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SURFACE RESOURCES  
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MINERAL RESOURCES  
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ROYALTY  
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State of New Mexico  
Commissioner of Public Lands

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(505)-827-5752



August 26, 1997

Dugan Production Corp.  
P. O. Box 420  
Farmington, New Mexico 87499-0420

Attn: Mr. John D. Roe

Re: Application for Surface Commingling and Off-Lease Measurement  
Proposed Federal I Central Gathering System NE/4NW/4 Sec. 1-29N-14W  
Camp David Com #1, Federal I wells No. 4, 5R & 6, O'Henry #1, & Winifred #2  
San Juan County, New Mexico

Dear Mr. Roe:

We have received your letter of August 19, 1997, wherein you requested our approval for the proposed surface commingling of production (natural gas and water) from the above-captioned 6 wells which are being operated by Dugan Production.

We understand that Dugan Production plans to install a central gathering system to collect natural gas and water from the 6 low volume gas wells and use a central facility to separate the gas and water. Natural gas will be delivered to El Paso Field Services at their CPD sales meter and will be allocated to each well using allocation factors determined from periodic individual well tests. The water production will be transferred by pipeline and will be disposed of at Dugan's water disposal well in the NW/4NW/4 of Section 36-30N-14W.

Since it appears that there will be no loss of revenue to the State of New Mexico's beneficiaries as a result of your proposed operation, your request is hereby approved. Our approval is given with the understanding that the Commissioner of Public Lands reserves the right to amend or withdraw his approval, should this operation prove to be unprofitable to the state at any time in the future. Also, our approval is subject to like approval by the New Mexico Oil Conservation Division and the Bureau of Land Management. Our approval is also contingent upon Dugan Production securing the appropriate right-of-way and salt water disposal easements.

October 23, 1997  
NMOCD Case No. 11863  
Dugan Production Corp.  
Exhibit No. 7

Please submit a copy of the Bureau of Land Management's approval and a copy of the New Mexico Oil Conservation Division's approval order.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS



BY:

JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744

RP/JB/pm

encls.

xc: Reader file

OCD Attn: Mr. David Catanach, Mr. Ben Stone

BLM Farmington Attn: Mr. Duane Spencer

Debbie Padilla

Joseph Lopez