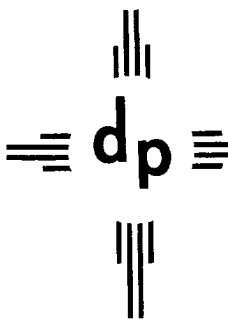


Sept 15 - 12c



dugan production corp.

July 11, 1997

RECEIVED
JUL 14 1997

OIL COAL DIV
BUREAU

Mr. Ernie Busch
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410

Re: Proposed Allocation Factors
NMOCD Administrative order DHC-1535
Dugan's September 15
API No. 30-045-26518
A-24-24N-10W, San Juan County
Communitization Agreement NM015 P35-86C-513

Dear Mr. Busch:

In accordance with the subject commingling order, we submit for your approval the following production allocation factors for the commingled production in Dugan's September 15 well:

<u>Pool</u>	<u>Commingled oil</u>	<u>Commingled gas</u>
Bisti Lower Gallup	98%	34%
Basin Dakota Gas	2%	66%

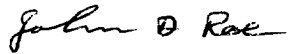
These factors are based upon our projection of future oil and gas reserves to ultimately be recovered from this well bore, and include remaining reserves from the existing Dakota completion which are estimated to be 82,200 MCF and 270 BBL condensate (Ref. Attachment No. 1), plus a projected recovery from the recently completed Gallup interval of 12,500 BBL of oil and 42,400 MCF of gas. The Gallup reserves reflect an average of the ultimate recoveries from 2 offset wells operated by Dugan, our April Surprise No. 3 (Ref. Attachment No. 2) & our MF No. 1 (Ref. Attachment No. 3). Based upon our testing to date, we anticipate the Gallup completion in the September 15 to be very similar to these 2 offsets.

Allocation factors based upon ultimate recoveries are proposed since we anticipate the newly completed Gallup interval to exhibit some flush production typical to new completions while the Dakota interval has been producing since 3/86 and is fairly stabilized.

The interest ownership in both completions is the same. Dugan Production holds all working interest, and both leases are 12-1/2% Federal royalty. There are no overriding royalty interests.

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

Sincerely,

A handwritten signature in cursive script that reads "John D. Roe".

John D. Roe

JDR/tmf

xc: Duane Spencer, BLM-FDO

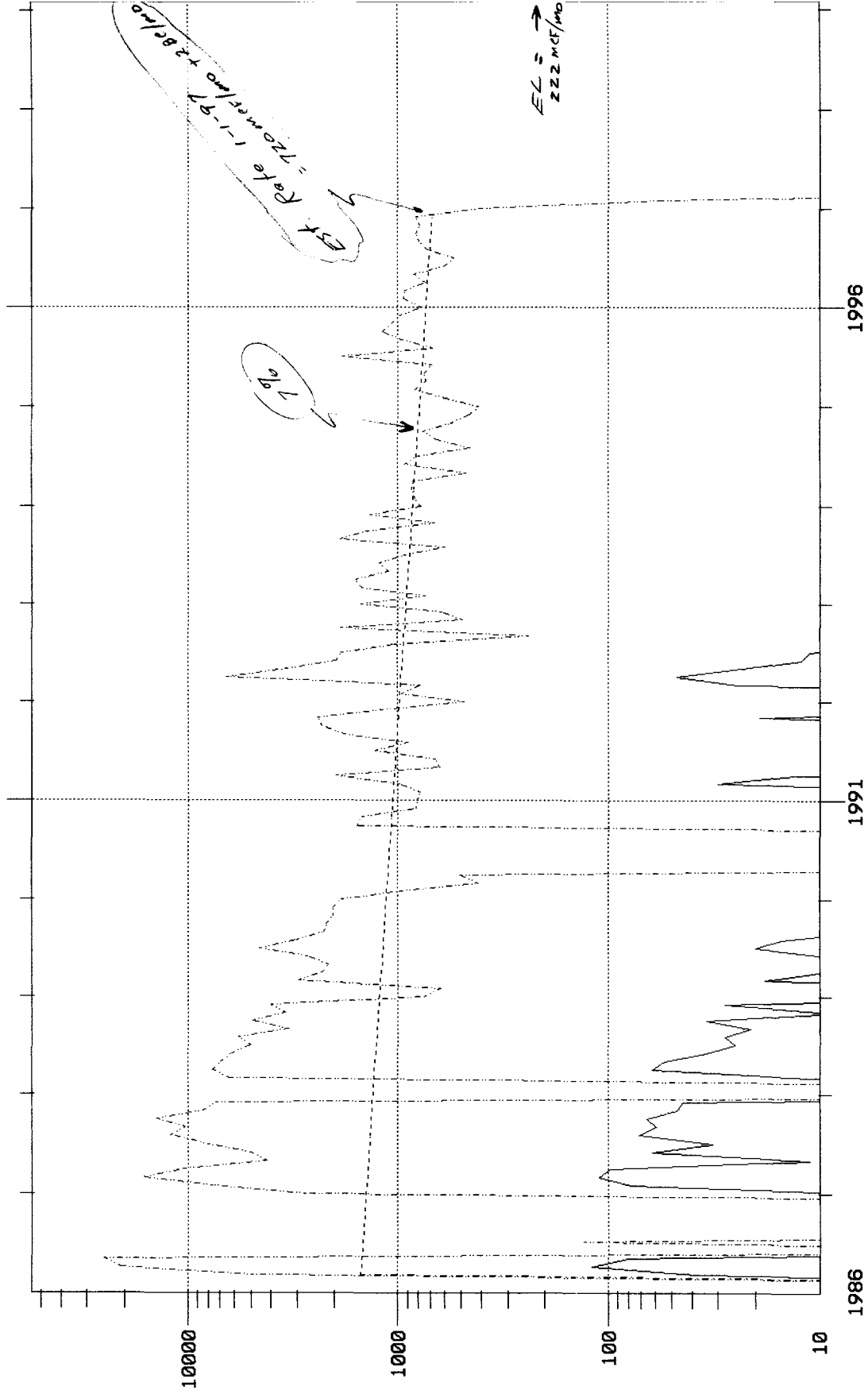
Attachs.

Calculated
Oil
Gas
Water

BASIN DAKOTA
Production Rate vs Time
BBI/Mo or Mcf/Mo vs Months
SEPTEMBER 15 *
A-24-24N-10W

Production
Oil
Gas
Water

Attachment
No. 1



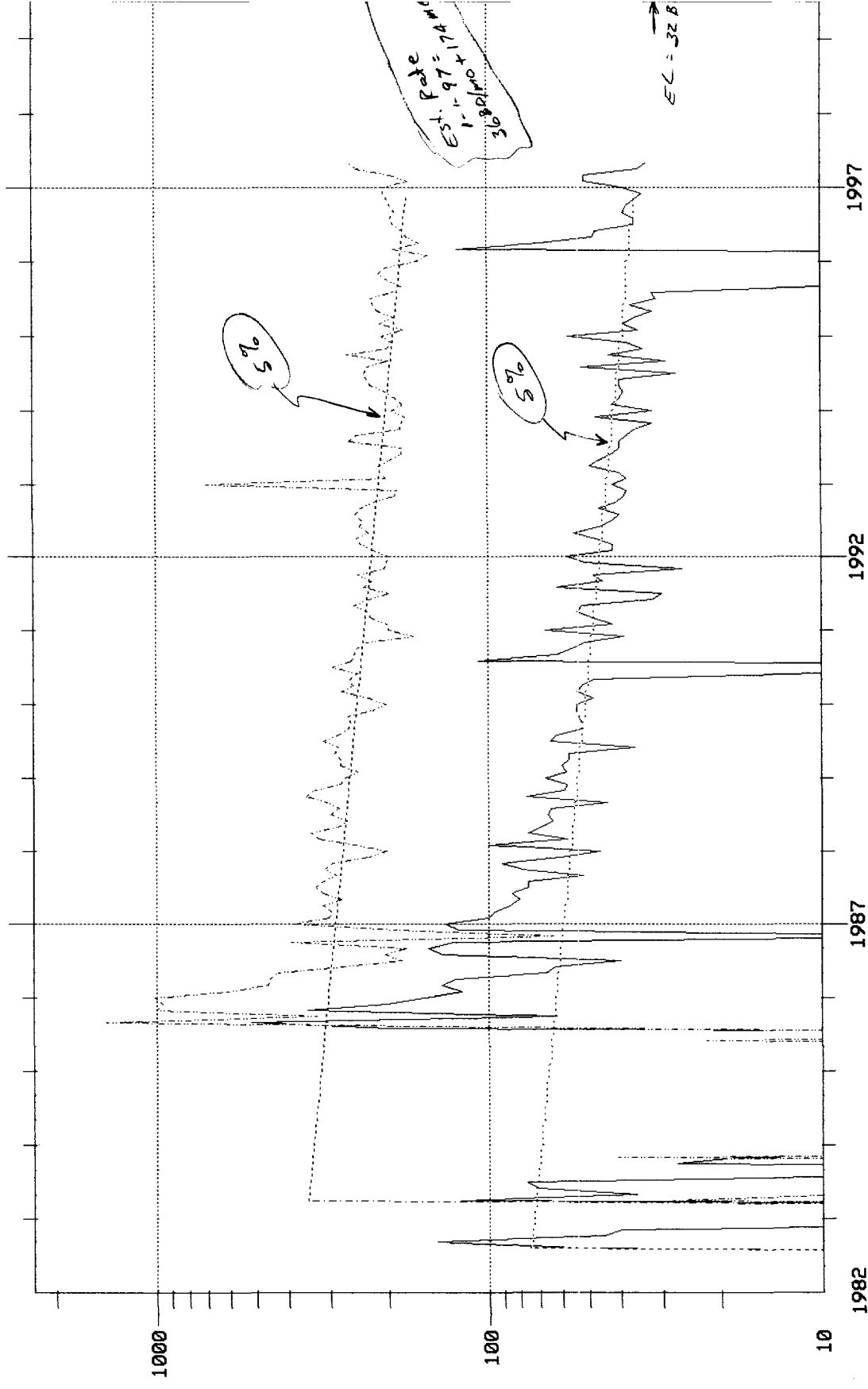
Reserves Remaining 1-1-97 = 82,200 mcf + 270 bbl

Calculated
Oil
Gas
Water

BISTI LOWER GALLUP
Production Rate vs Time
BB1/Mo or Mcf/Mo vs Months
APRIL SURPRISE13 *
D-19-24N-9W

A H a m m o n
No. 2

Production
Oil
Gas
Water



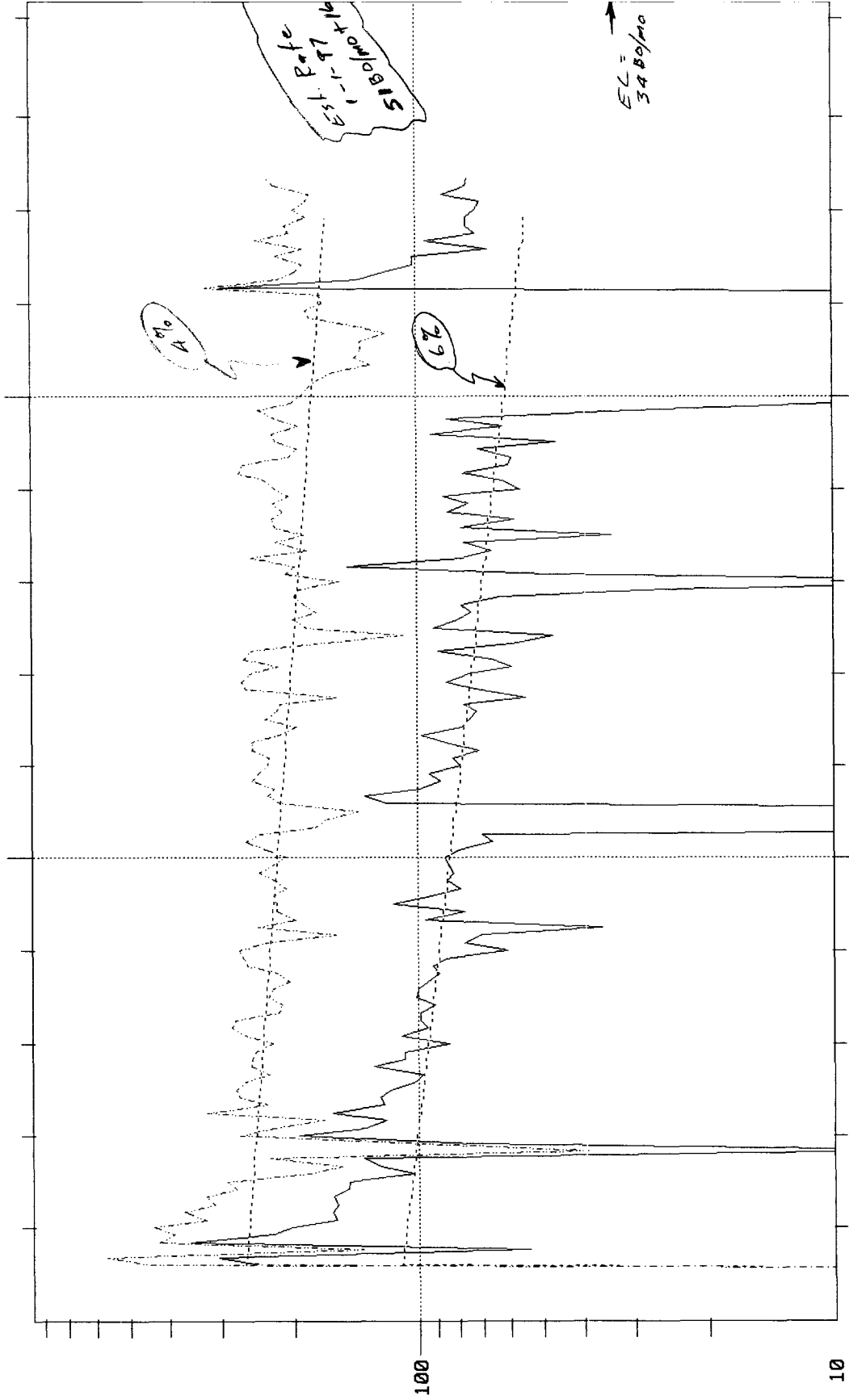
Est. RESV 1-1-97 = 900,661 + 4,815 MCF
Cum 1-1-97 = 913,961 + 37,071 MCF
Est. ultimate Rec. = 10,039,661 + 41,886 MCF

Calculated
Oil
Gas
Water ----

BISTI LOWER GALLUP
Production Rate vs Time
BB1/Mo or Mcf/Mo vs Months
MF11 *
L-18-24N-9W

Production
Oil
Gas
Water ----

A Hargrett
No. 3



1995
Est. Resv 1-1-97 = 3,360 bbl + 12,200 mcf
Cum 1-1-97 = 11,626 bbl + 30,785 mcf
Est. ultimate Rec = 14,986 bbl + 42,985 mcf



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

GARY E. JOHNSON
GOVERNOR

OIL CONSERVATION DIVISION
AZTEC DISTRICT OFFICE
1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO 87410
(505) 334-6170 Fax (505) 334-6170

JENNIFER A. SALISBURY
CABINET SECRETARY

July 18, 1997

John D Roe
Dugan Production Corporation
PO Box 420
Farmington NM 87499

Re: September #15, API# 30-045-26518, A-24-24N-10W, DHC

Dear John:

Your recommended allocation of commingled production for the referenced well is hereby accepted as follows:

	Gas	Oil
Bisti Lower Gallup	34%	98%
Basin Dakota	66%	2%

Yours truly,

Ernie Busch
District Geologist/Deputy O&G Inspector

EB/sh

cc: well file