

dugan production corp.

March 2, 1988

NMOCD CASE NO. 9327

March 16, 1988

Dugan Production Corp.

Exhibit No. 7

TO: WORKING INTEREST OWNERS
IN THE W/2 OF SECTION 22, T-26N, R-2W, NMPM
(Address List Attached)

Gentlemen:

Attached for your review is a copy of a letter from Amoco Production Company dated February 29, 1988. This letter briefly summarizes terms that are mutually acceptable to Amoco Production Company and Dugan Production Corp. with respect to the voluntary pooling of Section 22 and respacing of Amoco's Seifert Gas Com "A" Well No. 1 from an E/2 - 320 acre spacing unit to a 640 acre spacing unit comprising all of Section 22. Also attached is Dugan Production's letter dated March 2, 1988 wherein we have formally accepted Amoco's proposal.

We are writing to encourage you, as a working interest owner in the W/2, to give Amoco's proposal your favorable consideration. This is a very complex matter and Dugan Production is of the opinion that a 640 acre spacing unit is appropriate for Section 22 and that the terms spelled out in Amoco's letter represent a reasonable compromise between the drilling parties in the E/2 and the non-drilling parties in the W/2 of this section.

As you are aware from our March 1, 1988 telephone contact with each working interest owner within Section 22, Dugan Production did continue our application before the New Mexico Oil Conservation Division (Case #9327) to either pool all of Section 22 to form a 640 acre spacing unit for the Seifert well or establish a non-standard 320 acre spacing unit comprising the W/2 for the drilling of a well in the NW/4 from March 2, 1988 to an examiner hearing scheduled for March 16, 1988. We have agreed to work closely with Amoco in their effort to finalize the voluntary pooling of Section 22. Amoco, in the very near future, will be distributing to all working interest owners within Section 22 a formal proposal along with an operating agreement for the voluntary pooling of Section 22 to form a 640 acre spacing unit for the Seifert Gas Com "A" Well No. 1. Should you have any questions regarding this matter or need any information to aid in your evaluation of this proposal, please feel free to contact me.

In our earlier correspondence, we transmitted an A.F.E. for the

Letter to Working Interest Owners
W/2 of Section 22, T-26N, R-2W
March 2, 1988
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drilling of the Ramses II Com Well No. 1 (initially known as the Federal 22 Com #1) on a non-standard 320 acre spacing unit comprising the W/2 of Section 22. In our negotiations with Amoco, Dugan Production has maintained, and still maintains, that our preference for developing the acreage in the W/2 is to voluntarily pool the whole section as a spacing unit for Amoco's Seifert Gas Com "A" Well No. 1, however, as a last resort, we are still working towards drilling a development well as initially proposed in the NW/4 of Section 22 should it become apparent that the voluntary pooling and necessary paper work will not be finalized before April 30, 1988. If you have not already done so, please execute our A.F.E. dated January 27, 1988 for the drilling of this well. Again, the drilling of a well in the W/2 will only be as a last resort, and should the voluntary spacing be finalized (which includes completing the paperwork necessary for communitization on a 640 acre basis), we will cancel our plans for drilling a development well in the W/2.

Should you have any questions, please feel free to contact Richard Corcoran or me at the letterhead address.

Sincerely,

John D. Roe

John D. Roe
Manager of Engineering

JDR/cg/wio-rc

cc: Working Interest Owners in E/2 of Section 22 (Amoco Production Company, Sun Exploration & Production Company & Meridian, Inc.)

cc: Tom Kellahin

WORKING INTEREST OWNERS

**West Half
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, OK 74103**

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

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

**PC, Ltd.
Attn: Ron Halloway
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**



Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

Neil W. Allen
Regional Environmental,
Safety and Utilization Manager

February 29, 1988

Dugan Production Company
709 Old Bloomfield Highway
Farmington, NM 87401

File: NWA-110-986.511

Voluntary Pooling and Respacing to 640 Acres
Section 22, T26N, R2W
Seifert Gas Com "A" Well No. 1
Gavilan-Mancos Pool
Rio Arriba County, New Mexico

Pursuant to the 2/26/88 telephone conversation between Mr. J.W. Hawkins of Amoco and Messrs. John Roe and Rich Corcoran of Dugan Production, Amoco agrees to voluntarily pool the mineral interests in the above captioned section and well subject to the following terms:

I Non-drilling working interest parties shall join the pool by:

- 1) paying 125% of their share of the cost to drill and complete the original well, or
- 2) paying 300% of their share of the cost of the original well out of production,
- 3) such 125% or 300% to be shared among the Original Drilling parties only.

II Additional drilling in the pool would be in accordance with the existing operating agreement for the Seifert Well - the basic terms of which are:

- 1) Overhead for Drilling well - \$3083/month
- 2) Overhead for Producing well - \$384/month
- 3) Non-consenting parties will pay cost plus 200% penalty (effectively 300% of cost)

III Dugan Production Company shall continue Case 9327 until March 16, 1988 in order to allow time for all parties to voluntarily commit and to advocate these above conditions if a NMOC hearing is necessary.



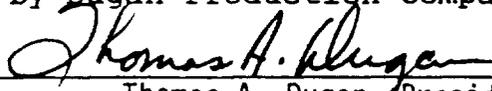
Dugan Producti . Company
February 29, 1988
Page 2

Dugan Production Company shall commit to paying the 125% share of well cost rather than electing the nonconsent provision under Condition I above.

If you agree to the above terms, please sign below and return one copy to Amoco Production Company, Attention: J.W. Hawkins.

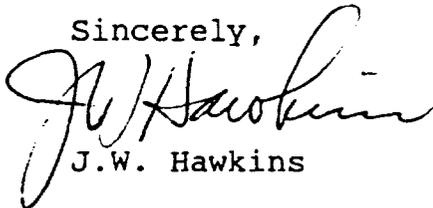
Agreed to and accepted by Dugan Production Company:

Signed: _____

 *
Thomas A. Dugan, President

Dated: March 2, 1988

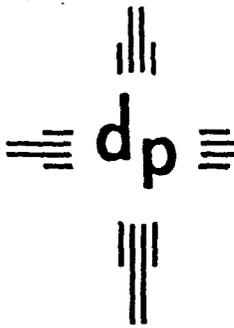
Sincerely,


J.W. Hawkins

JWH/ae

cc: J.D. Hamrick - Building
K.J. Lund - Building
M.E. Cuba - Building

* Executed subject to conditional letter of acceptance dated 3/2/88.



dugan production corp.

March 2, 1988

Amoco Production Company
P. O. Box 800
Denver, CO 80201

Attn: Michael E. Cuba

RE: Voluntary Respacing
Seifert Gas Com "A" Well
Sec. 22 - T26N - R2W
Rio Arriba County, NM

Dear Mr. Cuba,

Enclosed is one copy of your letter dated February 29, 1988, which has been executed on behalf of Dugan Production Corp. subject to the following modifications:

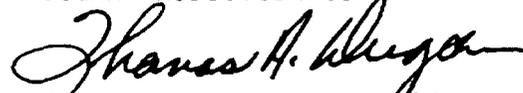
- 1) Page 1, Roman Numeral I, item 1
The 125% shall apply to the drilling and completion cost, excluding surface equipment beyond the well head connections and operating costs. Dugan Production Corp. shall pay 100% of its share of said surface equipment and operating costs.
- 2) Amoco Production Company as operator shall prepare, circulate for execution, and submit to the BLM a communitization agreement covering the subject lands prior to April 30, 1988.

Should the above modification be acceptable to Amoco Production Company, please execute and return one copy hereof to the undersigned by March 10, 1988.

Thank you for your prompt attention to this matter.

Sincerely,

DUGAN PRODUCTION CORP.


Thomas A. Dugan, President

Agreed to and accepted this _____ day of March, 1988.

AMOCO PRODUCTION COMPANY

BY: _____

Title: _____



Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

Robert B. Wilson
Division Land Manager

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

March 7, 1988

Dugan Production Corporation
P.O. Box 208
Farmington, New Mexico

Attention: Richard Corcoran

Seifert Gas Com "A" Well
Section 22-T26N-R2W
Rio Arriba County, New Mexico

Gentlemen:

Enclosed herewith please find one (1) executed original of your Conditional Letter of Acceptance, dated March 2, 1988, regarding the voluntary respacing of the referenced well from 320 acres (E/2) to 640 acres (entire section). Please be advised that Amoco will use its best efforts to submit a fully executed Communitization Agreement covering the 640 acre spacing unit to the B.L.M. on or before April 30, 1988; however, Amoco will not be held responsible for a lack of diligence on the part of other interests in the proposed communitized area in timely executing and returning the document. Amoco strongly recommends Dugan utilizes its influence with said other parties in encouraging their cooperation in our efforts to save Dugan's lease.

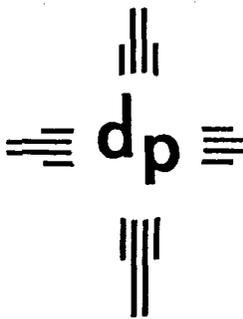
Very truly yours,

Michael E. Cuba

MEC:mw

Enclosure





dugan production corp.

March 2, 1988

Amoco Production Company
P. O. Box 800
Denver, CO 80201

Attn: Michael E. Cuba

RE: Voluntary Respacing
Seifert Gas Com "A" Well
Sec. 22 - T26N - R2W
Rio Arriba County, NM

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Should the above modification be acceptable to Amoco Production Company, please execute and return one copy hereof to the undersigned by March 10, 1988.

Thank you for your prompt attention to this matter.

Sincerely,

DUGAN PRODUCTION CORP.

Thomas A. Dugan
Thomas A. Dugan, President

Agreed to and accepted this 7th day of March, 1988.

AMOCO PRODUCTION COMPANY

BY: *Michael E. Cuba*
Title: SENIOR LANDMAN