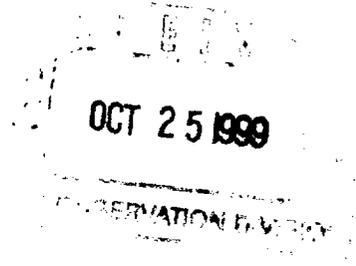


dugan production corp.



October 21, 1999

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

Re: NMOCD Commingling Order PLC-147
Dugan Production's Rusty Chacra Gas Gathering System
Sandoval County, New Mexico

Dear Mr. Ashley,

The NMOCD approved Dugan Production's 8/17/98 application and issued the captioned commingling order on 9-8-98 with the condition that similar approvals were also received from the New Mexico Commissioner of Public Lands and the Bureau of Land Management. We received these approvals on 8-31-98 and 10-13-99, respectively and copies are attached for your reference and file. Approval from the BLM was delayed over issues associated with the Navajo Allotted wells connected to the gathering system.

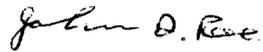
The subject commingling order included the statement that "oil and gas production shall be determined by separately metering each well". We respectfully request that this statement be modified to reflect that the well site meters will be used to allocate gas volumes recorded at the CDP sales meter to the individual wells. This allocation procedure was presented in Attachment No. 6 of our application and was described on Page No. 3 in our letter discussion of Attachment No. 6. For your use in this matter, we propose the subject statement be changed to read: "Each well and/or lease shall be equipped with metering equipment which will be used to allocate gas volumes recorded at the CDP sales meter to the individual wells for determining individual well production as described in the application." The issue of oil measurement is addressed in Note No. 2 of your order.

For your reference, attached is a copy of Commingling Order PLC-149 on which I've highlighted the similar statement dealing with allocation on our Goodtimes Gas Gathering System which is a gathering system very similar to the Rusty Chacra. I'm not sure why Ben restated our allocation procedure as an Exhibit B to the commingling order, but the important issue is that the individual well production is based upon an allocation of gas volumes recorded at the CDP sales meter as opposed to the volumes recorded at the well site meter. This is a very important issue, one of which consumed

a great deal of time for members of the Off-lease Measurement Subcommittee of the San Juan Basin Working Committee in their efforts to develop guidelines for these issues involving Federal and Indian lands. I participated on this subcommittee and under separate cover am sending you copies of some of our work on this issue and would be happy to further discuss this with you at your convenience.

Should you have questions or need additional information, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "John D. Roe".

John D. Roe
Engineering Manager

JDR/tmf

attachments