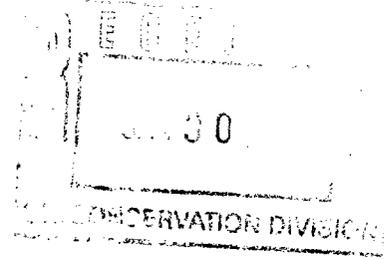


dugan production corp.

January 28, 1998



Mr. David Catanach
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Re: Dugan's Application for Downhole Commingling and 160 acre NSPU
Proposed Mona Lisa No. 2
NMOCD Cases 11897 & 11899
Rio Arriba County, NM

Dear Mr. Catanach:

Attached for your consideration and file regarding the subject cases is a copy of the BLM's letter dated 1-26-98 approving Dugan's proposed downhole commingling of the Blanco Mesaverde and Basin Dakota formations in our proposed Mona Lisa No. 2.

The BLM has also approved our proposed allocation factors and indicated that they had no concern as to correlative rights issues should our application for two 160 acre non-standard spacing units be approved.

In addition, today I have confirmed with Bobby Verquer of Caulkins Oil that the interest owners of the SW/4 continue to prefer development of the S/2-14-26N-7W on 160 acre NSPU's rather than a 320 acre spacing unit.

Should you have any questions in either of Dugan's cases, please let me know.

Sincerely,

John D. Roe
Engineering Manager

JDR/tmf

attach.

cc: Mr. Tom Kellahin - Kellahin & Kellahin; Mr. Bobby Verquer - Caulkins Oil



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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

January 26, 1998

IN REPLY REFER TO:
NMNM-99002 (WF)
3162.3-2 (07400)

Mr. John Roe
Dugan Production Corp.
P.O. Box 420
Farmington, NM 87499-0420

COPY

Dear Mr. Roe:

We have reviewed your application for downhole commingling of the Mesaverde and Dakota Formations in the No. 2 Mona Lisa, NwSe Sec. 14, T.26N., R.7W. lease NMNM-99002. We concur with your application that downhole commingling the Mesaverde and Dakota Formations will result in the maximum economic recovery and prevent waste. Your proposed allocation of 60% of the oil and gas produced to the Dakota Formation, and the remaining 40% to the Mesaverde Formation are approved. A copy of this approval is being sent to the Oil Conservation Division.

Dugan also applied for two non-standard 160 acre spacing units for the S/2 of section 14. Your proposal would allow the interest owners of both the SE/4 and the SW/4 to drill, produce and operate their own wells. Since the S/2 of Section 14 and all the surrounding leases are Federal, we have no correlative rights concerns with your application, since only one well will be permitted in each quarter at this time.

If you have any questions, please call me at (505) 599-6350.

Sincerely,

Duane W. Spencer
Team Lead, Petroleum Management

cc:
NMOCD, Santa Fe, NN
NMOCD, Aztec, NM

