dugan production corp.

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DEC 17 1986

BUREAU OF LAND MANAGEMENT
FARMINGTON RESOURCE AREA

DEC 19 1986
OIL CON. DIV.
DIST. 3

December 11, 1986

Bureau of Land Management
Caller Service 4104
Farmington, NM 87499

Re: Dugan Production Corp's Request for Long-term Venting Approval
Central Cha Cha Unit #7
Lease No. SF-078931 B, Unit No. 91-008561
Sec. 31, T29N, R13W, NMPM
San Juan County, NM

Gentlemen:

Dugan Production Corp. hereby requests approval for the long-term venting of a minor amount of casinghead gas produced from the captioned well, which was completed by Tenneco Oil Co. in the Cha Cha Gallup Pool on 8/3/71, from perforations between 5544' and 5548'. During the initial 24-hour production test on 8/2/71, the well produced 53 BO, 46 BW (frac water) and gas TSTM. Dugan Production acquired the well in May 1977. The most recent GOR test was the state required scheduled test of July 17, 1986. During this 24-hour actual production test, 3.36 bbls of oil, 7.54 bbls of water and 10.11 MCF of gas were produced. (A copy of NMOCD form C-116 reporting this test is attached). The well is equipped with a gas powered pumping unit and a heater treater. The casinghead gas production from the subject well is not always sufficient to maintain continuous operation of the well equipment and liquid petroleum gas has been used on occasion to supplement the natural gas production for lease fuel requirements. The daily average production for the month of October 1986 was 3.1 BOPD, 9.4 MCFD and 8 BWPD. The pumping unit and heater treater require approximately 4.9 MCFD to operate, therefore the amount of gas that will actually be vented is approximately 4.5 MCFD.

The well is located approximately 9000' from the closest gas line. EPNG and Northwest Pipeline have both indicated they have no interest in installing facilities to connect marginal and/or remote wells to their systems. The expenditure required to sell gas from the subject well cannot be justified by the minor amount of revenues that might be generated by any future gas sales. Economics in support of our position are presented on the attached Table No. 1. Based upon our experience in the area we expect production to decline at approximately 10%/year. The actual current oil price of $13.25/bbl less 79¢/bbl trucking was used for the final quarter of this year. The 1987 price used was $15.00/bbl less 79¢/bbl trucking.

cc: ADO
Operator
NMOCD (2)
3162.7-3

709 BLOOMFIELD RD. • P. O. BOX 208 • FARMINGTON, NEW MEXICO 87499-0208 • PHONE: (505) 325-1821

A $20.00/bbl less 79¢/bbl trucking forecast was used after January 1988. We believe that these are reasonable values considering the current oil market. The gas revenue forecast includes a gas price of $1.50/MCF which is higher than current gas prices. We are finding it increasingly more difficult to find buyers for our gas in the present gas market. Simply having gas for sale no longer guarantees the sale of the gas. Our gas sale economics assume daily delivery of gas, which, as earlier discussed, has not been the actual performance of the well.

In summary, we are asking permission to vent approximately 4.5 MCFD for an infinite period of time. Due to the remoteness of the well, poor gas market conditions and the low volumes of marketable gas produced, connecting the well for gas sales is not economically feasible at this time. Should any of these conditions change, we will re-evaluate the feasibility of selling gas from the Central Cha Cha Unit #7 at that time.

Should you have questions regarding this matter, please feel free to call me.

Sincerely,

Barbara L. Williams

Barbara L. Williams
Engineer

BLW/cg

attach.

APPROVED

DEC 17 1986

John S. Keller

For AREA MANAGER

NOCD, Aztec
C-116 file
Well file

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

SANTA FE, NEW MEXICO 87501

Form C-116
Revised 10-1-78

GAS-OIL RATIO TESTS

Operator	Pool	County
Dugan Production Corp.	Cha Cha Gallup	San Juan

Address: P.O. Box 208 Farmington, NM 87499

TYPE OF TEST - (X): Scheduled [X] Completion [ ] Special [ ]

LEASE NAME	WELL NO.	LOCATION U	LOCATION S	LOCATION T	LOCATION R	DATE OF TEST	STATUS	CHOKE SIZE	TBG. PRESS.	DAILY ALLOW-ABLE	LENGTH OF TEST HOURS	PROD. DURING TEST WATER BBLS.	GRAV. OIL	OIL BBLS.	GAS M.C.F.	GAS - OIL RATIO CU.FT/BBL
Central Cha Cha	3	G	31	29N	13W		S									
Central Cha Cha	7	G	31	29N	13W	7-17-86	P	- -	- -	2	24	7.54	35.5	3.36	10.11*	3,009

* - includes 4.9 mcf utilized A
LEASE Fuel.

No well will be assigned an allowable greater than the amount of oil produced on the official test.

During gas-oil ratio test, each well shall be produced at a rate not exceeding the top unit allowable for the pool in which well is located by more than 25 percent. Operator is encouraged to take advantage of this 25 percent tolerance in order that well can be assigned increased allowables when authorized by the Division.

Gas volumes must be reported in MCF measured at a pressure base of 15.025 psia and a temperature of 60° F. Specific gravity base will be 0.60.

Report casing pressure in lieu of tubing pressure for any well producing through casing.

Mail original and one copy of this report to the district office of the New Mexico Oil Conservation Division in accordance with Rule 301 and appropriate pool rules.

I hereby certify that the above informa[tion] is true and complete to the best of my kn[ow]ledge and belief.

Maurice Wheeler 7-30-8[6]
(Signature)
Production Report Supervisor

TABLE NO. 1
DUGAN PRODUCTION CORP. - CENTRAL CHA CHA UNIT #7
APPLICATION TO VENT CASINGHEAD GAS

Year	Annual Production	Net Revenue (1)	Investment $	Annual Present Worth Factor (7)	Present Worth Revenue - BFIT (2) Annual	Cumulative
oil operations only						
	Barrels		— (3)	1.0000		
8/86 - 1/87	514 (4)	$ 2691		0.94491	2617	2617
1/87 - 1/88	1145	7184		0.84367	6460	9076
1/88 - 1/89	1030	10015		0.75328	8038	17115
1/89 - 1/90	927	8425		0.67257	6039	23153
1/90 - 1/91	834	6995		0.60051	4477	27630
5 yr Total	4450	35309		26,006 (8)		27630
Gas operations only						
	MCF		90,000 (6)			
8/86 - 1/87	817	-89071			-88251	-88251
1/87 - 1/88	1820	2070			1860	-86391
1/88 - 1/89	1638	1863			1494	-84897
1/89 - 1/90	1474	1677			1201	-83696
1/90 - 1/91	1327	1509			965	-82731
5 yr Total	7077	-81953		-78,980 (8)		-82731
Combined oil + Gas						
8/86 - 1/87		-86380			-85634	-85634
1/87 - 1/88		9254			8319	-77315
1/88 - 1/89		11878			9533	-67782
1/89 - 1/90		10102			7239	-60543
1/90 - 1/91		8504			5442	-55101
5 yr Total		-46643		-52,974 (8)		-55101

Remarks + Notes

(1) Total Royalty Burden on oil and gas = 12.5%
Oil Production tax = 8.1991% Gas Production Tax = 4.4491% of Gross Revenue after royalty + 14.2625¢/net MCF.
Oil Price 8/86 - 1/87 = $13.25/Bbl less 79¢/Bbl trucking
1/87 - 1/88 = $15.00/Bbl less 79¢/Bbl trucking
1/88 - 1/91 = $20.00/Bbl less 79¢/Bbl trucking
Gas Price assumed to be $1.50/MCF
Annual operating expense (actual) = $5880

(2) End-of-month present worth factor at 12% effective annual discount rate used in computerized economics program

(3) Unrecovered drilling and completion costs as of 8/1/86

(4) Annual decline of 10%

(5) Gas available for sale = produced gas @ GOR of 3009 SCF/BBL (as tested NMOCD form C-116 7/17/86) less lease requirements of 4.9 MCFD to power 14 HP pump unit motor and heater Treater.
Annual lease fuel = 1789 MCF

(6) Assumes approximately 9000' of line installed at $10/ft. For simplicity the amout ($4500) for a drip and meter run + dehydrator was omitted. This assumes that a contract can be obtained which is conservative since EPNG is no longer purchasing gas, however a line to another facility would be more expensive.

(7) Mid-Year PWF @ 12% for manual calculations

(8) Cumulative BFIT calculated manually - NOTE: lower value than (2)