



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington District Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

April 24, 1998

IN REPLY REFER TO:
NMNM-99002 (WF)
3162.3-2 (07400)

Mr. John Alexander
Dugan Production Corp.
P.O. Box 420
Farmington, NM 87499-0420

Dear Mr. Alexander:

By letter dated April 16, 1998, you requested approval to downhole commingle the Ice Canyon Gallup with the Basin Dakota and Blanco Mesaverde in Well No. 2 Mona Lisa, NwSe Sec. 14, T.26N., R.7W. lease NMNM-99002. Approval to downhole commingle the Basin Dakota and Blanco Mesaverde using fixed allocation factors was granted by letter dated January 26, 1998. You proposed a fixed allocation for the Gallup based upon your analysis of the production history from Well No. 110E Lindrith, NeNw Section 10, T.26N., R.7W., which has the longest Gallup production history in the area. You also referenced the recently completed Well No. 377 Breech, operated by Caulkins Oil, which is producing over 200 MCFD. Because of the high production rates and proximity of Well No. 377 Breech to Well No. 2 Mona Lisa, our review indicates fixed allocation rates for the Ice Canyon Gallup are not appropriate at this time.

Since the Basin Dakota and Blanco Mesaverde have been produced extensively in the area, we concur that your forecasted initial production rates for these formations are reasonable. Based upon production from Well No. 377 Breech, any unexpected flush production should be from the Ice Canyon Gallup. To account for this potential flush Gallup production, you verbally concurred on April 24, 1998, with the following allocation procedure for Well No. 2 Mona Lisa: a) The Basin Dakota will be allocated 118 MCFD and .9 BCPD, b) The Blanco Mesaverde will be allocated 74 MCFD and .6 BCPD, and c) The Ice Canyon Gallup will be allocated the remaining production. When the production rate from Well No. 2 Mona Lisa stabilizes, Dugan is approved to use the fixed allocation factors. Please notify our office of the date and your fixed allocation factors.

If you have any questions, please call Duane Spencer at (505) 599-6350.

Sincerely,

/s/ Duane W. Spencer

Duane W. Spencer
Team Lead, Petroleum Management

cc:
NMOCD, Santa Fe, NN ✓
NMOCD, Aztec, NM