

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:

APPLICATION OF DUGAN PRODUCTION CORP.
FOR COMPULSORY POOLING AND DOWNHOLE
COMMINGLING FOR S/2, SEC 14, T26N, R7W,
RIO ARRIBA, COUNTY, NEW MEXICO

CASE NO. 11897

APPLICATION OF DUGAN PRODUCTION CORP.
FOR TWO NONSTANDARD GAS SPACING AND
PRORATION UNITS CONSISTING OF THE SE/4
AND SW/4 OF SECTION 14, T26N, R7W,
RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. 11899

**CONSOLIDATED
PRE-HEARING STATEMENT**

This pre-hearing statement is submitted by Dugan Production Corp. as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Dugan Production Corp.
P. O. Box 420
Farmington, NM 87499
(505) 325-1821
attn: David M. Poage

ATTORNEY

W. Thomas Kellahin
KELLAHIN & KELLAHIN
P.O. Box 2265
Santa Fe, NM 87504
(505) 982-4285

OTHER INTERESTED PARTIES

Caulkins Oil Company
P. O. Box 340
Bloomfield, NM 87413

ATTORNEYS

William. F. Carr, Esq.
P. O. Box 2208
Santa Fe, New Mexico 87501
(505) 988-4421

STATEMENT OF CASE

Dugan Petroleum Corporation ("Dugan") controls 100% of the gross working interest in the SE/4 while the SW/4 is controlled among Caulkins Oil Company (27.5%), Marathon Oil Company (11.5%) and Louis Dreyfus Natural Gas Corp. (11.5).

Dugan desires to drill its Mona Lisa Well No. 2 at a standard well location (Unit J) for potential production from the Mesaverde and Dakota formations and seeks authority to downhole commingle that production in the wellbore.

Dugan has proposed the formation of a 320-acre gas spacing and proration unit consisting of the S/2 of Section 14, T26N, R7W, NMPM, Rio Arriba County, New Mexico but has been unable to obtain the voluntarily agreement of all of the owners in the SW/4.

However, in the alternative, all working interest owners support Dugan's proposal in Case 11899, for the creation of two non-standard gas proration and spacing units; one consisting of the SE/4 of said Section 14 to be operated by Dugan and the other consisting of the SW/4 of Section 14 to be operated by Caulkins Oil Company.

In the event the Division should deny Dugan's application in Case 11899, then in Case 11987, Dugan requests an order pooling the mineral interest of described in this 320 acre gas spacing unit for the drilling of its Mona Lisa Well No. 2 at a standard well location (Unit J) for potential production from the Mesaverde and Dakota formations upon terms and conditions which include:

- (1) Dugan be named operator;
- (2) The order make provisions for all uncommitted interest owners to participate in the costs of drilling, completing, equipping and operating the well;

(3) In the event an uncommitted working interest owner fails to elect to participate he becomes a "compulsory pooled party" and then provisions should be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;

(4) A provision for overhead rates and a method for adjusting those rates in accordance with COPAS accounting procedures;

(5) For such other and further relief as may be proper.

PROPOSED EVIDENCE

APPLICANT:

WITNESSES	EST. TIME	EXHIBITS
David M. Poage (landman)	20 min.	@ 5 exhibits
John D. Roe (petroleum engineer)	30 Min.	@ 10 exhibits

PROCEDURAL MATTERS

Consolidation of cases for hearing.

KELLAHIN AND KELLAHIN



By: _____
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