

CAULKINS OIL COMPANY

1600 Broadway, Suite 1400
Denver, Colorado 80202

(303) 861-4230

December 4, 1997

Dugan Production Corp.
Attn: Mr. David M. Poage
709 E. Murray Dr.
P.O. Box 420
Farmington, NM 87499-0420

RE: Well Proposal
Breech B 781
Section 14, Township 26 North, Range 7 West
Rio Arriba County, New Mexico

Gentlemen:

Caulkins Oil Company understands your desire to drill a well and wish to cooperate with you. But as a long-term operator in that area and representative for two other sizable companies, we believe we should be the Operator and therefore submit the enclosed operating agreement and AFE. We would not plan to drill the well until the weather is favorable.

We propose the joint development with Dugan and Caulkins, et al, the south half of section 14 by drilling a Dakota-Mesaverde well to a depth of approximately 7,000 feet. The location is 1,800' FSL and 1,150' FWL of Section 14, T26N, R7W, Rio Arriba County, New Mexico.

The acreage in the south half of section 14 falls within the Dakota and Mesaverde pools which require 320 acre spacing units per well. Dugan, as owner of a Federal lease in the SE/4 of Section 14, would be a 50% owner in the proposed spacing unit.

Caulkins would like to join with Dugan, Marathon Oil Company and Louis Dreyfus Natural Gas Corp. in drilling this well and request that you execute and return a copy of the signature pages to the Operating Agreement along with a copy of the Authorization For Expenditure.

If you have any questions, please feel free to call.

Yours truly,

CAULKINS OIL COMPANY

Patrick L. Robinson
Controller

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 11897 Exhibit No. 3

Submitted by: Caulkins Oil Company

Hearing Date: January 8, 1998