

October 17, 1983



New Mexico Oil Conservation Division Attn: Joe Ramey P O Box 2088 Santa Fe, NM 87501

RE: Request for Surface Commingling Dugan Production Corp. Kinsale Well #1 (Undesignated Chacra) and Kinsale Well #2 (Lybrook Gallup) T23N, R7W, NMPM, Section 26: Units P & I Sandoval County, New Mexico Federal Lease No. NM 28748

Dear Mr. Ramey:

We hereby request administrative approval for surface commingling of gas production from the Chacra formation in the Kinsale #1 and from the Gallup formation in the Kinsale #2, both wells operated by Dugan Production Corp.

The Kinsale #1 was completed on February 2, 1982, with perforations in the upper Chacra, 2442-2457', testing 72 MCFD at a flowing tubing pressure of 2 psig on our initial one-point back-pressure test. (A copy is attached.) An analysis of the open hole logs indicates that within the 15' overall perforated interval, approximately 7' of pay with an average porosity of 12% exists. The 160 acre production unit for the Kinsale #1 is the SE/4 of section 26 and at the time of completion, the gas was not dedicated. The well was shut in following completion pending the negotiation of a gas contract. The well was placed on production September 6, 1983, into El Paso Natural Gas Company's system, having secured a gas contract with Northwest Pipeline Corp. and a tradeout agreement with EPNG. The pipeline pressure in El Paso's system is running 160-180 psi, which has resulted in marginal productivity from the Kinsale #1. During September, a total of 177 MCF of gas was produced during the 25 days on line; however, as a result of high line pressure, the Kinsale #1 actually delivered gas 10 days and was riding the line pressure with no production 15 days. As can be seen from the attached C-122, our initial shut in well head pressure was 407 psig.

The Kinsale #2 was completed on June 1, 1983, swab testing a rate of 72 BOPD with a GOR of 1222 from perforations in the Gallup 5112-5615'. Within the 503' overall interval completed, a total of 62 holes were perforated to develop approximately 68' of pay, averaging 6.5% porosity. The 40 acre

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production unit for the Kinsale #2 is the NE/4 SE/4 of Section 26. The gas is dedicated to Northwest Pipeline. We placed the well on production during July and as of September 1 had produced 594 BO. To date we have produced this well, flowing it intermittently approximately two hours per day as the well will not flow continuously. A GOR test was taken on July 18, a copy of which is attached. As can be seen, during the test we flowed the well two hours and recovered 40 BO with an average GOR of 875. We do not believe this test is representative of sustained production and would expect production to average 15 BOPD with a GOR of approximately 2500 under continuous production. We plan to install a rod pump on the Kinsale #2 in order to produce the well more continuously and plan to commence the sale of casing head gas into El Paso's system under our contract with NWPL.

In order to allow the Kinsale #1 to produce and to provide improved pumping conditions in the Kinsale #2, Dugan Production Corp. is planning to install a small compressor at the Kinsale #1 location, compressing gas from both the Kinsale #1 and Kinsale #2 into E1 Paso's system through NWPL's meter run for the Kinsale #1. In order to allocate production between the two wells, we propose that one well be shut in periodically while continuing to produce the second well and thereby determine the gas production attributable to each well.

Both wells are located on a common lease which is jointly owned by Jerome P. McHugh and Dugan Production Corp., 50% each. The lease was originally obtained by McHugh under a farmout from Southern Union Exploration Co. The royalty interest of both zones is common (all federal), and as can be seen from the attached plat, Dugan and McHugh also have the lease adjacent to these production units in section 25. As can be seen from the attached production map, this is an area that is not well-developed, the nearest Gallup well being 1 mile to the northeast and the nearest Chacra well currently being produced is approximately 2 miles to the south. Dugan Production's Ballymaloe #1, approximately 1/2 mile to the east, is completed in the Chacra; however, it is not currently able to produce into the pipeline for similar reasons as the Kinsale #1. Pending the results of our compressor installation on the productivity of the Kinsale #1, we plan to install a compressor on the Ballymaloe #1. The gas from each well will qualify for Section 103 pricing and has similar qualities. It is our belief that the value of the commingled stream will be equal to the value of the individual streams; however, it should be noted that if this application for commingling is not granted, it will necessitate the installation of two compressor units in order to efficiently produce both wells. This will result in the use of additional lease fuel of approximately 3.5 MCFPD which, over a ten year period will result in approximately 13 MMCF of gas used on the lease in addition to the fuel that would have been used by a single compressor installation. In addition, should two compressors be required, an additional capital outlay of approximately \$30,000 will be required, which will detract from the overall economics of producing this lease.

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In summary, the proposed commingling will permit Dugan Production Corp. to operate the lease in a manner that will permit maximum recovery of gas from the lease and will result in the sale of additional natural gas. It is our belief that correlative rights will not be violated.

By copy of this application we are also requesting approval from the Bureau of Land Management for this commingling.

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

Sincerely,

John D. Roc

John D. Roe

JDR:fp

- Enclosures: C-116 C-122 Sketch of Proposed Production Facilities Production Map
- cc: Frank Chavez, NMOCD, Aztec, NM Area Manager, BLM, Farmington, NM Jerome P. McHugh

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John Far Par 10-14-83. Dugan prod. Ballymaloe #1 Piperinc 20-161 E E PNG Section Section 36. Jerton 35 Surtice Enterna Seperator 3 phase EXISTING 4" NWPL Meter Run + DVIP. 1st ل ال Kinsale | #2 1 T Kinsole Alkei "oz # for chainghood " BHS - 1/2 ho2/16 Stool = 1400 Peoposed ZINE Wnit I d finn KINSALE Well No. 1 Chacken + Units It P, Section 26 -23N, R-7W NMPM SANDOUAL Gunty, Non Mexico PRO POSED Surface Commogling Kinsale No. 1 - 790 FSL + 790 FEG Kushenaz - 2170'FSL + 5 20'FEL KINSOLE Well No. 2 Gullup (DRAWING No F to Seale) A Tint Hunt J Dug AN Roduction CORP. well Locations:

