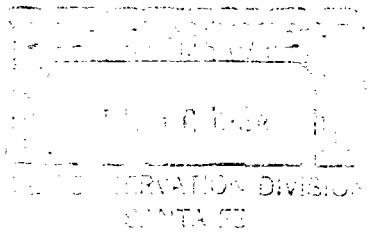
dugan production corp.

April 13, 1984



Gilbert Quintana
New Mexico Oil Conservation Division
P O Box 2088
Santa Fe, NM 87501

Dear Gilbert:

As we discussed on the phone April 12th, I am attaching copies of our original application for downhole commingling on Dugan Production Corp.'s MF No. 3 and surface commingling for Dugan Production's Kinsale No. 1 and No. 2 and also the Five of Diamonds No. 2 and #2S. All three applications have been pending for some time and we appreciate your attention to this matter.

Regarding our application for downhole commingling on the MF No. 3, which is located in Sec. 14 of T-24N, R-10W, our application was originally submitted on April 7, 1982, and at the time of application, only the Dakota interval had been perforated 6067-6074 and 6245-6255 with an initial potential of 12 BOPD plus 15 BWPD and a GOR of 2500. At the time of this test (11-19-81), essentially no production had occurred and the potential test was based upon an 8 hour swab test. Also, since this well was some distance from a gas pipeline, we had not fraced the Dakota. The development of the Dakota formation at this location was very poor and water saturations were higher than normal for the Dakota in this area. Upon further evaluation, we determined that the perforations 6245-55 were likely responsible for the water production and thus, were abandoned with a cast iron bridge plug set at 6200' and capped with 50' of cement. We then fraced the Dakota perforations 6067-6074 and perforated and fraced the Gallup interval 5069-5334'. Upon swab testing following the frac jobs, we recovered some oil and gas; however, it appeared that the well was making formation water and after further evaluation, it was proposed that the Dakota perforations 6067-6074' be abandoned with a cast iron bridge plug. (Ref. 9-28-82 letter from T.A. Dugan to Jim Sims) The well was shut in awaiting this remedial work; however, upon further evaluation, it was decided to production test the Dakota and Gallup intervals prior to doing any further remedial work in the Dakota. We installed a rod pump and pumping unit in the MF No. 3 during March, 1984, and placed the well on production 3-24-84, assuming that our application for commingling had been approved. Upon checking and discussions with you, we find that our application in fact had not been approved and thus, with the attached copy along with the discussion contained herein, we request that the Commission consider our application for administrative approval to commingle the Gallup and Dakota intervals as timely as possible.

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I have made some notes on the attached copy of the application as initially submitted, to reflect data that is more current or that was not existent at the time of our application. As mentioned above, at the time of our application, we were expecting that the Dakota would be better than it actually was, and had not completed the Gallup. I am attaching a copy of the reported completions for the Gallup and Dakota as well as a copy of the C-116 for both zones, reflecting a production test taken on 4-11-84. Based upon the C-116 test, approximately 85% of the oil, 14% of the water and 80% of the gas is from the Gallup, while approximately 15% of the oil, 86% of the water, and 20% of the gas is from the Dakota. We proposed using these factors to allocate production in the future. As indicated by the total production from both zones being 5 BOPD, 3.5 BWPD, and 12.6 MCFGPD, this well is, at best, marginal. In addition to our application, I am attaching a copy of a letter from Tenneco wherein they waive objection to our proposed commingling as an offset operator. All offset operators were initially notified of our application.

As a matter of interest, there are 7 other wells in this immediate area that have previously been authorized to commingle downhole production from the Gallup and Dakota. These wells are all operated by Dugan Production and are the Big Eight No. 1E (O-8-24N-9W, Order R-6825), Holly No. 1 (L-16-24N-9W, Order R-7143), Merry May No. 1 (I-24-24N-10W), Order R-6571), July Jubilee No. 1 (G-30-24N-9W, Order R-6826), June Joy No. 2 (B-25-24N-10W, Order R-6396), April Surprise No. 4 (L-19-24N-9W, Order R-7210), Mary Anne No. 3 (L-9-24N-9W, Order DHC-430).

Regarding our application for surface commingling of gas production from Dugan Production's Five of Diamonds Wells No. 2 and No. 2S, located in Sec. 10 of T-30N, R-13W, I have attached a copy of the application as submitted on 5-11-83 and also a copy of a letter from Michael Stogner returning our application unapproved on 5-27-83. I then discussed this matter with Frank Chavez on 6-28-83 and jointly with Frank and Michael on 8-5-83. Also attached is a copy of a letter dated 8-5-83 wherein Dugan Production resubmitted our application for surface commingling with some minor modifications in order to accomodate Michael's original objections. As a matter of interest, during 1983 production from the Five of Diamonds No. 2 averaged 10.7 MCFD and the Five of Diamonds No. 2S remains shut in.

Regarding our application for surface commingling of gas production from the Kinsale No. 1 (Undesignated Chacra) and the Kinsale No. 2 (Lybrook Gallup), both wells located in Sec. 26, T-23N, R-7W, I am attaching a copy of the application as submitted on 10-17-83, and have indicated a change that has occurred since our application. At the time of our application, both wells were qualified for Section 103 pricing; however, since our application, the Kinsale No. 1 has been certified Section 102. In order to more accurately allocate the commingled stream of gas between the two wells, Dugan Production would agree to install a standard meter run with a Barton dry flow meter on one of the two wells. As indicated in the original application, the commingled stream will be measured with a master meter maintained by Northwest Pipeline. In addition to our application,

I am attaching a copy of our 10-31-83 letter transmitting a letter from the BLM indicating they had no objection to this commingling. The Kinsale No. 1 produced a total of 268 MCF during 43 days of production during the latter part of 1983. (1st delivered 9-6-83) The Kinsale No. 2 was placed on production during May and during 90 days of production, a total of 1704 bbls. of oil plus 1511 MCF of gas was produced during 1983. Production during February 1984 averaged 6.2 BOPD plus 39 MCFD.

Should you need additional information or need to discuss any of these applications, please feel free to contact me. Thank you for your efforts.

Sincerely,

John D. Roe
Petroleum Engineer

fp

Attachments

cc: Frank Chavez, NMOCD, Aztec