

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 13399
Order No. R-12294**

**APPLICATION OF DUGAN PRODUCTION CORPORATION FOR AN
UNORTHODOX COAL GAS WELL LOCATION, SAN JUAN COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 17, 2005, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th day of February, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) The applicant, Dugan Production Corporation ("Dugan" or "applicant"), seeks approval to drill its Federal "T" Com Well No. 103 (API No. 30-045-32587) at an unorthodox coal gas well location 1775 feet from the North line and 10 feet from the West line (Unit E) of irregular Section 12, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico.
- (3) The W/2 equivalent of Section 12 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit for the Basin-Fruitland Coal Gas Pool.
- (4) The Federal "T" Com Well No. 103 is located within the Basin-Fruitland Coal Gas Pool. This pool is currently governed by the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as contained within Division Order No. R-8768, as amended, which require that wells be located no closer than 660 feet to the outer

boundary of the spacing unit and no closer than 10 feet to any interior quarter-quarter section line or subdivision inner boundary.

- (5) The applicant presented evidence that demonstrates that:
- (a) the subject well and spacing unit are located within the City of Farmington, New Mexico. Within the proposed spacing unit, there is a residential subdivision, numerous developed and undeveloped business properties, and numerous streets including U.S. Highway 64;
 - (b) Dugan has attempted to stake the Federal "T" Com Well No. 103 at a standard well location for the Basin-Fruitland Coal Gas Pool, but has been unable to do so due the numerous surface restrictions within the spacing unit;
 - (c) the proposed location represents the only viable location within the W/2 of Section 12 in which to locate the Federal "T" Com Well No. 103;
 - (d) the Federal "T" Com Well No. 103 is the first and likely will be, due to the numerous surface restrictions, the only Basin-Fruitland Coal Gas Pool well that will be drilled on this spacing unit; and
 - (e) on December 14, 2004 Dugan received authorization to drill the Federal "T" Com Well No. 103 at the proposed location from the City of Farmington.
- (6) The applicant presented further evidence that demonstrates that:
- (a) the affected offset acreage is a 320-acre gas spacing and proration unit in the Basin-Fruitland Coal Gas Pool comprising the E/2 of Section 11, Township 29 North, Range 14 West, NMPM. This unit is currently dedicated to the Dugan Production

Corporation King Com Well No. 90 (API No. 30-045-29883) located 1128 feet from the North line and 1511 feet from the East line (Unit B) of Section 11;

- (b) the interest ownership between the W/2 of Section 12 and the E/2 of Section 11 is not common;
- (c) the W/2 of Section 12 and the E/2 of Section 11 share a common federal lease (Federal Lease No. SF-078810), and two fee leases (hereinafter referred to as the "McSparron" and "Johnston" Leases). Within Section 11: i) Federal Lease No. SF-078810 comprises the W/2 SE/4, SW/4 NE/4 and the E/2 NE/4; ii) the McSparron Lease comprises the NE/4 SE/4; and iii) the Johnston Lease comprises the SE/4 SE/4. Within Section 12: i) Federal Lease No. SF-078810 comprises the E/2 W/2; ii) the McSparron Lease comprises the W/2 NW/4 and NW/4 SW/4; and iii) the Johnston Lease comprises the SW/4 SW/4;
- (d) the working interest owners within the W/2 of Section 12 are Dugan and Lance Oil Company, Inc. Dugan is the only working interest owner within the E/2 of Section 11; and
- (e) all royalty owners owning an interest in the W/2 of Section 12 also own an interest in the E/2 of Section 11.

(7) Dugan provided notice of its application to all interest owners within the W/2 of Section 12 and the E/2 of Section 11.

(8) No interest owner appeared at the hearing in opposition to the application.

(9) Approval of the subject application will afford Dugan the opportunity to produce the hydrocarbons in the Basin-Fruitland Coal Gas Pool underlying the W/2 of Section 12, and will not violate correlative rights.

(10) The application should be approved.

(11) In the event the deviation survey conducted on the Federal "T" Com Well No. 103 shows a maximum displacement of more than 10 feet, Dugan should be required to conduct a directional survey to determine the actual bottomhole location of the wellbore.

IT IS THEREFORE ORDERED THAT:

(1) The application of Dugan Production Corporation for an unorthodox coal gas well location in the Basin-Fruitland Coal Gas Pool for its Federal "T" Com Well No. 103 (API No. 30-045-32587) located 1775 feet from the North line and 10 feet from the West line (Unit E) of Section 12, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, is hereby approved.

(2) The W/2 equivalent of Section 12 shall be dedicated to the well forming a standard 320-acre gas spacing and proration unit for the Basin-Fruitland Coal Gas Pool.

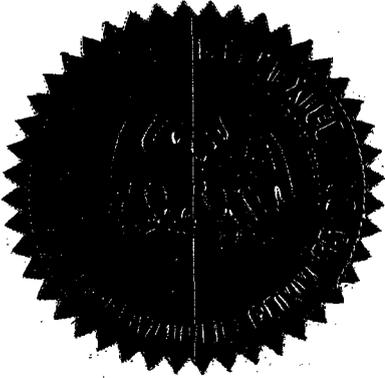
(3) In the event the deviation survey conducted on the Federal "T" Com Well No. 103 shows a maximum displacement of more than 10 feet, the applicant shall conduct a directional survey to determine the actual bottomhole location of the wellbore.

(4) Prior to conducting the directional survey (if necessary), the applicant shall notify the supervisor of the Division's Aztec District Office of the date and time the directional survey will be conducted. Subsequent to conducting the directional survey, the applicant shall submit a copy of the survey to the Division's Aztec District Office.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive.

MARK E. FESMIRE, P.E.
Director