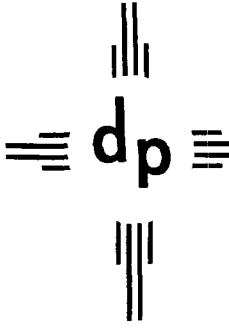


AMEND PC N/R
29335137



dugan production corp. E E E E

OCT 16 2000

October 12, 2000

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

Mr. Lee Otteni
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

Re: Proposed Amendment to Surface Commingling Authorization
NMOCD Commingling Order PC-1017
Dugan Production Corp.'s Big Field No. 1 (API No. 30-045-22763)
Dugan Production Corp.'s Big Field No. 5 (API No. 30-045-30182)
Units P & I, Section 10, T-30N, R-14W
Federal Lease NM-10561
Basin Dakota & Harper Hill Fruitland Sand-Pictured Cliffs Gas Pools
San Juan County, NM

Dear Ms. Wrotenbery and Mr. Otteni,

We are writing to request NMOCD approval for a modification to the allocation procedure previously approved for the surface commingling of natural gas produced from the captioned wells. In addition, it is our understanding that since only one Federal lease is involved and all ownership is common, BLM approval for surface commingling is not required and this is being sent to the BLM for information purposes only. In our application dated 8-22-00, we proposed to install allocation meters at both wells and to use a central delivery sales meter located off-lease which was approved by the NMOCD and BLM on 8-30-00 and 9-14-00, respectively.

At the time of our application, the Big Field No. 1 was averaging 7.0 MCFD and we were anticipating 100 to 200 MCFD from the Big Field No. 5 which was recently completed and had only been swab tested following the fracture stimulation. We are currently pump testing the Big Field No. 5 and based upon testing to date, it now appears that 25-50 MCFD will be a more realistic initial production rate than was the 100 to 200 MCFD we initially projected.

In view of the low volumes of production from both wells, we now propose to deliver natural gas from both wells to the CDP without installing allocation meters on either well. Allocation of natural gas production will be based upon factors determined from periodic testing using Dugan's portable 3-phase tester. During the first year we will test the wells once each quarter and then annually

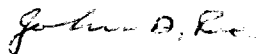
thereafter unless production dictates a different test frequency. Attachment No. 1 presents our proposed revised allocation procedures which were initially presented on Attachment No. 6 in our 8-22-00 application.

Please note that the Big Field No. 1 currently qualifies for alternative measurement methods (Rule 403.B.(1)) and although we anticipate an increase in production after a compressor is installed for the commingled production, we now anticipate both wells will qualify under Rule 403.B.(2) for measurement using a common lease meter at the central delivery sales meter. Unfortunately the location of our proposed CDP meter is not on the lease and the off-lease measurement previously approved by the NMOCD and BLM is still necessary.

Since only one Federal lease (No. NM-10561) is involved and all ownership in both pools is common, there is no issue of correlative rights and the only issue is the proper allocation of production volumes by pool for record purposes. We believe our revised allocation procedure will provide the necessary tracking of production volumes from each of the pools. We still plan to separate water and condensate volumes at each well, so there will be no changes in how we handle and account for liquids production.

We are sending a copy of this request to our overriding royalty interest owners. We do not believe our proposed changes in allocation procedure will have any affect upon the interest of any interest owner s(working, royalty and overriding royalty) other than to help insure we are able to produce both wells as efficiently as possible which will increase the recoveries of oil and gas from this lease and will provide a maximum economic recovery to all interest owners. Should you have questions or need additional information, please let me know.

Sincerely,



John D. Roe
Engineering Manager

xc: NMOCD - Aztec
ORRI owners

Attachment No. 1
(Originally Attachment No. 6 to 8-22-00 Application)
Proposed Allocation Procedures - Revised 10-12-00
Dugan Production Corp.'s
Big Field CDP
NE NE 15, T-30N, R-14W
San Juan County, New Mexico

Base Data for Gas Production, BTU & Revenue Allocations:

W=Gas Volume (MCFD) from periodic well test x days operated during allocation period

X=Volume (MCF) from CDP Sales Meter

Y=BTU's from CDP Sales Meter

Z=Gas Revenue (\$) from CDP Sales Meter

Allocation period is typically a calendar month and will be the same for all wells.

1. Allocated Individual Well Production = A+B+C+D+E

A = Allocated Sales Volume, MCF
= (W/SUM W) x X

B = Fuel used on lease, MCF. Determined from equipment specifications and operating conditions.

C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

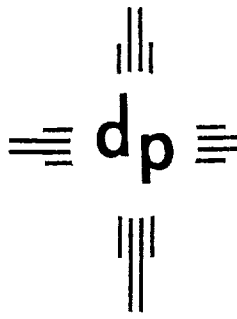
D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefitting from the equipment using allocation factors determined by W / Sum W for the wells involved.

E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by W / Sum W.

2. Allocated Individual Well BTU's = ((W x Individual well BTU) / Sum (W x individual well BTU)) x Y.

Individual well gas heating values to be determined in accordance with BLM regulations (currently Onshore Order No. 5).

3. Allocated Individual Well Gas Revenues = (Allocated Individual wells BTU's / Sum Allocated individual well BTU's) x Z



dugan production corp.

October 12, 2000

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Ms. Jennifer Jones Black
11714 Sharpview
Houston, TX 77072

Southern Sky Investment, Inc.
P. O. Box 2167
Roswell, NM 88201-2167

Ms. Virginia L. Vance
26396 Rea Avenue
Conifer, CO 80433-8537

Re: Dugan Production Corp.'s
Big Field No. 1 (P-10-29N-14W)
Big Field No. 5 (I-10-29N-14W)

Dear Overriding Royalty Interest Owner,

Attached for your information, review and file is a copy of our application to the New Mexico Oil Conservation Division and the Bureau of Land Management where in we are requesting an amendment to the allocation method initially approved for the surface commingling of natural gas produced from the captioned wells in which you have an overriding royalty interest ownership.

This proposal should not affect your interest or revenues from these wells.

Should you have any questions, need additional information or have any concern as to our proposal, please let me know. Should you have an objection, please let me know, or you can contact the New Mexico Oil Conservation Division directly at 2040 South Pacheco Street in Santa Fe, New Mexico 87505. Any objection should be filed within 20 days from the date of this letter, and we would appreciate receiving a copy of your objection.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

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