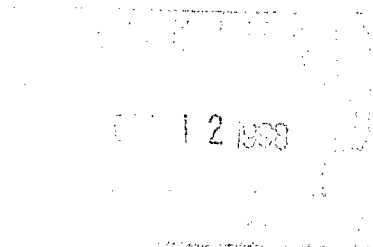


# dugan production corp.



October 9, 1998

Ms. Lori Wrotenbery, Director  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, NM 87505



Re: Administrative Order DHC-1966  
Dugan Production's Garrett Federal Com No. 1E  
API No. 30-045-24302 (B-12-29N-11W)  
Basin Dakota (Prorated Gas - 71599) and  
Blanco Mesaverde (Prorated Gas - 72319)

Dear Ms. Wrotenbery:

We are writing in response to an inquiry by Mr. Mark Ashley of your office and to request approval for the temporary surface commingling of the Blanco Mesaverde and Basin Dakota production streams in Dugan's Garrett Federal Com No. 1E. In our application dated 5-12-98, we requested approval for the downhole commingling of these pools and Administrative Order DHC-1966 was subsequently issued. In a letter dated 9-24-98, Dugan Production advised that we had "completed the surface commingling" in the subject well. As discussed with Mr. Ashley, we still intend to downhole commingle this well, however until the downhole commingling work is performed, we have temporarily commingled the two production streams on the surface which allows the Dakota to also benefit from operation of a wellhead compressor that was previously connected only to the Mesaverde. In addition to both formations benefiting from wellhead compression, we will have a better idea of what to expect from the commingled production stream and will be able to better plan our workover and design of the commingled production equipment.

Dugan Production holds 100% of the working interest in this well and all ownership in both pools is common. For allocating the surface commingled production, we propose to use the allocation factors approved for the downhole commingled production. Upon completion of the downhole commingling, we will advise the NMOCD along with the BLM.

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

Sincerely,

John D. Roe  
Engineering Manager

JDR/tmf

cc: BLM - Duane Spencer; NMOCD - Aztec



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

Dugan Production Corporation  
P.O. Box 420  
Farmington, New Mexico 87499-0420

Attention: Mr. John D. Roe

*Garrett Federal Com No. 1E  
API No. 30-045-24302  
Unit B, Section 12, Township 29 North, Range 11 West, NMPM,  
San Juan County, New Mexico.  
Basin-Dakota (Prorated Gas - 71599) and  
Blanco-Mesaverde (Prorated Gas - 72319) Pools*

Dear Mr. Roe:

Reference is made to your recent request to temporarily surface commingle the Blanco-Mesaverde and Basin-Dakota Gas Pool production from Dugan's Garrett Federal Com No. 1E while the downhole commingling work, as approved under DHC-1966, is completed. My staff has reviewed your request and the same is hereby approved for a period of 60 days, concluding on December 15, 1998.

REMARKS: The operator shall notify the Aztec District Office of the Division upon implementation of the commingling process.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori Wrotenbery", with a long horizontal line extending to the right.

Lori Wrotenbery  
Director

LW/MWA/kv

cc: Oil Conservation Division – Aztec  
Bureau of Land Management – Farmington