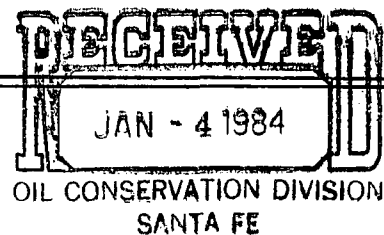


# dugan production corp.



December 30, 1983

Joe D. Ramey, Director  
New Mexico Oil Conservation Division  
P O Box 2088  
Santa Fe, NM 87501

RE: The Application of E. Alex Phillips for Compulsory Pooling  
Case No. 8038, January 4, 1984  
S/2 Section 26, Township 25 North, Range 2 West, NMPM  
Rio Arriba County, NM

Dear Mr. Ramey:

We are writing on behalf of Dugan Production Corp. and Jerome P. McHugh and Assoc. regarding the captioned Application wherein Mr. Phillips seeks an Order pooling mineral interests from the top of the Mesaverde to the base of the Dakota formation underlying the south half of Section 26, which is to be dedicated to a well to be drilled at a standard location in the Southeast Quarter.

Should the Commission elect to grant Mr. Phillips' request for compulsory pooling in the South Half of Section 26, it is our belief that the risk involved in drilling this well is fairly low in view of the fact that it is directly offset, on 160 acre locations, to the North and Northwest by Northwest Exploration's Gavilan #1 and #1E and to the East by Northwest Pipeline's Rucker Lake #3. In addition, Jerome P. McHugh's Native Son #2 offsets the proposed well approximately 1½ miles to the West and the Wright Way #1 and Mother Lode #1 are located approximately 1½ miles to the South.

Northwest Exploration Co. completed the Gavilan #1 in the Northeast Quarter (Unit A) of Section 26 on March 21, 1982 with an initial potential of 62 BOPD and a GOR of 8790 from perforations in the Mancos, 6821-7562, and the Dakota, 7879-8026. During the first ten months of 1983, production has averaged 64 BOPD flowing with a GOR of 7912 and as of November 1, 1983, cumulative production from the well was 21,991 BO and 179,474 MCF of gas. The Gavilan #1E was completed by Northwest Exploration on July 23, 1983 in the Northwest Quarter (Unit E) of Section 26 with a combined initial potential of 42 BOPD and a GOR of 9,740 from perforations in the Mancos, 6804-7366, and Dakota, 7822-7918. The Gavilan #1E began producing in August and as of November 1, 1983, had produced 3718 BO for a daily average of 50 BOPD flowing with an average GOR of 2216. Northwest Pipeline completed the Rucker Lake #3 on August 10, 1983, with an initial potential of 145 BOPD and a GOR of 2089 from Mancos perforations 6808-7538. Since starting production, the Rucker Lake No. 3 has averaged approximately 100 BOPD with a GOR of 1270

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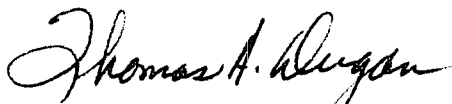
and as of November 1, 1983, approximately 5800 BO have been produced. Jerome P. McHugh's Native Son #2, located in the Southwest Quarter (Unit N) of Section 27, Township 25 North, Range 2 West, was completed November 18, 1983, from perforations in the Mancos, 6802-7485, and the Dakota, 7886-7977, for a total of 291 BOPD with a GOR of 2269. To date very little production has occurred from the Native Son #2; however, our initial testing indicates this to be one of the better wells completed in the Gavilan Mancos Pool. The Mother Lode #1, located in the Northeast Quarter (Unit H) of Section 3, Township 24 North, Range 2 West, had a combined initial potential of 78 BOPD with an average GOR of 4615 from the Mancos and Dakota formations. Upon installing a rod pump, production improved daily and on November 23, 1983, a revised GOR test was filed (NMOCD form C-116) reporting a total production of 412 BOPD with a GOR of 1290. The Wright Way #1, located in the Northwest Quarter (Unit C) of Section 2, Township 24 North, Range 2 West, was completed on September 9, 1983, in the Mancos and Dakota formations with a combined IPF of 78 BOPD and after installing a rod pump in November, productivity improved. A revised GOR test was taken on November 23, 1983, indicating a combined rate of 125 BOPD with a GOR of 967. Based upon our current geologic interpretations utilizing data from offset wells in all directions from Mr. Phillips' proposed well, it is our prediction that both the Mancos and Dakota formations will be encountered and will be productive at the location proposed by Mr. Phillips. It is therefore our opinion that the only risk involved in drilling this well is Mr. Phillips' ability to drill and complete a well in this area and that there should be no abnormal risk assigned to the drilling of this well.

Secondly, should the Commission grant this pooling we believe that only the Mancos and Dakota formations should be included since all of Mr. Phillips' correspondence to date, references only the Mancos and Dakota formations as being the drilling objectives and it is our belief that both zones will be encountered and productive. The Mesaverde formation is not completed in any of the existing wells in this area.


This letter is submitted for your consideration on behalf of Dugan Production Corp. and Jerome P. McHugh and Assoc. We request that it be made a matter of record in any proceedings on Case No. 8038 before the New Mexico Oil Conservation Division. Should you have any questions regarding our position please feel free to contact us.

Sincerely,

DUGAN PRODUCTION CORP.

  
Thomas A. Dugan, President

JEROME P. MCHUGH & ASSOCIATES

  
Jerome P. McHugh, Jr.