all of Section 22. We believe that this is not only consistent with the Gavilan Mancos Pool Rules in effect at the time of completion of the Seifert Gas Com A Well No. 1, but also Section 70-2-18(A) of the New Mexico Statutes. Along these lines, Dugan Production has had preliminary conversations with Amoco Production Company and Amoco is currently evaluating our proposal. We are writing now to request that each working interest owner within Section 22 consider our proposal and let us know whether or not you support the voluntary establishment of a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 which would entail communitizing the acreage in the E/2 with the W/2 acreage.

In view of our desire to have this matter resolved as quickly as possible, Dugan Production is requesting our counsel to set this matter for hearing before the New Mexico Oil Conservation Division on their 3-2-88 docket. It is our intention to pursue the voluntary formation of the spacing unit, and in the event we can successfully form a 640 acre spacing unit voluntarily, our applications to the NMOCD in this matter will be dismissed.

Should you have questions regarding this matter, please feel free to contact either me or Rich Corcoran, our Land Manager, at the letterhead address.

Sincerely,

*John D. Roe*

John D. Roe  
Manager of Engineering

JDR/cg

attachment - list of working interest owners

cc: Tom Kellahin

**WORKING INTEREST OWNERS**

Section 22, T-26N, R-2W  
Rio Arriba County, NM  
(Page 1 of 2)

East Half (Currently dedicated to Amoco Production  
Section Company's Seifert Gas Com A Well No. 1  
Located in the SESE of Sec.22,T-26N,R-2W)

Amoco Production Company  
17th & Broadway  
P.O. Box 800  
Denver, CO 80201

Sun Exploration & Prod. Co.  
Attn: Frank Syfan  
P.O. Box 5940 T.A.  
Denver, CO 80217-5940

Meridian, Inc.  
Attn: Van Goebel  
P.O. Box 4289  
Farmington, NM 87499

West Half Section

NW/4 Dugan Production Corp.  
Attn: Rich Corcoran  
P.O. Box 208  
Farmington, NM 87499

SW/4 Reading & Bates Petroleum Co.  
Attn: Eric Koelling  
3200 Mid-Continent Tower  
Tulsa, OK 74103

Hooper, Kimball & Williams, Inc.  
Attn: Greg Owens  
P.O. Box 520970  
Tulsa, OK 74152

Ibex Partnership  
Attn: Ron Holloway  
P.O. Box 911  
Breckenridge, Texas 76024-0911

**WORKING INTEREST OWNERS**

Section 22, T-26N, R-2W  
Rio Arriba County, NM  
(Page 2 of 2)

PC, Ltd.  
Attn: Ron Holloway  
P.O. Box 911  
Breckenridge, Texas 76024-0911

Carolyn Clark Oatman  
P.O. Box 1846  
Austin, Texas 78767

Warren Clark Trust  
P.O. Box 1846  
Austin, Texas 78767

Warren Clark Testamentary Trust  
P.O. Box 1846  
Austin, Texas 78767

wiolist2

DUGAN PRODUCTION LETTER DATED 1-29-88  
 RETURN RECEIPT CARDS  
 Working Interest Owners  
 E/2 of Section 22, T26N, R2W, NMPM  
 Rio Arriba County, NM

(Page 1 of 2)

**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. †(Extra charge)†  
 2.  Restricted Delivery †(Extra charge)†

3. Article Addressed to:  Amoco Production Co. P.O. Box 800 Denver, CO 80201	4. Article Number P-488 636 961  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	
7. Date of Delivery FEB - 2 1988	

Always obtain signature of addressee or agent and **DATE DELIVERED.**

PS Form 3811, Mar. 1987

\* U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

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

3. Article Addressed to:  Kindermac Partners Attn: Kent Craig 650 South Cherry, Suite 1225 Denver, CO 80222	4. Article Number P-488 636 962  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 STA
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Kent Craig</i>	
7. Date of Delivery	

Always obtain signature of addressee or agent and **DATE DELIVERED.**

PS Form 3811, Mar. 1987

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

3. Article Addressed to:  Meridian, Inc. Attn: Van Goebel P.O. Box 4289 Farmington, NM 87499	4. Article Number P-488 636 963  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>J. A. Goebel</i>	
7. Date of Delivery 2-1-88	

Always obtain signature of addressee or agent and **DATE DELIVERED.**

PS Form 3811, Mar. 1987

\* U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

Sun. Explor. & Prod. Co.  
 Attn: Frank Syfan  
 3151 South Vaughn Way, Suite 600  
 Aurora, Colorado 80014

DUGAN PRODUCTION CORP.  
 P. O. BOX 203  
 FARMINGTON, N. M. 87401  
 (505) 325-1821

SUBJECT: Section 22, T-26N, R-2W  
 DATE: 2-8-88

MESSAGE

Frank, Attached for your information & Review is a copy of our letter dated 1-29-88 addressed to working interest owners within Section 22 of T-26N, R-2W. It was our understanding that Kindermoe Partners was a WI owner of 36.48438% in the E/2 which is dedicated to Aurora's Seifert Gas Com #1 well. McHugh has advised us that Sun had acquired the interest of Kindermoe & this was confirmed by you during our phone conversation today. Please review this letter & let me know Sun's position (even tentatively) ASAP since we need to file our applications of the ocd by Tuesday 2/4/88 for the 3/2/88 hearing Docket.

SIGNED

Regards,  
 John Roe

Frank - As we discussed, I'm also sending for your info. a cc of our 1-29-88 letter sent to WIO in the Re drilling on 320 NSU.

cc - Tom Kallahan

QUESTIONS? CALL 800-238-5355 TOLL FREE.

**FEDERAL EXPRESS**

2/8/88

Sender's Federal Express Account Number: 110-0000000000000000

Sender's Name: John Roe  
 Department/Floor No.: DUGAN PRODUCTION CORP

Recipient's Name: Frank Syfan  
 Company: Sun Exploration & Production Company  
 Exact Street Address: 3151 South Vaughn Way, Suite 600  
 City: Aurora, CO 80014

OUR BILLING REFERENCE INFORMATION (FIRST 24 CHARACTERS WILL APPEAR ON INVOICE):  
 WIO Sec. 22, T26N R2W

SHIPMENT:  Bill Sender  Bill Recipient's FedEx Acct. No.  Bill 3rd Party FedEx Acct. No.  Bill Credit Card

**SERVICES CHECK ONLY ONE BOX**

PRIORITY 1 Overnight Delivery (Using Your Packaging)

OVERNIGHT LETTER

OVERNIGHT DELIVERY USING OUR PACKAGING

Courier: Pak Overnight Envelope 12" x 15 1/2"

Overnight Box 12 1/2" x 17 1/2" x 3"

Overnight Tube 38" x 6" x 6"

STANDARD AIR Delivery not later than second business day

**DELIVERY AND SPECIAL HANDLING CHECK SERVICES REQUIRED**

1  HOLD FOR PICK-UP (See Section 14 at right)

2  DELIVER WEEKDAY

3  DELIVER SATURDAY (Extra charge)

4  DANGEROUS GOODS (P-1 and Standard Air Packages only, Extra charge)

5  CONSTANT SURVEILLANCE SERVICE (CSS) (Extra charge (Do not Complete Section 5))

6  DRY ICE (See Section 14)

7  OTHER SPECIAL SERVICE

8

9  SATURDAY PICK-UP (Extra charge)

10

PACKAGES: 1 LBS, 2 LBS, 3 LBS, 4 LBS

YOUR DECLARED VALUE (See right): 1575.00

WEIGHT: LBS

Received At: 1 Regular Stop, 2 On-Call Stop, 3 Drop Box, 4 B.C. Station

Federal Express Corp. Employee No. 1575

Date/Time For Federal Express Use: 2/8/88 11:00

**YOUR DECLARED VALUE DAMAGE OR LOSS**

We are liable for no more than \$100 per package in the event of physical loss or damage unless you file in a higher Declared Value to the bill and document higher actual loss in the event of a claim. We charge 30¢ for each additional \$100 of declared value up to the maximum shown in our Service Guide. Declared value restrictions are shown on the back of the Sender's Copy of this label. We make no expressed or implied warranties.

**DELAY**

There is always a risk of late delivery or non-delivery in the event of a late delivery. Federal Express will, at your request and with some limitations, refund all transportation charges paid. See back of Sender's Copy of this label for further information.

**CONSEQUENTIAL DAMAGES**

We will not be responsible or liable for any loss or damage resulting from delay, non-delivery or damage to a package, except as noted above. This includes loss of sales, income, interest, profits, attorney fees and other costs, but is not limited to these items. Such damages are called consequential damages.

**DO NOT SHIP CASH OR CURRENCY**

PART #108001  
 FEC-S-751-1000  
 REVISION DATE 10/86  
 PRINTED U.S.A. NCRE

SENDER'S COPY/RETAIN FOR TRACE PURPOSES

DUGAN PRODUCTION LETTER DATED 1-29-88

RETURN RECEIPT CARDS

Working Interest Owners

W/2 of Section 22, T26N, R2W, NMPM

Rio Arriba County, NM

(Page 1 of 2)

**SENDER:** Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4.  
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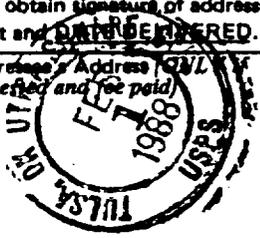
1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
↑(Extra charge)↑

3. Article Addressed to:  Reading & Bates Petroleum Corp. Attn: Eric Koelling 3200 Mid-Continent Tower Tulsa, OK 74103	4. Article Number <b>P-488 636 964</b>
	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
Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery <i>2-1-88</i>	

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

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

3. Article Addressed to:  Hooper, Kimball & Williams, Inc. Attn: Greg Owens P.O. Box 520970 Tulsa, OK 74152	4. Article Number <b>P-488 636 965</b>
	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
Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)  
6. Signature - Agent X <i>[Signature]</i>	
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1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
↑(Extra charge)↑

3. Article Addressed to:  Ibex Partnership Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number <b>P-488 636 966</b>
	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
Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery <i>2-1-88</i>	

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

3. Article Addressed to:  PC, Ltd. Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number P-488 636 967  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  Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Carol Blakely</i>	
7. Date of Delivery 2-1-88	

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

3. Article Addressed to:  Carolyn Clark Oatman P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 968  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  Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2/8/88	

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

3. Article Addressed to:  Warren Clark Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 969  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  Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2-2-88	

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

3. Article Addressed to:  Warren Clark Testamentary Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P0488 636 970  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  Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	