

dugan production corp.

January 9, 1984

Mat Millenbach
Bureau of Land Management
Caller Service 4104
Farmington, NM 87499

RE: Jerome P. McHugh - Gallo Red No. 1
NW/4 SW/4, Sec. 14, T23N R6W, N.M.P.M.
Federal Lease No. NM 41720
Counselors Gallup Field
Rio Arriba County, New Mexico

RECEIVED

JAN 10 1984

BUREAU OF LAND MANAGEMENT
FARMINGTON FIELD OFFICE AREA

DEFERRED

JAN 13 1984

OIL CON. DIV.
DIST. 9

Dear Mr. Millenbach:

The captioned well is venting gas under an authorization approved July 11, 1983, for a period of three months and subsequent to October 11, 1983, venting was restricted to 20 MCFPD, until such time as a pipeline connection was secured. This letter is to update you as to the status of this project and indicate our current plans, which have been finalized and will result in the sale of casing head gas from the Gallo Red #1.

We have been negotiating with Northwest Pipeline extensively in recent months in an effort to obtain a commitment from NWPL to install and operate a gathering system for several wells in this general area, including the Gallo Red #1. The wells in this general area, all producing from the Gallup formation, are of marginal productivity and the terms under which NWPL would be willing to install and operate a gathering system have changed several times and have approached a point that we have given up hope of NWPL installing the gathering system.

Dugan Production Corp., as operator of three wells in this general area, has ended any further effort to get NWPL to install this system and has indicated to NWPL that we will install the gathering system and deliver gas to NWPL at a central point. We are in the process of securing the additional right-of-ways necessary to connect up seven existing wells. I have attached a copy of our letter to NWPL confirming our intention. As of this writing, we have secured R-O-W's for a majority of the 14,000 feet of line that will be installed; however, we have found it desirable to amend two of the R-O-W's and are waiting for weather conditions to permit us to obtain archeological clearance. We hope to have this completed by mid March, 1984 or earlier if enough snow melts to allow for the archeological inspection, and should have the gathering system installed and ready to deliver gas to NWPL about April 1, 1984.

1/10/84

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We realize this project has been drawn out; however, considering the current gas market conditions, and considering that the economic criteria utilized by NWPL (which is the only pipeline company that will even consider this project) has changed several times during our efforts to get this system installed. We ask your patience in this matter. We have found this project to be very frustrating, ourselves.

Productivity of the Gallo Red #1 is essentially unchanged from that of our July 8th letter, averaging 5.0 BOPD during the months of September, October, and November, with a GOR of approximately 4000 SCF/STB.

Should you have any questions or need additional information, please feel free to contact me.

Sincerely,

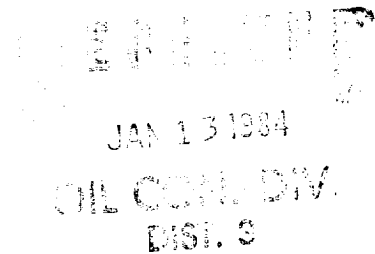
John D. Roe

John D. Roe
Petroleum Engineer

fp

Attachment

cc: J P McHugh



*Pursuant to NTL-4A B(2) approval is granted to continue
drilling until the expiration of 1 year from the
initial application. (date 1 July 11, 1984).*

APPROVED
AS AMENDED

JAN 11 1984
M. Millenbach
M. MILLENBACH
AREA MANAGER
A381