



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
6251 College Blvd., Suite A
Farmington, New Mexico 87402

IN REPLY REFER TO:

NMNM 013365 (WC)
3162.3-2 (21110)

August 24, 2015

Mr. Aliph Reena
Dugan Production Corp.
PO Box 420
Farmington, NM 87499

OIL CONS. DIV DIST. 3
AUG 28 2015

Dear Mr. Reena:

Our records indicate that Dugan Production Corp. is operator of the following well:

Aloha 2 located 850' FNL & 870' FWL sec. 16, T. 28 N., R. 11 W., San Juan County, New Mexico, Lease NMNM 013365. **Records indicate that this well has not produced since May, 2014.**

Title 43 CFR Section 3162.3-4 requires that the lessee shall promptly plug and abandon, condition as a service well, or condition as a water well, any well on a lease that is not used or useful for the purpose of the lease. Accordingly, you are required to advise this office by Sundry Notice within 30 calendar days of your intent to perform one of the following: a) Condition the well to a useful function, b) Temporarily abandon the well, c) Continued shut-in status, d) Permanently plug and abandon the well.

See attached General Requirements for Non-Producing wells on Federal leases.

The 30 calendar days commences upon receipt of this letter or seven days from the date it is mailed, whichever is less. Failure to comply within the 30 calendar days may result in an assessment in accordance with 43 CFR 3163.1.

Under provisions of 43 CFR 3165.3, you may request an Administrative Review of the orders described above. Such request, including all supporting documents, must be filed in writing within 20 business days of receipt of this notice and must be filed with the State Director, Bureau of Land Management (NM-93000), P.O. Box 27115, Santa Fe, New Mexico 87502-0115. Such request shall not result in a suspension of the order(s) unless the reviewing official so determines. Procedures governing appeals from instructions, orders or decisions are contained in 43 CFR 3165.4 and 43 CFR 4.400 *et seq.*

If you have any questions, please contact Troy Salyers at (505) 564-7743.

Sincerely,

Troy Salyers
Petroleum Engineer, Petroleum Management Team

1 Attachment

General requirements for Non-producing Wells On Federal Oil and Gas Leases

- I. Temporary Abandonment: A temporarily abandoned well is defined as a completion that is not capable of production in paying quantities but which may have value as a service well. Pursuant to 43CFR 3162.3-4 (c), no well may be temporarily abandoned for more than 30 days without the prior approval of the Authorized Officer. When justified by the operator, the Authorized Officer may authorize additional delays, no one of which may exceed an additional 12 months.
 - A. Any temporary abandonment request must be submitted on a Sundry Notice form (3160-5) and include the following:
 1. Justification why the well should be temporary abandoned rather than permanently plugged and abandoned.
 2. Description of the temporary abandonment procedure.
 3. The anticipated date the operations will occur.
 - B. The following terms and conditions will apply to all wells approved for temporary abandonment:
 1. The temporary abandonment method must provide for the installation of an isolation device (such as a retainer or bridge plug) within 50' to 100' of the top perforation or a cement plug that extends at least 50 feet above each set of open perforations. Unless prior approval is granted by the Authorized Officer, the wellbore must be filled with conditioned, non-corrosive fluid and shut-in at the surface. If a cement plug is used, the top of the cement must be verified by tagging. If the wellbore had more than one producing horizon, the lower set(s) of perforations or open hole must meet the requirements for permanent plug to abandonment, unless justification is provided by the operator not to do so.
 2. A test demonstrating casing mechanical integrity is required. An approved method is a pressure test of the casing and uppermost plug. The pressure test conducted shall be a minimum of 500 psi surface pressure with no more than a 10 percent pressure drop within thirty (30) minutes. In no event shall the pressure test required exceed seventy (70) percent of the internal yield of the casing. In the case of a plug or casing failure, the operator shall either correct the problem or plan to plug and abandon the well. Alternative methods demonstrating casing mechanical integrity may be approved by the Authorized Officer on a case-by-case basis.
 3. A bradenhead test will be conducted. If the test indicates a problem exist, a remedial plan and a time frame for remediation will be submitted within ninety (90) days from the date of the test.

C. A subsequent report Sundry Notice (3160-5) is required to be submitted within thirty (30) days upon the completion of the work.

D. Approval will be granted for one (1) year and renewed annually, upon receipt of proper request. All temporarily abandoned wells are required to demonstrate casing mechanical integrity every five (5) years, unless the Authorized Officer determines, on a case-by-case basis, more frequent testing is required.

II. Shut-in well: A shut-in well is defined as a completion that is physically and mechanically capable of production in paying quantities or capable of service use. No well may be shut-in for more than one (1) year without prior approval from the Authorized Officer. Any well with a known or suspected casing leak is to be repaired immediately.

A. Any request for continued shut-in status must be submitted on a Sundry Notice (3160-5) and include the following:

1. Justification why the well should be shut-in rather than activated as a producer or a service well.
2. The anticipated date(s) that the casing mechanical integrity and/or production testing will occur.

B. The following terms and conditions will apply to all wells approved for continued shut-in:

1. Approved shut-in wells are to demonstrate casing mechanical integrity initially and thereafter every five (5) years. An approved method is to pressure test. The test shall be a minimum of 500 psi surface pressure with no less than a 10 percent pressure drop within 30 minutes. In no event shall the pressure test required exceed seventy (70) percent of the internal yield of the casing. If the casing fails, it is required that the casing be repaired or the well be plugged and abandoned. Alternative methods demonstrating casing mechanical integrity may be approved by the Authorized Officer on a case-by-case basis.
2. Approval for shut-in is also contingent upon conducting a production verification test. A production test will be conducted for a period of 24 hours. Depending on the circumstances, the Authorized Officer may require a longer test period, or may approve a shorter test period, to demonstrate the well's ability to produce in paying quantities. Supporting documentation will be submitted with the request. Recent production history demonstrating production capabilities may be accepted in lieu of conducting the test.
3. A bradenhead test will be conducted and if the test indicates a problem exists, a remedial plan and a time frame for remediation will be submitted within ninety (90) days of the test.
4. Close all valves on the wellhead. All disconnected lines shall have bull plugs installed.

5. For oil wells with pump jacks, the operator will be allowed to leave the pump and rods in the hole and close all valves at the surface. The operator must request approval to remove the pumping unit before it is removed.
- C. A subsequent report Sundry Notice (3160-5) is required to be submitted within thirty (30) days upon the completion of the work.
- D. Shut-in approval will be granted for a one (1) year period. A period of up to five (5) years may be granted by the Authorized Officer, with justification.

All of the above are minimum requirements. Failure to comply with the above conditions of approval may result in an assessment for noncompliance being issued pursuant to 43 CFR 3163.1. You are further advised that any instructions, orders or decisions issued by the Bureau of Land Management are subject to administrative review pursuant to 43 CFR 3165.3 and appeal to 43 CFR 3165.4 and 43 CFR 4.700