

dugan production corp.

NMOCD CASE NO. 9327

March 16, 1988

Dugan Production Corp.

Exhibit No. 4

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 29, 1988

TO: WORKING INTEREST OWNERS (Address List Attached)

Re: Proposed Gavilan Mancos Development Well
Township 26 North, Range 2 West, NMPM
Section 22: W/2
Rio Arriba County, New Mexico

Gentlemen:

Dugan Production Corp. is preparing to drill a development well in the Gavilan Mancos Oil Pool to an estimated depth of 8200' in the NE/4 NW/4 of Section 22, T-26N, R-2W that will include your interest in a non-standard 320-acre spacing unit consisting of the W/2 of said section.

As a working interest owner in the W/2 of Section 22, your support by farmout, sale or participation, is hereby requested. If you desire to participate, please execute and return one copy of the attached A.F.E. totalling \$479,000 to drill, complete and equip the proposed well. We will prepare an Operating Agreement for your approval upon notification that you will participate.

Should your decision be to farmout, Dugan Production Corp. is willing to farm-in your interest, based upon earning 100% of your interest in the spacing unit to the total depth drilled. During payout you will receive a proportionately reduced overriding royalty interest equal to the difference between the existing burdens and 18.75% of all production, convertible at payout to a 25% working interest, also proportionately reduced. Alternately, Dugan Production will consider purchasing your interest should you wish to sell.

The Gavilan Mancos Pool Rules (which govern the subject acreage) provide for 640 acre spacing, and in an effort to avoid drilling a second well in this section, Dugan Production Corp. has approached Amoco and the other working interest owners in Amoco's Seifert Gas Com A Well No. 1 (located in the SE/4 SE/4 of Section 22) and requested that they expand the spacing unit for the Seifert Gas Com A Well No. 1 to include all of Section 22. It is our belief that this request is reasonable, not only from a practical standpoint (since we believe most wells within Gavilan will drain at

least 640 acres), but is also mandated by the special pool rules which established 640 acre spacing units effective 6-8-87. Since the Seifert Gas Com A Well No. 1 was not actually completed until 6-28-87, it is our position that a 640 acre spacing unit is appropriate under the Gavilan Mancos Pool Rules and Section 70-2-18(A) of the New Mexico Statutes, N.M.S.A. 1978. The spacing unit for this well, as reflected on Amoco's C-102, is the E/2 of Section 22 containing 320 acres. Since Amoco's initial response was somewhat negative, and because of early lease expiration problems, we are planning to request that the New Mexico Oil Conservation Division schedule the appropriate hearings in this matter for the March 2, 1988 examiner hearing docket.

It is our intent to request that the Commission compel Amoco to rededicate all of Section 22 to the Seifert Gas Com A Well No. 1 in order to form a 640 acre spacing unit with Amoco as the operator and, thus, avoid the drilling of the subject well, at least for the current time. Should it become desirable to drill a second well in Section 22 on a 640 acre basis at some future date, then the working interest owners within Section 22 will evaluate that as a separate issue at some future date.

The attached A.F.E. is submitted for your approval, since we fully intend to drill a well on a non-standard 320 acre spacing unit comprising the W/2 of Section 22 in the event that the issue of a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 consisting of all of Section 22 is not resolved or will not be resolved by 4-15-88.

Please consider our proposed well at your earliest convenience and also your support for the formation of a 640 acre spacing unit for Amoco's Seifert Gas Com A Well No. 1 as proposed in our separate letter, of this date, to you. Because of lease expiration concerns, we plan to file the appropriate hearing applications with the NMOCD on 2-9-88 and, thus, request that you notify us of your position regarding this issue on or before 2-8-88.

If you have questions or need additional information, please feel free to contact me or John Roe at our letterhead address.

Sincerely,

John D. Roe for R. Corcoran.

Richard Corcoran
Manager of Land

JDR/RC/cg

attachment - list of working interest owners
cc: Tom Kellahin

WORKING INTEREST OWNERS

W/2 Section 22, T-26N, R-2W
Rio Arriba County, New Mexico

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, Oklahoma 74103

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

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

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

DUGAN PRODUCTION CORP.

P.O. Box 208, Farmington, NM 87401 Ph. (505) 325-1821

AUTHORIZATION FOR EXPENDITURE

WELL NAME AND NO. Federal 22 Com #1 Date 1-29-88
 LOCATION NE/4NW/4 Section 22, T-26N, R-2W, NMPM Rio Arriba County, NM

298 - TANGIBLES

Code	Description	Quantity	Unit	Price	Amount
01	Surface Casing -	200	ft. of 9-5/8" OD @ \$11.50/ft.		\$ 2,300
02	Prod. Casing -	8200	ft. of 5 1/2", 15 1/2" & 17# @ \$5.75/ft.		47,150
	Casing -		ft. of		---
04	Tubing -	7800	ft. of 2-7/8", 6.5# @ \$2.25/ft.		17,550
	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
	TOTAL TANGIBLES				\$152,000

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	8200	ft. @ \$ 12/ft. plus tax		98,400
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 \$304,220
 ±5 % Contingency 22,780

TOTAL WELL COST \$479,000

APPROVALS

Dugan Production Corp. By: [Signature] Date 1-29-88

Joint Interest Owner _____ By: _____ Date _____

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.
 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.

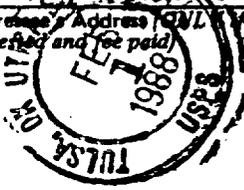
1. Show to whom delivered, date, and addressee's address. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: Reading & Bates Petroleum Corp. Attn: Eric Koelling 3200 Mid-Continent Tower Tulsa, OK 74103	4. Article Number P-488 636 964 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 DATE DELIVERED.
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

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: Hooper, Kimball & Williams, Inc. Attn: Greg Owens P.O. Box 520970 Tulsa, OK 74152	4. Article Number P-488 636 965 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 DATE DELIVERED.
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: Ibex Partnership Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number P-488 636 966 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 DATE DELIVERED.
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 DATE DELIVERED.
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	

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

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)† †(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 DATE DELIVERED.
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	

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

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)† †(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 DATE DELIVERED.
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	

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)† †(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 DATE DELIVERED.
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	