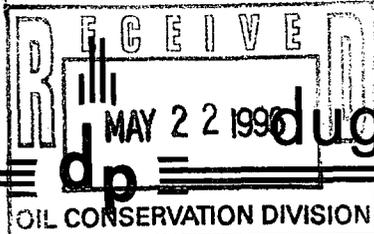


DHC 6/11/96
1304



Dugan production corp.

May 21, 1996

Mr. William LeMay
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

**RE: Administrative Approval to Downhole Commingle
Dugan Production Corp's Sapp #2
Unit H, Sec. 28, T24N, R8W
San Juan County, NM**

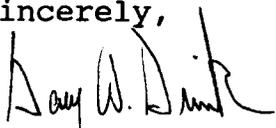
Dear Mr. LeMay:

We request administrative approval to downhole commingle the Cuervo Mesa Verde formation with the existing Lybrook Gallup formation in our Sapp #2 well. Since both zones are marginal and must be artificially lifted to produce, downhole commingling is the most efficient means for production.

Following completion of the Mesa Verde interval, it is recommended the well be tested for sixty (60) days to stabilize the production rate and the allocation be based on the total rate less the existing Gallup production. A fixed percentage will be reported so an actual allocation can be assigned.

A copy of this application is being submitted to all offset operators by certified mail with a request that they furnish your office in Santa Fe a Waiver of Objection.

Attached is application form C-107-A, a well location plat showing dedicated acreage for each pool, production decline curves and a map showing all offsetting operators.

Sincerely,

Gary W. Brink
Petroleum Engineer

GW/cg

cc: NMOCD, Aztec
Bureau of Land Management, Farmington
Navajo Nation
Offsetting Operators (BIA, Navajo Allotted)

DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980

DISTRICT II
811 South First St., Artesia, NM 88210-2835

DISTRICT III
1000 Rio Brazos Rd, Aztec, NM 87410-1693

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

2040 S. Pacheco
Santa Fe, New Mexico 87505-6429

Form C-107-A
New 3-12-96

APPROVAL PROCESS:

Administrative Hearing

EXISTING WELLBORE

YES NO

APPLICATION FOR DOWNHOLE COMMINGLING

Operator DUGAN PRODUCTION CORP. Address PO Box 420, Farmington, NM 87499

Sapp #2 H-28-T24N-R8W San Juan County

Lease Well No. Unit Ltr. - Sec - Twp - Rge County

OGRID NO. 006515 Property Code 003828 API NO. 30 045 29243 Spacing Unit Lease Types: (check 1 or more)
Federal State (and/or) Fee

| The following facts are submitted in support of downhole commingling: | Upper Zone | Intermediate Zone | Lower Zone |
|---|-------------------------------|-------------------|-------------------------------|
| 1. Pool Name and Pool Code | Cuervo MV 15010 | | Lybrook Gallup 42289 |
| 2. Top and Bottom of Pay Section (Perforations) | 4084-90 (Est) | | 5147-5380 |
| 3. Type of production (Oil or Gas) | Oil | | Oil |
| 4. Method of Production (Flowing or Artificial Lift) | Artificial Lift | | Artificial Lift |
| 5. Bottomhole Pressure Oil Zones - Artificial Lift: Estimated Current Gas & Oil - Flowing: Measured Current All Gas Zones: Estimated Or Measured Original | a. (Current) 239 (calc) | a. | a. 330 (calc) |
| | b. (Original) | b. | b. |
| 6. Oil Gravity (^o API) or Gas BTU Content | 38 ^o (est) | | 38.7 ^o |
| 7. Producing or Shut-In? | Not yet completed | | Producing |
| Production Marginal? (yes or no) | Yes | | Yes |
| * If Shut-In, give date and oil/gas/water rates of last production | Date: Rates: | Date: Rates: | Date: Rates: |
| Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data | | | |
| * If Producing, give date and oil/gas/water rates of recent test (within 60 days) | Date: Rates: 3/4/0 (est) | Date: Rates: | Date: 3/96 Rates: 10/100/0 |
| 8. Fixed Percentage Allocation Formula - % for each zone | Oil: Gas: MV=Total Prod. % GL | Oil: Gas: Prod. % | Oil: Gas: % |

9. If allocation formula is based upon something other than current or past production, or is based upon some other method, submit attachments with supporting data and/or explaining method and providing rate projections or other required data.

10. Are all working, overriding, and royalty interests identical in all commingled zones? Yes No
If not, have all working, overriding, and royalty interests been notified by certified mail? Yes No
Have all offset operators been given written notice of the proposed downhole commingling? Yes No

11. Will cross-flow occur? Yes No If yes, are fluids compatible, will the formations not be damaged, will any cross-flowed production be recovered, and will the allocation formula be reliable. Yes No (If No, attach explanation)

12. Are all produced fluids from all commingled zones compatible with each other? Yes No

13. Will the value of production be decreased by commingling? Yes No (If Yes, attach explanation)

14. If this well is on, or communitized with, state or federal lands, either the Commissioner of Public Lands or the United States Bureau of Land Management has been notified in writing of this application. Yes No

15. NMOC Reference Cases for Rule 303(D) Exceptions: ORDER NO(S). _____

16. ATTACHMENTS:

- * C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- * Production curve for each zone for at least one year. (If not available, attach explanation.)
- * For zones with no production history, estimated production rates and supporting data.
- * Data to support allocation method or formula.
- * Notification list of all offset operators.
- * Notification list of working, overriding, and royalty interests for uncommon interest cases.
- * Any additional statements, data, or documents required to support commingling.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE [Signature] TITLE Operations Manager DATE 5/20/96

TYPE OR PRINT NAME Gary Brink TELEPHONE NO. (505) 325-1821

District I
 PO Box 1980, Hobbs, NM 88241-1980
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-102
 Revised February 21, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 4 Copies
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | | | | |
|------------------------------|--|---|--|---------------------------------|--------------------------------|
| 1 API Number 30 045 29243 | | 2 Pool Code 15010 | | 3 Pool Name Cuervo MesaVerde | |
| 4 Property Code 003828 | | 5 Property Name Sapp | | | 6 Well Number 2 |
| 7 OGRID No. 006515 | | 8 Operator Name Dugan Production Corporation | | | 9 Elevation 6748' Estimated |

10 Surface Location

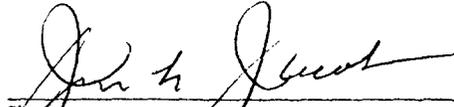
| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| H | 28 | 24N | 8W | | 2240 | North | 543 | East | San Juan |

11 Bottom Hole Location If Different From Surface

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| | | | | | | | | | |

| | | | |
|--------------------------|--------------------|-----------------------|--------------|
| 12 Dedicated Acres 40 | 13 Joint or Infill | 14 Consolidation Code | 15 Order No. |
|--------------------------|--------------------|-----------------------|--------------|

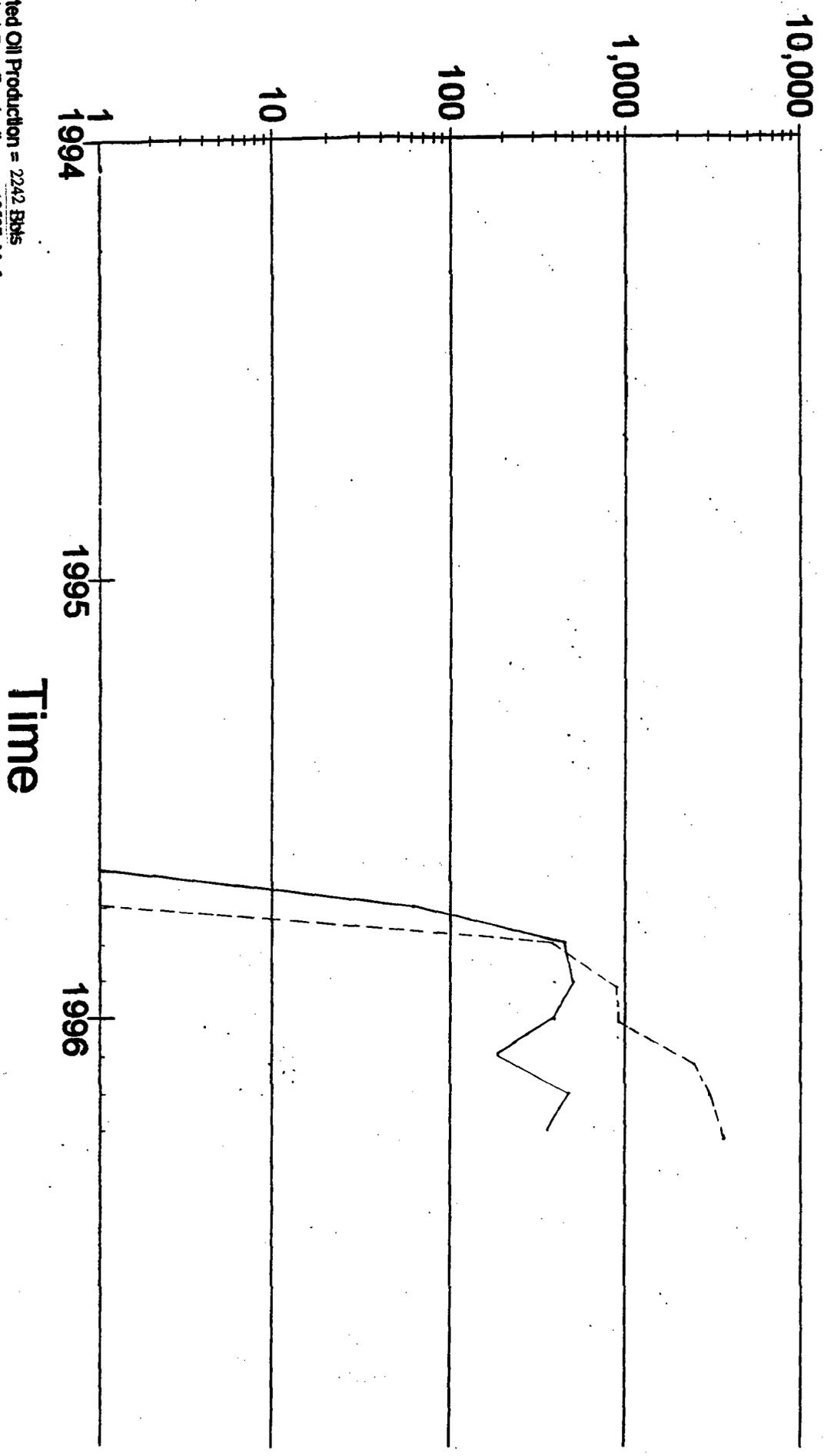
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

| | | | | | |
|----|------------|-------|------|--|--|
| 16 | Section 28 | 2240' | 543' | 17 OPERATOR CERTIFICATION | |
| | | | | <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i> | |
| | | | |  Signature Jim L. Jacobs Printed Name Vice-President Title 5/20/95 Date | |
| | | | | 18 SURVEYOR CERTIFICATION | |
| | | | | <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> | |
| | | | | December 20, 1994 Date of Survey | |
| | | | | Signature and Seal of Surveyor:  Certificate Number | |

Oil
Gas
Water
Wells

Field: LYBROOK GL
 Lease: SAPP | Well #2
 Operator: DUGAN PRODUCTION CORPORATION
 Production Rate vs Time
 For the Period 09/1995 to 03/1996 | API: 30045292430000

BBI/Mo or Mcf/Mo



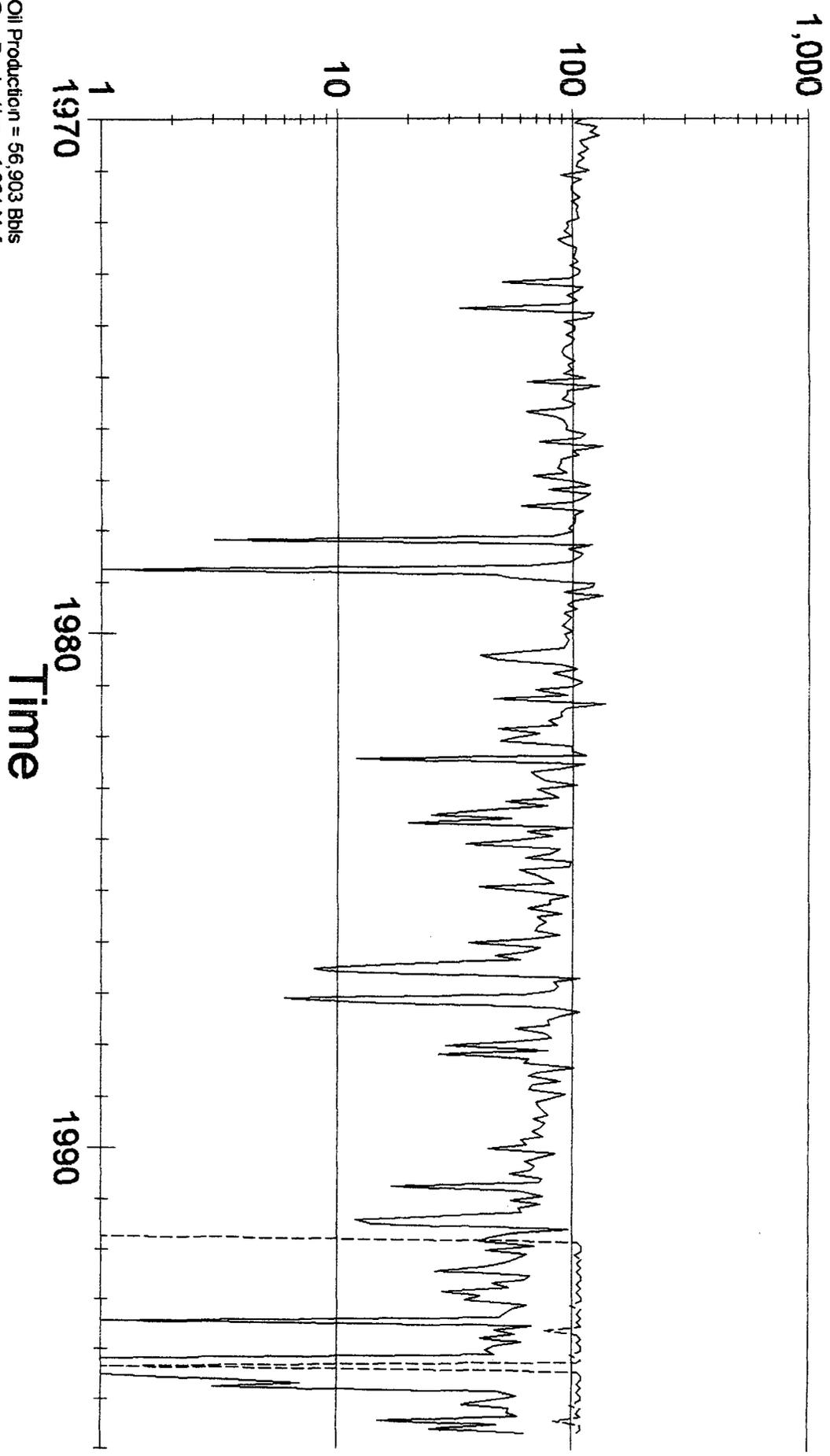
Reported Oil Production = 2242 Bbls
 Reported Gas Production = 10527 Mcf
 Reported Water Production = 0 Bbls

Time

Oil
Gas
Water
Wells

Field: CUERVO MV
 Lease: SAPP | Well #1
 Operator: DUGAN PRODUCTION CORPORATION
 Production Rate vs Time
 For the Period 1/1/1956 to 09/1995 | API: 300450509500000

BBI/Mo or Mcf/Mo



Reported Oil Production = 56,903 Bbls
 Reported Gas Production = 4,861 Mcf
 Reported Water Production = 97 Bbls

Application For Downhole Commingling
Offsetting Operators
Cuervo MV-Lybrook GL Pools
Dugan Production Corp.
Sapp #2
Unit H, Sec 28, T 24 N, R 8 W
San Juan Co., N.M.

| | | | |
|----|-------|--------------------|----------------------------|
| | Dugan | Dugan Sapp #2 • | Navajo Allotted Open |
| 29 | Dugan | 28 Dugan | 27 Dugan |