

dugan production corp.

f.10-30N-1300

May 11, 1983

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey, Director

Re: Request for Surface Commingling
Dugan Production Corporation
Five of Diamonds Wells No. 2 and No. 2S
Units K and L, Sec. 10, T30N, R13W, N.M.P.M.
Undesignated Fruitland Formation
Federal Lease No. NM 030555A
San Juan County, New Mexico

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Dear Mr. Ramey:

By this letter we request administrative approval to commingle, on the surface, production from the Fruitland Formation in the Five of Diamonds No. 2 and the Five of Diamonds No. 2S, operated by Dugan Production.

The Five of Diamonds No. 2, located in Unit K, was completed on September 10, 1979, testing a rate of 125 MCFD at 3 psi FTP. The 7 day SIWHP was 375 psi from perforations 1315'-1707'. The subject well was placed on production October 1, 1980 delivering gas to El Paso Natural Gas Company. Through March 1983, a total of 11,472 mcf has been produced and during the first three months of 1983, production averaged 9.8 MCFD. A copy of our production plot is attached for your review.

The Five of Diamonds No. 2S (previously named Dare Devil No. 2), located in Unit L, was spudded September 30, 1980 as a test of the Pictured Cliff, with a TD of 1870' proposed. The well was drilled to 1840' and as a result of problems during our cement job, our casing was cemented at 1603' precluding a completion in the Pictured Cliff Formation, the top of which is approximately 1730'. In order to salvage this well bore, a Fruitland sand member, 1302'-1313' (correlative to the perforated interval 1315'-1329' in the No. 2 Well) was perforated during July 1982, and a rate of 54 MCFD at 5 psi FTP was tested during a 3 hour flow test on September 28, 1982. The 7 day SIWHP in this well was measured at 340 psi. To date this well bore has not produced, and it is our proposal to lay a 1½" steel flow line from this well

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and tie into the flow line of the No. 2 well in order to deliver gas into EPNG's pipeline. As reflected on the initial flow test, the production from the Five of Diamonds No. 2S is anticipated to be at very low rates.

The ownership and royalty of both wells is common (Dugan Production Federal Lease No. NM 030555A covers the west half of Sec. 10, T30N, R13W) and to the best of our knowledge, the nearest Fruitland production, other than the two subject wells, is from the Reid A #2 operated by Union of Texas Petroleum, located approximately 2½ miles to the northeast in the NW/4 NW/4 of Section 1, T30N, R13W. As a matter of information, this well averaged 70 MCFD during January 1983. The gas from the subject wells is dedicated to El Paso Natural Gas and qualifies for Section 103 prices. The value of the commingled stream will equal the value of the sum of the individual well streams, however, it should be pointed out that productivity of the No. 2S will not justify a separate pipeline connection and thus, any reserves produced from the No. 2S can be considered as increased recoveries from this 160 acre proration unit. This is supported by the fact that the No. 2 well is of such low productivity it is very unlikely that the reservoir recovery efficiency will be very high. This is somewhat supported by the initial pressure measured in the No. 2S during September 1982, which indicates very little influence at the location of the No. 2S by production from the No. 2 (cumulative production from the No. 2 was 10,222 mcf at the time of completion of the No. 2S).

We have attached for your consideration a schematic diagram which presents our proposed installation. As mentioned earlier, we propose to lay a steel flow line from the No. 2S and tie into the flow line of the No. 2. Each line will include the necessary valves and check valves in order to insure no cross flow between wells. In addition, you will note that the only surface facility to be required will be the existing drip and pit operated by EPNG at their meter, as liquid production is very minor in both wells. Our current plan is to lay the steel line on top of the ground, as this area is only utilized for grazing sheep.

The commingled stream will be split between the wells utilizing the established production trend of the No. 2 well as a base (refer to attached plot) and allocating production over this base to the No. 2S well.

As previously stated, due to the marginal rates from each well, it is our belief that the granting of this commingling will result in increased recoveries of natural gas from this lease, and permit Dugan Production to realize some return for our investment in the Five of Diamonds No. 2S. Should this commingling not be permitted, it will be necessary for us to plug the Five of Diamonds No. 2S. It is our belief that this commingling will not violate correlative rights and will maximize the recoveries of gas from this lease.

47 6840

K-E 20 YEARS BY MONTHS X 3 LOG CYCLES
KEUFFEL & ESSER CO. MADE IN U.S.A.

gas production - mcf/month.

10,000

1,000

100

10

Dugan Production Corp.
Five of Diamonds #2
K-10-30N-13W
Undesignated Fruitland
San Juan County, New Mexico

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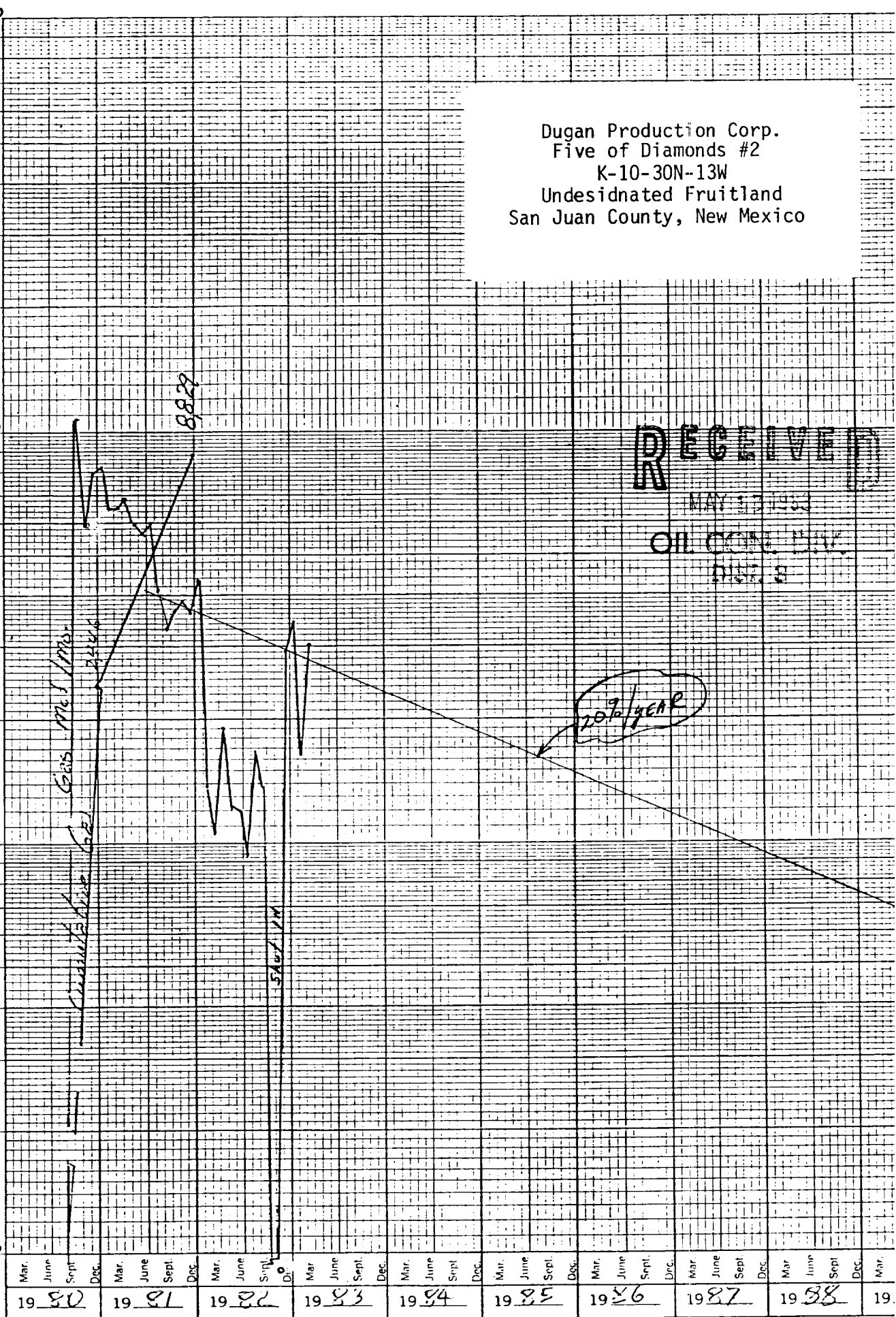
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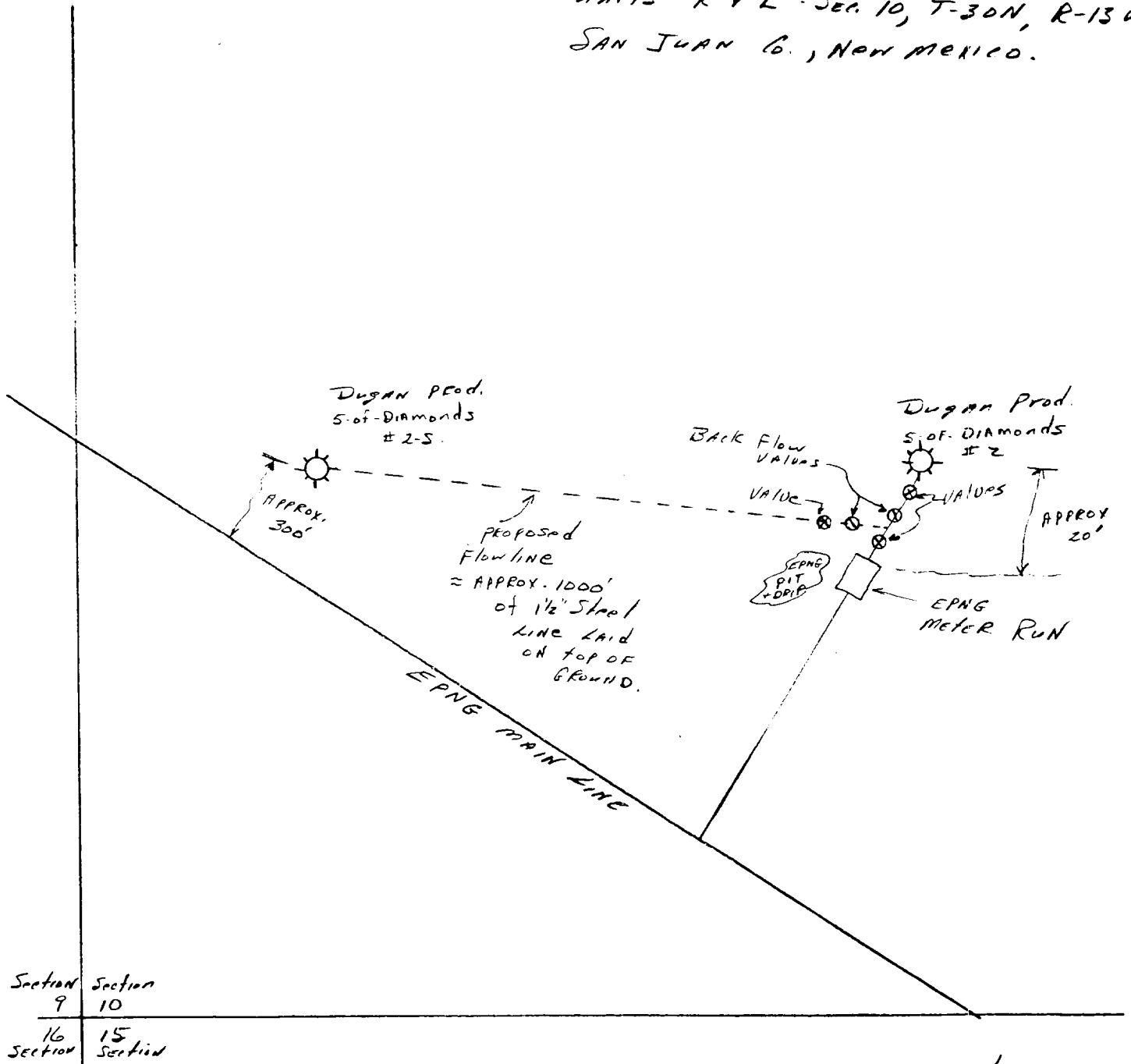
20% / YEAR

YEAR END
Cumulative

mcf → 2446 8852 10,660



Proposed Surface
 Commingling of Fruitland Production
 Dugan Production
 FIVE OF DIAMONDS NO. 2 & NO. 2S
 Units K & L - Sec. 10, T-30N, R-13W
 SAN JUAN Co., NEW MEXICO.



Schematic NOT DRAWN
 to Scale
 (Reference ATTACHED MAP for Scale)

General Area MAP.
DUGAN PRODUCTION'S
FIVE OF DIAMOND LEASE
WELLS NO. 2 & NO. 2-5
W/EPNG'S PIPELINES.

Scale 1" = 4000'

