

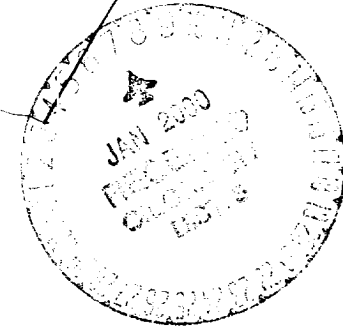


United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

JAN - 5 2000



IN REPLY REFER TO:
3162.7-3
NM23048

Dugan Production Company
Attn.: John Roe
P.O. Box 420
Farmington, New Mexico 87499-0420

Dear Mr. Roe:

Reference is made to your application dated December 7, 1999, requesting authorization to temporarily surface commingle gas and associated liquid hydrocarbons from the following well:

Sherman Edward No. 2B located 940' FSL and 2070' FEL in section 3, T. 29N., R. 5W., on Federal Oil and Gas Lease NM-23048.

The referenced well is dually completed in the Pictured Cliffs and the Mesaverde formations and was granted down hole commingling approval on June 18, 1999, using fixed allocation factors. As proposed in your application, combined production would be measured at the meter serving the Mesaverde side of this well until such time as permanent down hole commingling operations can be conducted.

As such, authorization is hereby given to surface commingle production from the Pictured Cliffs and Mesaverde formations in the above well on a temporary basis until 1/1/2001, or until down hole commingling operations are conducted, whichever occurs first. Production must be allocated using the fixed allocation factors authorized in our June 18, 1999 approval letter. In addition, the following are conditions of this approval:

- Measurement of gas and associated liquids must be conducted in accordance with the requirements outlined in Onshore Orders No. 3 Site Security, No. 4 Oil Measurement, and No. 5 Gas Measurement.
- No other wells can be added to this system of measurement without the prior approval of this office.
- Allocated sales must be made on an MMBTU adjusted basis using weight averaging to account for any differences in gas quality.
- This office reserves the right to rescind this approval should future evaluation of this method of measurement indicate that the federal royalties would be reduced.

If you have any questions regarding the above, contact Jim Lovato at (505) 599-6367.

Sincerely,

Chip Harraden
Acting Team Leader, Petroleum Management Team

cc:
NMOCD (Aztec & Santa Fe)