

dugan production corp.

NMOCD CASE NO. 9327

March 16, 1988

Dugan Production Corp.

Exhibit No. 4_

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 29, 1988

TO: WORKING INTEREST OWNERS (Address List Attached)

Re: Proposed Gavilan Mancos Development Well Township 26 North, Range 2 West, NMPM

Section 22: W/2

Rio Arriba County, New Mexico

Gentlemen:

Dugan Production Corp. is preparing to drill a development well in the Gavilan Mancos Oil Pool to an estimated depth of 8200' in the NE/4 NW/4 of Section 22, T-26N, R-2W that will include your interest in a non-standard 320-acre spacing unit consisting of the W/2 of said section.

As a working interest owner in the W/2 of Section 22, your support by farmout, sale or participation, is hereby requested. If you desire to participate, please execute and return one copy of the attached A.F.E. totalling \$479,000 to drill, complete and equip the proposed well. We will prepare an Operating Agreement for your approval upon notification that you will participate.

Should your decision be to farmout, Dugan Production Corp. is willing to farm-in your interest, based upon earning 100% of your interest in the spacing unit to the total depth drilled. During payout you will receive a proportionately reduced overriding royalty interest equal to the difference between the existing burdens and 18.75% of all production, convertible at payout to a 25% working interest, also proportionately reduced. Alternately, Dugan Production will consider purchasing your interest should you wish to sell.

The Gavilan Mancos Pool Rules (which govern the subject acreage) provide for 640 acre spacing, and in an effort to avoid drilling a second well in this section, Dugan Production Corp. has approached Amoco and the other working interest owners in Amoco's Seifert Gas Com A Well No. 1 (located in the SE/4 SE/4 of Section 22) and requested that they expand the spacing unit for the Seifert Gas Com A Well No. 1 to include all of Section 22. It is our belief that this request is reasonable, not only from a practical standpoint (since we believe most wells within Gavilan will drain at

least 640 acres), but is also mandated by the special pool rules which established 640 acre spacing units effective 6-8-87. Since the Seifert Gas Com A Well No. 1 was not actually completed until 6-28-87, it is our position that a 640 acre spacing unit is appropriate under the Gavilan Mancos Pool Rules and Section 70-2-18(A) of the New Mexico Statutes, N.M.S.A. 1978. The spacing unit for this well, as reflected on Amoco's C-102, is the E/2 of Section 22 containing 320 acres. Since Amoco's initial response was somewhat negative, and because of early lease expiration problems, we are planning to request that the New Mexico Oil Conservation Division schedule the appropriate hearings in this matter for the March 2, 1988 examiner hearing docket.

It is our intent to request that the Commission compel Amoco to rededicate all of Section 22 to the Seifert Gas Com A Well No. 1 in order to form a 640 acre spacing unit with Amoco as the operator and, thus, avoid the drilling of the subject well, at least for the current time. Should it become desirable to drill a second well in Section 22 on a 640 acre basis at some future date, then the working interest owners within Section 22 will evaluate that as a separate issue at some future date.

The attached A.F.E. is submitted for your approval, since we fully intend to drill a well on a non-standard 320 acre spacing unit comprising the W/2 of Section 22 in the event that the issue of a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 consisting of all of Section 22 is not resolved or will not be resolved by 4-15-88.

Please consider our proposed well at your earliest convenience and also your support for the formation of a 640 acre spacing unit for Amoco's Seifert Gas Com A Well No. 1 as proposed in our separate letter, of this date, to you. Because of lease expiration concerns, we plan to file the appropriate hearing applications with the NMOCD on 2-9-88 and, thus, request that you notify us of your position regarding this issue on or before 2-8-88.

If you have questions or need additional information, please feel free to contact me or John Roe at our letterhead address.

Sincerely,

John D. Roe for P. CorcoraN.

Richard Corcoran Manager of Land

JDR/RC/cg

attachment - list of working interest owners cc: Tom Kellahin

WORKING INTEREST OWNERS

W/2 Section 22, T-26N, R-2W Rio Arriba County, New Mexico

<u>NW/4</u>

Dugan Production Corp. Attn: Rich Corcoran P.O. Box 208 Farmington, NM 87499

SW/4

Reading & Bates Petroleum Co. Attn: Eric Koelling 3200 Mid-Continent Tower Tulsa, Oklahoma 74103

Hooper, Kimball & Williams, Inc. Attn: Greg Owens P.O. Box 520970 Tulsa, Oklahoma 74152

Ibex Partnership
Attn: Ron Holloway
P.O. Box 911
Breckenridge, Texas 76024-0911

PC, Ltd. Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911

Carolyn Clark Oatman P.O. Box 1846 Austin, Texas 78767

Warren Clark Trust P.O. Box 1846 Austin, Texas 78767

Warren Clark Testamentary Trust P.O. Box 1846 Austin, Texas 78767

DUGAN PRODUCTION CORP. P.O. Box 208, Farmington, NM 87401 Ph. (505) 325-1821

AUTHORIZATION FOR EXPENDITURE

WELL		Date 1-29-88	
LOCA	TION NE/4NW/4 Section 22, T-26N, R-2W, NMPM R - TANGIBLES	io Arriba County, N	М
Code			•
01	Surface Casing - 200 ft. of 9-5/8" OD @ \$11.	50/ft. \$ 2,300	
02	Prod. Casing - 8200 ft. of 51" 151817#@\$5 7	5/ft. 47,150	
0.4	Casing - ft. of		
04	Tubing - 7800 ft. of 2-7/8", 6.5#@\$2.29 Tubing - ft. of	5/ft. 17,550	
06	Packer and Tubing Equipment		
	Wellhead Equipment	7,000	
80	Valves & Fittings	2,500	
09	Production Unit & Treaters	10,000	
10	Tank Battery	12,500	
11 12	Pumping Unit & Prime Mover Rods, Bottom-hole Pump, Aux Equip.	37,500 12,500	
13	Misc. Tangible Equipment		
14	Well Hookup		
15	Gas Lines and Installation		
16	Pipeline Installation	3,000	
	TOTAL TANGIBLES		\$152,000
299	- INTANGIBLES		
Code			
30	Survey Archeologist	1,000	
	Location Damages	2,500	
32	Road & Location Construction	5,000	
33 40	Water & Gas Lines	98,400	
41	Contract Drilling 8200 ft. @ \$ 12/ft. plus tax Daywork 48 hrs. @ \$ 190/hr.	9,120	
43	Drill Stem Test & Cores		
44	Mud Logging		
45	Open Hole Logging	7, 000	
46	Rental Tools		
47	Casing Float Equip. & Centralizer	4,000	
48	Trucking	2,000	
50	Mud Water - Drilling Oper.	45,000	
51	Casing Crew & Power Tongs	15,000	
52	Miscellaneous	1,000	
53	Testing Tubular Goods		
54	Tool & Equip. Repair		
55	Company & Contract Labor, Roustabouts	5,000	
56 60	Supplies Compating Supplies Casing	500	
61	Cementing Surface Casing Cementing Prod. Casing	2,000	
	Completion Rig	17,000 15,000	
	Perf. & Cased Hole Logging	3, 500	
	Acidizing		
	Fracturing	35,000	
	Tank Rental	2,200	-
	Trucking - Completion	4,000	
76 77	Water - Completion Rental Tools - Completion	6,000 1,500	
	Clean-up Location	1,500	
	Power Swivel, Pump & Pit Rental	2,000	
80	Contract Serv. & Labor - Completion	7,000	
90	Supervision - Administrative	4,000	
91	Supervision - Legal	500	
92	Supervision - Field	7,500	
	TOTAL INTANGIBLES		\$304,220
	±5 % Contingency		22,780
			\$479,000
	TOTAL WELL COST		
APPRO	Production Corp. By: 1 2 2	n -4-	1_ 20: 0.0
טugan	rroduction corp. by:	vate	1-29-88
Joint	: Interest Owner By:	Date	•
	†		

DUGAN PRODUCTION LETTER DATED 1-29-88

RETURN RECEIPT CARDS

Working Interest Owners

W/2 of Section 22, T26N, R2W, NMPM Rio Arriba County, NM

(Page 1 of 2)

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Put your address in ti (ETURN TO" Space on the reverse side. Fallure to ils will prevent this				
card from being returned to you. The return receipt fee delivered to and the date of delivery. For additional fees to	will provide you the name of the person			
postmaster for fees and check box(es) for additional service	(s) requested.			
 1. ☐ Show to whom delivered, date, and addressed's addressed's addressed to the following of t	† (Extra charge)†			
3. Article Addressed to:	4. Article Number			
	P-488 636 964			
Reading & Bates Petroleum Corp.	Type of Service:			
Attn: Eric Koelling	Registered Insured			
3200 Mid-Continent Tower	Cortified COD			
Tulsa, OK 74103	Express Mail			
	Always obtain-signature of addressee			
	or agent and DATE DELIVERED.			
5. Signature – Addressee	8. Addressee's Address (ONLY if requested and fee paid)			
X				
6. Signature Agent				
	-			
7. Date of Delivery 2-1-85				
PS Form 3811, Mar. 1987	DOMESTIC RETURN RECEIPT			
* U.S.G.F.U. 1907-178-208	DOMESTIC RETURN RECEIPT			
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Hooper, Kimball & Williams, Inc.	P-488 636 965 Type of Service:			
Attn: Greg Owens	Registered Insured			
P.O. Box 520970	☑ Certified ☐ COD			
Tulsa, OK 74152	☐ Express Mail			
1	Always obtain signature of addresses			
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	or agent and DATE DENTERED.			
x	or agent and DANGER THERED. 8. Addresse Address QVI. V requested and fee paid			
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3. Article Addressed to:	4. Article Number	•
PC, Ltd.	P-488 636 967	
Attn: Ron Holloway	Type of Service: Registered Insured	• .
P.O. Box 911	☑ Certified ☐ COD	
Breckenridge, Texas 76024-0911	Express Mail	
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Carolyn Clark Oatman	P-488 535 968 Type of Service:	
P.O. Box 1846	Registered Insured	
Austin, Texas 78767	☐ COD ☐ Express Mail	
•	Always obtain signature of addressee	
	or agent and DATE DELIVERED.	
5. Signature - Addressee	8. Addressee's Address (ONLY if requested and fee paid)	
X S. Circusters Accord		•
6. Signature — Agent		
7. Date of Delivery		1
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Austin, Texas 78767	Registered Insured COD	
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	Always obtain signature of addressee	
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3. Article Addressed to:	4. Article Number	
Warren Clark Testamentary Trust	P 0488 636 970 Type of Service:	
P.O. Box 1846	Registered Insured	
Austin, Texas 78767	COD COD	•
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