



dugan production corp.

August 7, 1998

Mr. Duane Spencer, Team Leader Petroleum Management
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

RECEIVED
AUG 11 1998
OIL CON. DIV.
DIST. 3

Re: Mona Lisa No. 2, NWSE Sec. 14, T.26N, R.7W, Lease No. NM99002, API
3003925745, Down Hole Commingle Factors

Dear Mr. Spencer:

The subject well was approved for down hole commingling of the Dakota, Gallup and Mesa Verde formations by NMOCD Administrative Order No. DHC-1920. That order approved fixed allocation factors as follows:

<u>Formation</u>	<u>Oil</u>	<u>Gas</u>
Dakota	45%	45%
Gallup	25%	25%
Mesa Verde	30%	30%

In your approval of the application, you amended the factors as follows:

<u>Formation</u>	<u>Oil</u>	<u>Gas</u>
Dakota	.9 BCPD	118 MCFD
Gallup	Production remaining after Dakota & Mesa Verde Volumes were subtracted	
Mesa Verde	.6 BCFD	74 MCFD

The reasoning here was that the Dakota and Mesa Verde had been produced by numerous wells in the area and were partially drained. The Gallup formation had been produced only in Caulkins' Breech No. 377 well and had not been drained to the same extent. Your allocation factors were to apply until "...the production rate from the Well No. 2 Mona Lisa stabilizes...". At that time the originally proposed allocation factors were to apply.

The operator believes that the well has demonstrated stable production from initial delivery. The attachment shows daily gas production rates from the El Paso Field Services WATT meter installed at the well. The only significant variations are attributable to line pressure and a plant shut downs. Oil production is not reported

daily, but total production is as follows: May-439 BO , June-397 BO , July-310 BO .

The production will continue to decline with time. We feel that the above data represents stable production. The use of the fixed allocation factors proposed will represent a more accurate picture of the productive characteristics of this well. Since all interests are common, the consequences of production reporting will be only to illustrate the production rate from each zone. The average daily production from this well is 625 MCFD. If the subtraction method is used, the Dakota production is 118 MCFD, the Mesa Verde is 74 MCFD, and the Gallup is 433 MCFD. Using the fixed allocation method, the Dakota is 281 MCFD, the Mesa Verde is 187 MCFD, and the Gallup is 156 MCFD. Looking at the initial production rates of surrounding wells, it appears that the latter production numbers are more in line than are those derived with the subtraction method.

We ask that you concur that production is stabilized and that production reporting from the first delivery of this well be done with the NMOCD fixed allocation factors.

Sincerely,

A handwritten signature in black ink, appearing to read "John Alexander". The script is cursive and fluid.

John Alexander
Vice President

Attachment

cc:

NMOCD, Ernie Busch

Mona Lisa 2, Dugan Production Corp.

MCFD				
DATE	May-98	Jun-98	Jul-98	Aug-98
1	0	633	660	622
2	0	639	660	623
3	0	645	658	621
4	0	652	652	616
5	0	659	638	573
6	0	669	638	516
7	0	670	642	
8	0	679	631	
9	0	680	649	
10	0	680	577	
11	0	657	636	
12	0	619	631	
13	113	621	631	
14	633	623	240	
15	593	623	776	
16	613	624	675	
17	616	626	647	
18	619	622	229	
19	628	633	126	
20	611	623	145	
21	612	616	158	
22	597	57	168	
23	596	0	1083	
24	596	0	823	
25	596	0	735	
26	605	951	698	
27	615	725	675	
28	613	685	660	
29	620	670	650	
30	627	663	639	
31	629		637	