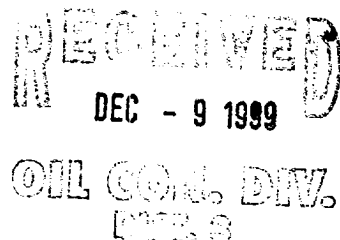


dugan production corp.

December 7, 1999



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

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

Re: Request for approval to temporarily surface commingle
Dugan Production's Sherman Edward No. 2B
API No. 30-039-21411 (O-3-29N-5W)
Gobernador Pictured Cliffs & Blanco Mesaverde Gas Pools
Rio Arriba County, NM

Dear Ms. Wrotenbery and Mr. Otteni:

We are writing to request your approvals to temporarily surface commingle natural gas and condensate production from the Gobernador Pictured Cliffs and Blanco Mesaverde gas pools in the currently dually completed Sherman Edward No. 2B well operated by Dugan Production Corp. Dugan Production holds 100% of the working interest and all interest in each spacing unit is common. Only one Federal lease (NM-23048) is involved and there are no overriding royalty owners.

The BLM (on 6-18-99) and NMOCD (DHC-2369 dated 7-1-99) have previously approved the downhole commingling of these two pools in the subject well and we still intend to do the downhole commingling, however as a result of a backlog in our well work schedule, we have not yet done so and it now appears that it will be April or May before we are able to perform the downhole commingling workover. Part of our delay in scheduling this well work at this time of year is that we are reluctant to commence a workover that could take two to four weeks to complete. The access road is over rough terrain and any moisture will make access to the well not only difficult but costly.

We have installed a well head compressor for the Mesaverde production which will also ultimately be used for the downhole commingled production. The Pictured Cliffs completion is currently not producing. Until such time as we are able to complete the downhole commingling work, we propose to surface commingle the production streams and produce both pools through the compressor currently serving the Mesaverde production. This surface commingling will only be necessary for five to six months until we can complete the downhole commingling work.

If approved, we propose to allocate the surface commingled production using the allocation factors already approved for downhole commingled production, i.e.:

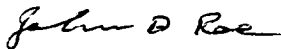
	<u>Gas</u>	<u>Oil</u>
Gobernador PC	45%	100%
Blanco MV	55%	0%

Alternatively, we could use the subtraction method where Pictured Cliffs production volumes would be the production above an established trend for the Mesaverde, however with reference to the attached Mesaverde production curve, it can be seen that production has been very erratic and an established trend is not real obvious. The erratic production is one of the reasons that downhole commingling was initially proposed.

This proposed surface commingling will only be necessary for a short period of time and will hopefully allow us to restore approximately 50 MCFD from the Pictured Cliffs. Since ownership in both pools is common, there will not be any impact upon correlative rights.

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

Sincerely,



John D. Roe
Engineering Manager

JDR/tmf

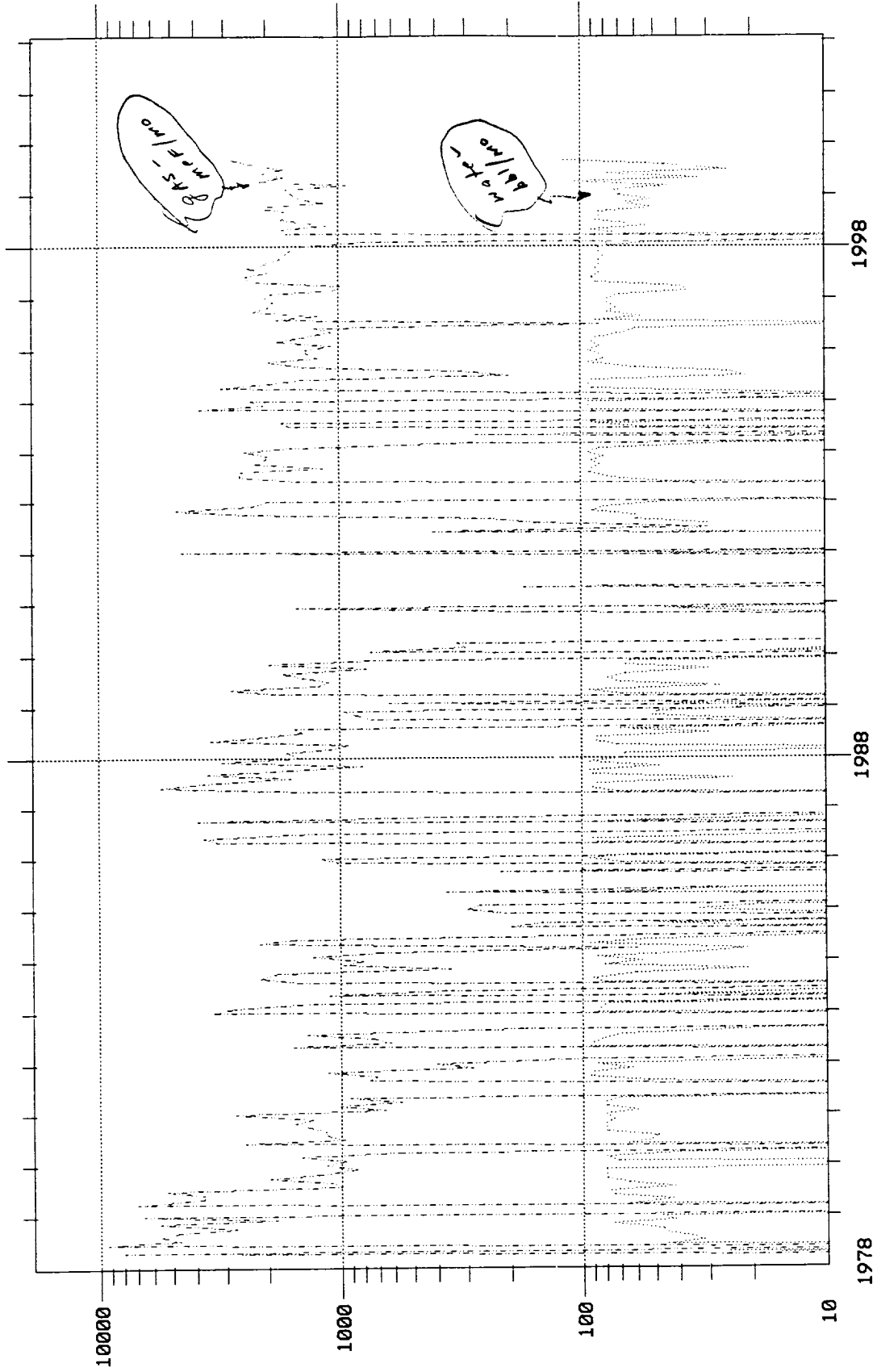
attachment

cc: NMOCD - Aztec

Calculated
Oil
Gas
Water

DUGAN PRODUCTION CORP.
Production Rate vs Time
Bbl/Mo or Mcf/Mo vs Months
SHERMAN EDWARD 12B
BLANCO MESAVERDE (O-3-29N-5W)

Production
Oil
Gas
Water



Reported Oil Production = 0 Bbls
Reported Gas Production = 312757 Mcf
Reported Water Production = 11327 Bbls