

DHC 1969



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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

IN REPLY REFER TO:

AUG - 4 1998

NM23048
3162.3-2 (07400)

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

Re: Well No. 2 Sherman Edward
SWSW 3-29N-5W
Lease No. NM23048
Rio Arriba County, NM

Dear Mr. Roe:

By letter dated May 20, 1998, you requested authorization to down hole commingle gas and associated liquid hydrocarbons from the Mesaverde and Pictured Cliffs Formations of the above referenced well. After reviewing the production histories for this well and wells in the vicinity, we concur with the fixed allocation factors established in your application. Authorization is hereby given to allocate production in accordance with the factors outlined below:

<u>Formation</u>	<u>Gas</u>	<u>Oil</u>
Mesaverde	55%	0.0%
Pictured Cliffs	45%	100%

Commingled production from each zone must be reported in accordance with the allocation factors identified above. A Sundry Notice of intent (form 3160-5) will be required prior to commencing the mechanical aspects of down hole commingling. Please provide a detailed procedure of the proposed operations for our review and consideration.

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

Sincerely,

/s/ Duane W. Spencer

Duane Spencer
Team Leader, Petroleum Management Team

cc:
NMOCD, Santa Fe
NMOCD, Aztec