



Mid-Continent Region
Exploration/Production

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500
(915) 686-5400

December 11, 1998

Working Interest Owners
Carried Working Interest Owners
Royalty Interest Owners
Overriding Royalty Interest Owners
Offset Operators

Re: Increased Density Study
Dakota Formation
San Juan 28-7 Unit
Rio Arriba County, New Mexico

Ladies and Gentlemen:

Conoco Inc. is currently developing plans for a pilot increased density drilling program for the Dakota formation in the San Juan 28-7 Unit in Rio Arriba County, New Mexico. The current well density for this formation is two (2) wells per 320 acre spacing unit. Conoco proposes drilling an increased density pilot test of six (6) "100 acre" Dakota wells, as shown on the attached table. Conoco plans to gather data specific to the Dakota formation in order to determine the proper well spacing for said horizon. Plans call for eventual downhole commingling with production to be established from the Blanco Mesaverde pool, pursuant to approval of Burlington Resources' proposed basin-wide pool rule changes (Case No. 12069). Conoco anticipates that future density wells can access new reserves from both (tight) formations in a single well bore. Conoco Inc. anticipates the establishment of a 1/4 mile buffer zone around the perimeter of the unit during the pilot phase, in which no "100 acre" pilot infill wells would be drilled. The study will determine the additional reserves that could be developed by increasing the well density in the subject spacing unit.

Conoco Inc. plans to have a hearing before the New Mexico Oil & Gas Conservation Division (NMOCD) to seek approval for this project. Official notice of the hearing will be forthcoming. Conoco's application is expected to be heard by the NMOCD in January or February 1999, with all appropriate parties noticed, as required by the Division notice rules.

Royalty and overriding royalty owners are not required to take any action in response to this proposal. You may contact the undersigned at 915/686-5582 if you have any questions or comments regarding this proposal.

Sincerely,

Linda F Leazar, CPL
Senior Landman
San Juan Asset Team

Encl.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12122 Exhibit No. — 2
Submitted By:
Conoco, Inc.
Hearing Date: February 4, 1999