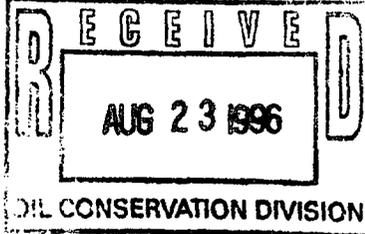


dugan production corp.

August 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 Harvey #2
Unit F, Sec. 20, T24N, R9W
Lower Bisti Gallup and Basin Dakota Pools
San Juan County, NM**

Dear Mr. LeMay:

Attached please find our application for administrative approval to complete the Lower Bisti Gallup and downhole commingle it with the existing Basin Dakota production in our Harvey #2 well. A production decline curve for each zone, Form C-107-A, C-102s for each zone, and a map showing all offsetting operators are attached.

A copy of this application is being submitted to all offset operators by certified mail.

Sincerely,

Gary Brink
Petroleum Engineer

GB/cg

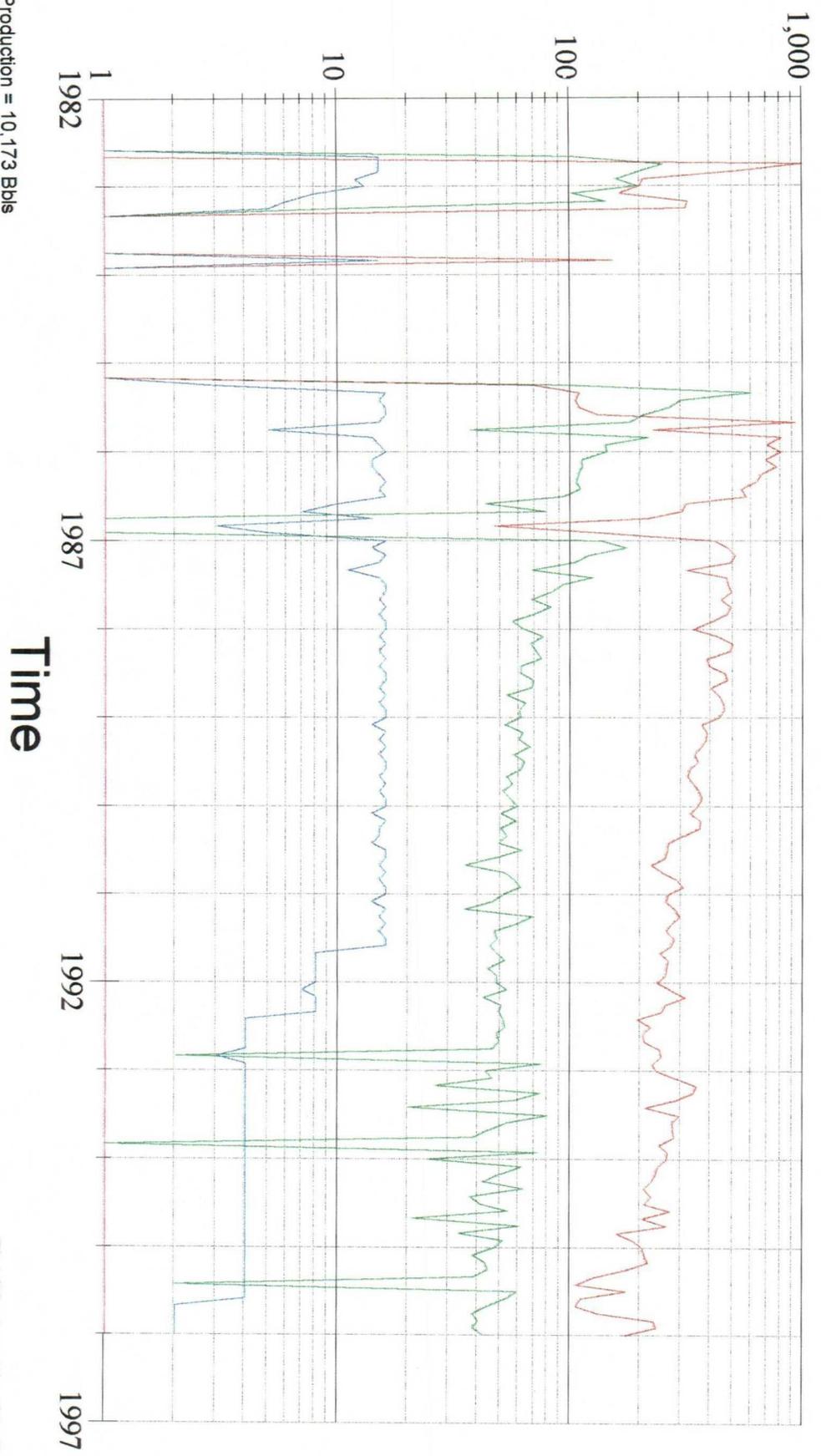
encs.

cc: New Mexico Oil Conservation Division, Aztec, NM
Bureau of Land Management, Farmington, NM
Navajo Nation
Offsetting Operators (BIA, Navajo Allotted)

BBI/Mo or Mcf/Mo

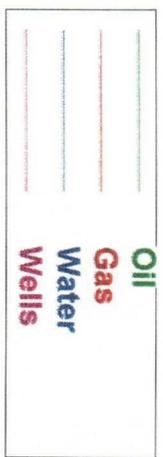


Field: BISTI GL
Lease: JULY JUBILEE | Well #2
Operator: DUGAN PRODUCTION CORPORATION
Production Rate vs Time
For the Period 09/1982 to 01/1996 | API: 30045251230000

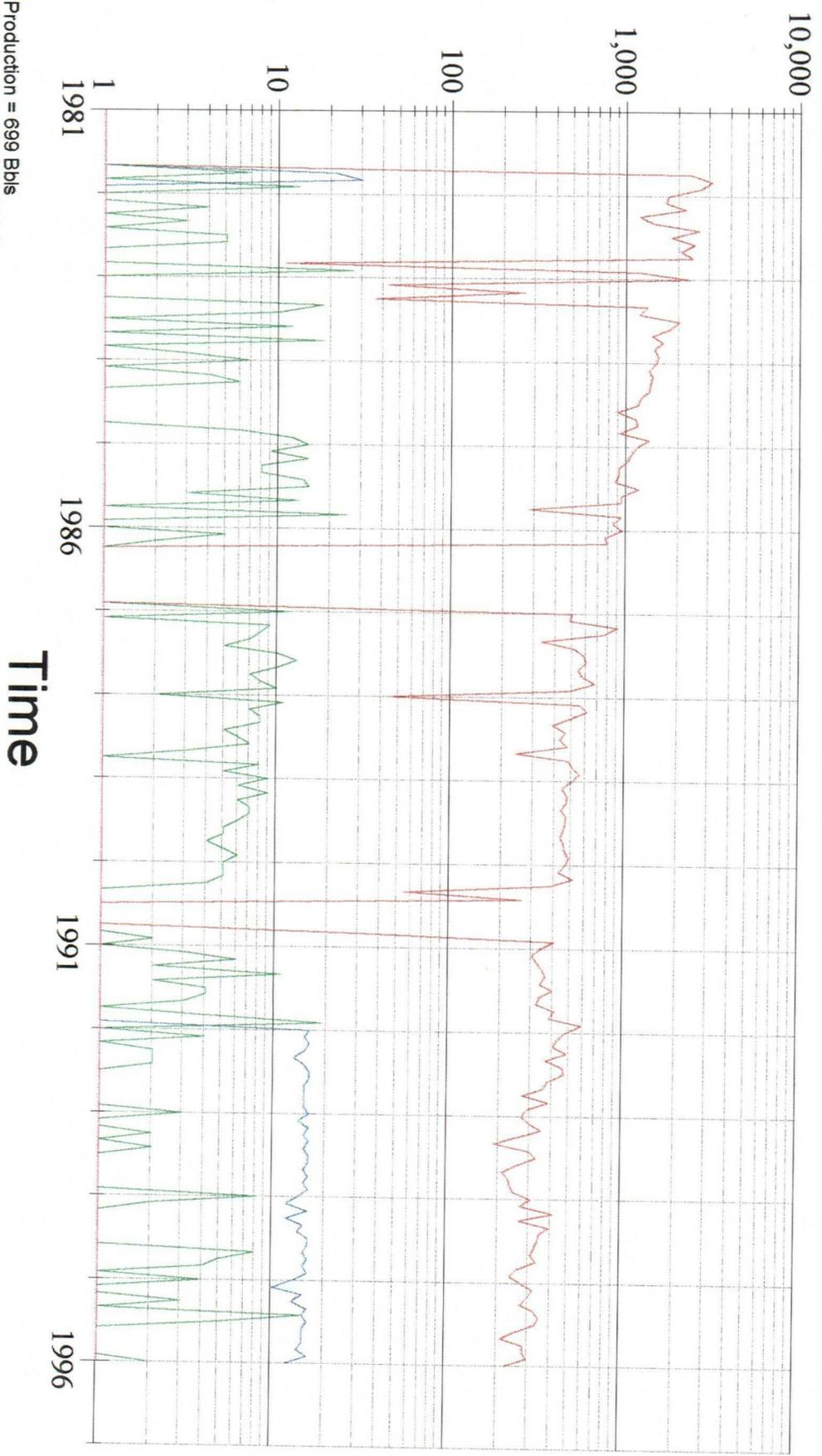


Reported Oil Production = 10,173 Bbls
Reported Gas Production = 44,351 Mcf
Reported Water Production = 1,462 Bbls

BBI/Mo or Mcf/Mo



Field: **BASIN DK**
 Lease: **HARVEY | Well #2**
 Operator: **DUGAN PRODUCTION CORPORATION**
 Production Rate vs Time
 For the Period 10/1/1981 to 01/1/1996 | API: 30045244200000



Reported Oil Production = 699 Bbls
 Reported Gas Production = 111,501 Mcf
 Reported Water Production = 781 Bbls

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 P.O. Box 420, Farmington, NM 87499

Lease Harvey Well No. 2 Well No. F 20-T24N-R9W Unit Ltr. - Sec - Twp - Rge San Juan County

OGRID NO. 006515 Property Code 003704 API NO. 30 045 24420 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	05890 Lower Bisti Gallup	<i>11/2/2000</i>	71599 Basin Dakota
2. Top and Bottom of Pay Section (Perforations)	5106-5400 Est.		6270-83
3. Type of production (Oil or Gas)	Oil		Gas
4. Method of Production (Flowing or Artificial Lift)	Artificial Lift		Flowing
5. Bottomhole Pressure Oil Zones - Artificial Lift: Estimated Current Gas & Oil - Flowing: Measured Current All Gas Zones: Estimated Or Measured Original	a. (Current) 835 (calc)	a.	a. 1050
	b. (Original)	b.	b. 2520 (calc)
6. Oil Gravity (° API) or Gas BTU Content	37° (est)		
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 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:	Date: Rates:	Date: Rates:
	Date: Rates: 14/10/0 est.	Date: Rates:	Date: 7/96 Rates: 0/6/0
8. Fixed Percentage Allocation Formula - % for each zone	Oil: _____ Gas: _____ Gallup % = Total Production - Dakota Production	Oil: _____ Gas: _____	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. NMOCED 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 *Gary Brink* TITLE Petroleum Engineer DATE 8/21/96

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

District I
 PO Box 1988, Hobbs, NM 88241-1988
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brans 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 24420		² Pool Code 05890		³ Pool Name Bisti Lower Gallup	
⁴ Property Code 003704		⁵ Property Name Harvey			⁶ Well Number 2
⁷ OGRID No. 006515		⁸ Operator Name Dugan Production Corp.			⁹ Elevation 6844' GL

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
F	20	24N	9W		1640	North	1850	West	San Juan

¹¹ Bottom Hole Location If Different From Surface

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

¹² Dedicated Acres 80	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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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

<p>16</p>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>[Signature]</i></p> <p>Signature Gary Brink Printed Name Petroleum Engineer Title 8/21/96 Date</p>
	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p>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.</p> <p>June 10, 1980 Date of Survey Signature and Seal of Professional Surveyer: Original plat surveyed & signed by Edgar L. Risenhoover, L.S.</p> <p>5979 Certificate Number</p>

District I
 PO Box 1980, Hobbs, NM 88241-1980
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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 24420		2 Pool Code 71599		3 Pool Name Basin Dakota	
4 Property Code 003704		5 Property Name Harvey			6 Well Number 2
7 OGRID No. 006515		8 Operator Name Dugan Production Corp.			9 Elevation 6844' GL

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
F	20	24N	9W		1640	North	1850	West	San Juan

11 Bottom Hole Location If Different From Surface

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

12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code	15 Order No.
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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 	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: <u>Gary Brink</u> Printed Name: <u>Gary Brink</u> Title: <u>Petroleum Engineer</u> Date: <u>8/21/96</u>	
Sec. 20	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>	
	Date of Survey: <u>June 10, 1980</u> Signature and Seal of Professional Surveyor: <u>Original plat surveyed & signed by Edgar L. Risenhoover, L.S.</u> Certificate Number: <u>5979</u>	

Application For Downhole Commingling
Offsetting Operators
Lower Bisti Gallup-Basin Dakota
Dugan Production Corp.
Harvey #2
Unit F, Sec 20, T 24 N, R 9 W
San Juan Co., N.M.

Navajo Allotted Open	Dugan Harvey #2 ●	Dugan
19 Dugan	20 Dugan	21 Dugan