

CASE 5793: DUGAN PROD. CORP. FOR *tion*
AN UNORTHODOX GAS WELL LOCATION,
RIO ARRIBA COUNTY, NEW MEXICO

CASE NO.

5793

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
October 27, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production Corpora-
tion for an unorthodox gas well
location, Rio Arriba County, New Mexico.)

CASE
5793

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

Lynn Teschendorf, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant:

Richard Tully, Esq.
Attorney at Law
Farmington, New Mexico

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1 MR. NUTTER: We will call Case Number 5793.

2 MS. TESCHENDORF: Case 5793, application of Dugan
3 Production Corporation for an unorthodox gas well location,
4 Rio Arriba County, New Mexico.

5 MR. NUTTER: The witness is still under oath.

6 MR. TULLY: Again I will hand you the exhibits before
7 we get started.

8 May it please the Commission, I'm Richard Tully,
9 general counsel for Dugan Production and again there is one
10 witness to call in this case, Thomas A. Dugan.

11
12 THOMAS A. DUGAN

13 called as a witness, having been previously sworn, was
14 examined and testified as follows:

15
16 DIRECT EXAMINATION

17 BY MR. TULLY:

18 Q Please state for the record your name?

19 A. Thomas A. Dugan.

20 Q Address?

21 A. 907 Hallett Circle, Farmington, New Mexico.

22 Q Occupation?

23 A. I'm a petroleum engineer and President of Dugan
24 Production Corporation.

25 MR. TULLY: Are the witness' qualifications acceptable?

1 MR. NUTTER: Yes, they are.

2 Q (Mr. Tully continuing.) I'll hand you the application
3 for this case and ask you to identify it, please?

4 A Yes, this is the application that we sent to the
5 Commission requesting this hearing.

6 Q And the purpose of this application?

7 A The purpose of the application was to seek approval
8 of the drilling of the Sherman Edward 2A Well which deviates
9 from Blanco Mesaverde Pool rules.

10 Q Are these Special Pool Rules 2-A and 2-B?

11 A Yes.

12 Q Now, referring to Exhibit Number One, would you
13 identify it, please?

14 A Exhibit One is merely a map showing the location of
15 the Sherman Edward 2A Well and also showing that there are
16 two Federal leases involved in Section 3, Township 29 North,
17 Range 5 West. The south half is one lease and the north half
18 is another lease.

19 When we started to plan to drill the wells in
20 Section 3 we felt that it would be most practical to dedicate
21 the west half of Section 3 to form a proration unit and so
22 that is what we proceeded to do and named the well the
23 Sherman Edward No. 2 and then a Sherman Edward 2A for an
24 alternate well in the northwest quarter of Section 3.

25 Q Have there been other wells drilled in this section?

1 A. Yes, prior to our ventures out in Section 3
2 Phillips drilled a well in the southwest quarter of Section 3
3 that was eventually plugged and abandoned. Aztec Oil and Gas
4 drilled a well in the northeast quarter of Section 3 that was
5 plugged and abandoned.

6 Q Were both of these wells Blanco Mesaverde wells?

7 A. Yes, they were both Blanco Mesaverde tests.

8 Q These two Federal leases that are involved in
9 Section 3 is Dugan Production Corporation the operator and
10 lessee of record?

11 A. Yes.

12 Q Of both of these?

13 A. Yes, of both leases.

14 Q Referring now to Exhibit Number Two, would you
15 identify it, please?

16 A. Exhibit Two is a topo map of Section 3 showing that
17 it's cut by La Jara wash and it is pretty rough terrain in
18 the area and it was necessary for us to get approval for an
19 unorthodox location for both of the wells.

20 Q By unorthodox location do you mean on a footage
21 basis?

22 A. Yes.

23 Q And not an exception to a Special Pool Rule?

24 A. That's correct. Yeah, we secured approval from the
25 Commission for an unorthodox location because of topography

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1 and we were still operating under the idea that we were going
2 to dedicate the west half of Section 3 as a proration unit.

3 Q Now, referring to Exhibit Number Three, would you
4 identify it, please?

5 A Okay, this is a letter from the U.S.G.S., Carl
6 Traywick, and he denied us the chance to dedicate the west
7 half because he says that inasmuch as the Mesaverde spacing
8 is three hundred and twenty acres and that each lease
9 contains approximately that amount of acres that the U.S.G.S.
10 will not allow us to dedicate the west half and we must
11 dedicate the south half and north half as the proration
12 units. So with this it turns out that the 2A then deviates
13 from the pool rules because the first well is supposed to be
14 drilled in the northeast quarter of Section 3.

15 Q Do you have any other information you feel is
16 relevant to the Commission in the deciding of this
17 application?

18 A Well, we didn't feel that it would be a very good
19 venture to drill in the northeast quarter of Section 3 because
20 of the dry hole up there and besides that we were pretty far
21 along by the time we had received the ruling from Traywick,
22 under the idea that we were dedicating the west half. We had
23 already started things in motion to drill the wells, so we
24 did.

25 Q In your opinion will the approval of this application

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Page 7

1 conserve the natural resources of the State of New Mexico,
2 prevent waste and not impair or interfere with the correlative
3 rights of any other owners in this area?

4 A The State of New Mexico and Tom Dugan.

5 MR. TULLY: At this time I move the introduction of
6 Exhibits One through Three into evidence.

7 MR. NUTTER: Dugan's Exhibits One through Three will
8 be admitted into evidence.

9 (THEREUPON, Dugan's Exhibits One through
10 Three were admitted into evidence.)

11 MR. TULLY: I have nothing further.

12
13 CROSS EXAMINATION

14 BY MR. NUTTER:

15 Q Mr. Dugan, the No. 2 Well in the southwest quarter
16 is on pattern but it was unorthodox with respect to footage
17 from the lease lines, is that correct?

18 A Yes, that's right.

19 Q And so you were able to obtain administrative approval
20 for that well?

21 A Yes, sir.

22 Q But the No. 2A is not only unorthodox with respect
23 to footage but also off pattern, so to speak?

24 A Yeah, when we staked it and planned the well, it was
25 planned as an infield one hundred and sixty acre -- the second

1 well on three-twenty so it wasn't deviating from the pool
2 rules.

3 Q But now since you are dedicating the north half and
4 the south half each well is on its own three-twenty and it's
5 off pattern?

6 A Yes, that's correct.

7 Q Have both wells been completed?

8 A Yes, that's correct.

9 Q What is the potential on each of those wells, Mr.
10 Dugan?

11 A Both wells are dually completed in the Mesaverde
12 and the Pictured Cliffs formations. The Sherman Edward 2A
13 Well had a COF in the P.C. of four hundred and eighty-one
14 MCF and in the Mesaverde of one, oh, nine, nine. We have
15 just now completed testing of the Sherman Edward 2 Well and
16 I don't have that information available. In fact, Northwest
17 Pipeline tested both of the wells because the wells are
18 dedicated to their pipeline and they tested them to see if
19 they wanted to hook them up and I haven't received the test
20 information from Northwest.

21 Q Well, I notice on your Exhibit Number One there is
22 a pipeline to an Aztec well just immediately west, is that the
23 line that will be tied into yours?

24 A I'm sure that's right. Neither well is far from
25 a pipeline.

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1 Q So you expect the wells to go on production in the
2 near future?

3 A I hope so.

4 MR. NUTTER: Are there further questions of this
5 witness? He may be excused.

6 (THEREUPON, the witness was excused.)

7 MR. NUTTER: Do you have anything further, Mr. Tully?

8 MR. TULLY: Just something for clarification.
9 Administrative Order NSL-774 dated June 17th, 1976 allowed us
10 to drill the Sherman Edward 2A on this unorthodox location
11 because of footage.

12 MR. NUTTER: Number 2?

13 MR. TULLY: Number 2A.

14 MR. NUTTER: We are talking about the 2A.

15 MR. TULLY: Yes, I'm just giving you some additional
16 information.

17 MR. NUTTER: Oh, you did get administrative approval
18 for the unorthodox location for both wells, then?

19 THE WITNESS: Yes, sir.

20 MR. NUTTER: Okay, so that order should be superceded
21 then by this order.

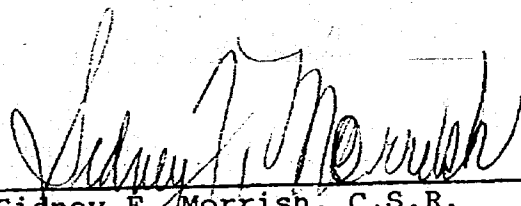
22 Does anyone else have anything they wish to offer in
23 Case Number 5793? We will take the case under advisement.

24

25

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill and
ability.


Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 5793
heard by me on 10/27, 1972.

, Examiner
New Mexico Oil Conservation Commission

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OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

DIRECTOR
JOE D. RAMEY

LAND COMMISSIONER
PHIL R. LUCERO
November 5, 1976



STATE GEOLOGIST
EMERY C. ARNOLD

Mr. Richard T. C. Tully
General Counsel
Dugan Production Corp.
P. O. Box 234
Farmington, New Mexico 87401

Re: CASE NO. 5793
ORDER NO. R-5314

Applicant:

Dugan Production Corp.

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC x

Other _____

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5793
Order No. R-5314

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR AN UNORTHODOX
GAS WELL LOCATION, RIO ARRIBA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 27, 1976, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 4th day of November, 1976, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Dugan Production Corporation, seeks approval of an unorthodox gas well location for its Sherman Edward Well No. 2A, located 2500 feet from the North line and 510 feet from the West line of Section 3, Township 29 North, Range 5 West, NMPM, to test the Mesaverde formation, Blanco Mesaverde Gas Pool, Rio Arriba County, New Mexico.

(3) That the N/2 of said Section 3 is to be dedicated to the well.

(4) That a well at said unorthodox location will better enable applicant to produce the gas underlying the proration unit.

(5) That no offset operator objected to the proposed unorthodox location.

(6) That approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

-2-

Case No. 5793
Order No. R-5314

IT IS THEREFORE ORDERED:

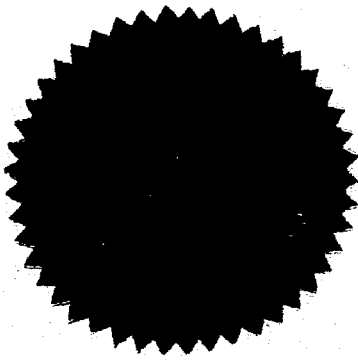
(1) That an unorthodox gas well location for the Mesaverde formation is hereby approved for applicant's Sherman Edward Well No. 2A, located 2500 feet from the North line and 510 feet from the West line of Section 3, Township 29 North, Range 5 West, NMPM, Blanco Mesaverde Gas Pool, Rio Arriba County, New Mexico.

(2) That the N/2 of said Section 3 shall be dedicated to the above-described well.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



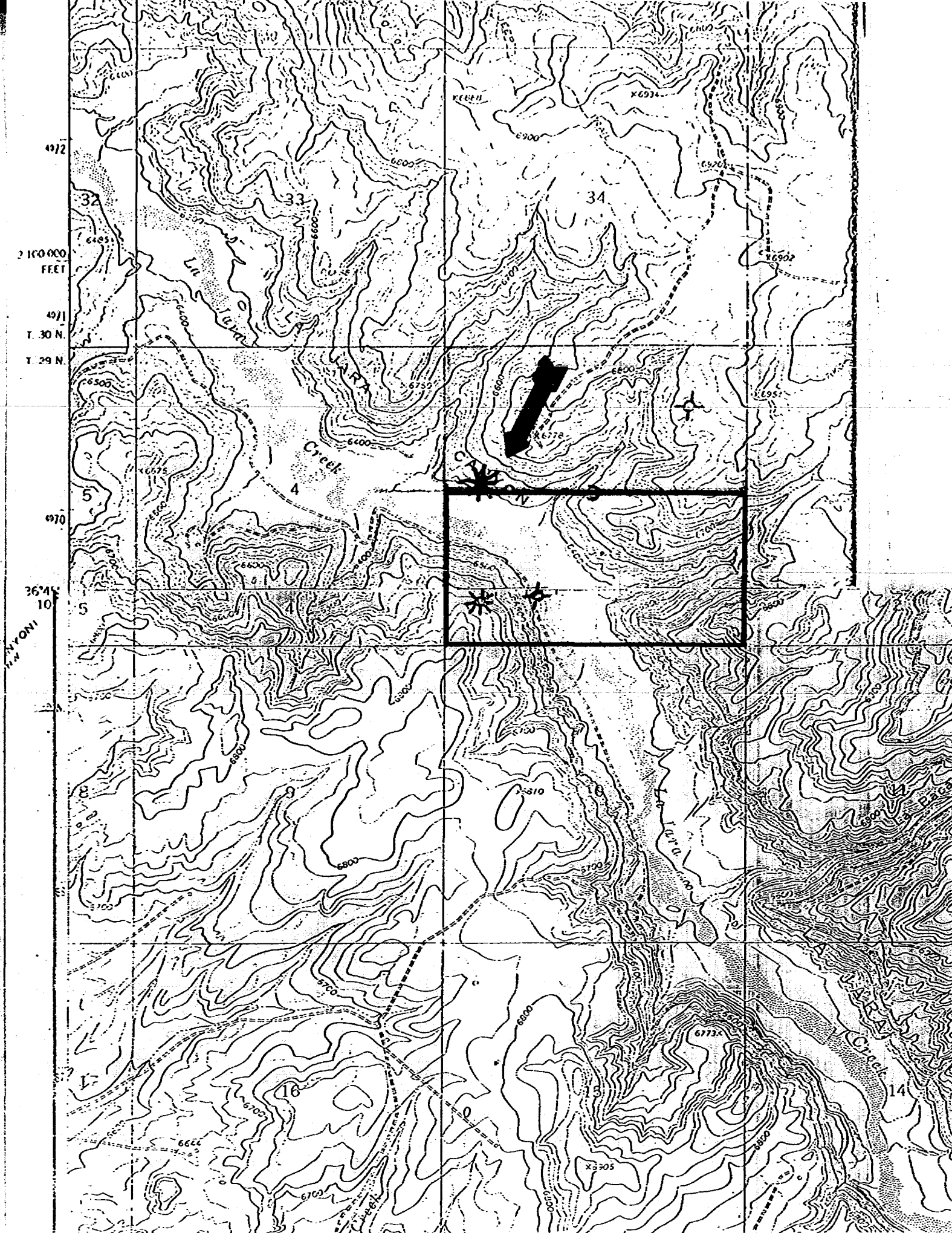
PHIL R. LUCERO, Chairman

Emery C. Arnold
EMERY C. ARNOLD, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

jr/



- Edward Lease
USA NM 23047
T29N, R5W, NMPM
Sec 3: N/2
Rio Arriba County, NM
- Sherman Lease
USA NM 23048
T29N, R5W, NMPM
Sec 3: S/2
Rio Arriba County, NM
- * Sherman Edward #2A Well

DUGAN PRODUCTION CORP.

APPLICATION FOR UNORTHODOX LOCATION

SHERMAN EDWARD #2A WELL
Section 3, T29N, R5W
Rio Arriba County, New Mexico

CASE 5793

Exhibit # 2



United States Department of the Interior

GEOLOGICAL SURVEY
P. O. Drawer 1857
Roswell, New Mexico 88201

June 22, 1976

Dugan Production Corporation
Attention: Mr. Richard Tully
P. O. Box 234
Farmington, New Mexico 87401

Gentlemen:

Your letter of June 7, 1976, proposes communitization of production from the Mesaverde formation in the W $\frac{1}{2}$ sec. 3, T. 29 N., R. 5 W., N.M.P.M., Rio Arriba County, New Mexico, involving 320 acres, more or less, in Federal oil and gas leases NM 23047 and NM 23048. Transmitted by your letter is a copy of your application to the New Mexico Oil Conservation Commission for administrative approval of unorthodox locations for the Sherman Edwards No. 2 and No. 2A wells located in the SW $\frac{1}{4}$ and the NW $\frac{1}{4}$ sec. 3, respectively, which would be dedicated to such a communitization agreement.

Title 43 CFR 3105.2-2 authorizes communitization of Federal leases when separate tracts under lease cannot be independently developed in conformity with an established spacing pattern. Inasmuch as the Mesaverde spacing is 320 acres, leases NM 23047 and NM 23048 can each be operated independently as the N $\frac{1}{2}$ and S $\frac{1}{2}$ of sec. 3, respectively, without communitization. Accordingly, this office would be unable to approve communitization agreements covering the W $\frac{1}{2}$ and the E $\frac{1}{2}$ of sec. 3. However, this should not interfere with your plans to drill and produce the Sherman Edwards No. 2 and No. 2A wells as proposed.

Sincerely yours,

Carl C. Traywick
CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor



DUGAN PRODUCTION CORP.
APPLICATION FOR UNORTHODOX LOCATION
SHERMAN EDWARD #2A WELL Section 3, T29N, R5W Rio Arriba County, New Mexico
CASE 5793 Exhibit #3



United States Department of the Interior

GEOLOGICAL SURVEY
P. O. Drawer 1857
Roswell, New Mexico 88201

June 22, 1976

Dugan Production Corporation
Attention: Mr. Richard Tully
P. O. Box 234
Farmington, New Mexico 87401

Gentlemen:

Your letter of June 7, 1976, proposes communitization of production from the Mesaverde formation in the W $\frac{1}{2}$ sec. 3, T. 29 N., R. 5 W., N.M.P.M., Rio Arriba County, New Mexico, involving 320 acres, more or less, in Federal oil and gas leases NM 23047 and NM 23048. Transmitted by your letter is a copy of your application to the New Mexico Oil Conservation Commission for administrative approval of unorthodox locations for the Sherman Edwards No. 2 and No. 2A wells located in the SW $\frac{1}{4}$ and the NW $\frac{1}{4}$ sec. 3, respectively, which would be dedicated to such a communitization agreement.

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Sincerely yours,

Carl C. Traywick
CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor



DUGAN PRODUCTION CORP.
APPLICATION FOR UNORTHODOX LOCATION
SHERMAN EDWARD #2A WELL
Section 3, T29N, R5W
Rio Arriba County, New Mexico
CASE 5793
Exhibit #3

Dockets Nos. 31-76 and 32-76 are tentatively set for hearing on November 10 and November 23, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 27, 1976

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 5768: (Continued from September 29, 1976, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Service Drilling Company, The Travelers Indemnity Company, and all other interested parties to appear and show cause why the Gonzales-Pittman Well No. 1, located in Unit M of Section 24, Township 21 North, Range 21 East, Mora County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5785: (Continued from October 13, 1976, Examiner Hearing)

Application of Doyle Hartman for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Seven Rivers-Queen formation underlying the NE/4 NE/4, NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4 of Section 19, Township 24 South, Range 37 East, Langlie-Mattix Pool, Lea County, New Mexico, to form four 40-acre proration units to be dedicated to four oil wells to be drilled at standard locations on said tracts. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof, as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 5574: (Reopened) (Continued from October 13, 1976, Examiner Hearing)

In the matter of Case 5574 being reopened pursuant to the provisions of Order No. R-5118 which order established a temporary special depth bracket allowable of 750 barrels of oil per day for the Eagle Mesa-Entrada Oil Pool, Sandoval County, New Mexico. All interested parties may appear and show cause why said special depth bracket allowable should not be rescinded.

CASE 5789: Application of Amoco Production Company for salt water disposal well, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Fusselman formation through the perforated interval from 8313 feet to 8538 feet in its Swearingen "C" Well No. 2 located in Unit M of Section 18, Township 5 South, Range 33 East, Petersen-Fusselman Pool, Roosevelt County, New Mexico.

CASE 5790: Application of Dome Petroleum Corporation for pool creation and assignment of a discovery allowable, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Entrada production and the assignment of approximately 58,770 barrels of oil discovery allowable to the discovery well, being the Federal 21 Well No. 1 located in Unit K of Section 21, Township 20 North, Range 5 West, McKinley County, New Mexico.

CASE 5791: Application of Texaco Inc. for a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard Eumont gas proration unit comprising the E/2 SE/4, SW/4 SE/4, and SE/4 SW/4 of Section 23; the W/2 NW/4 of Section 25; and the E/2 NE/4 of Section 26, all in Township 19 South, Range 36 East, Lea County, New Mexico, to be simultaneously dedicated to applicant's William Weir Wells Nos. 1 and 2 at unorthodox locations in Unit E of said Section 25 and Unit N of said Section 23, respectively.

CASE 5792: Application of Dugan Production Corporation for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Angels Peak-Gallup and Basin-Dakota production in the wellbore of its McAdams Well No. 3 located in Unit H of Section 34, Township 27 North, Range 10 West, San Juan County, New Mexico.

CASE 5793: Application of Dugan Production Corporation for an unorthodox gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Sherman Edward Well No. 2A, to be drilled at a point 2500 feet from the North line and 510 feet from the West line of Section 3, Township 29 North, Range 5 West, Blanco Mesaverde Gas Pool, Rio Arriba County, New Mexico, the N/2 of said Section 3 to be dedicated to the well.

CASE 5776: (Continued & Readvertised)

Application of Continental Oil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its James Ranch Unit Well No. 8 to be drilled at a point 1980 feet from the North line and 660 feet from the West line of Section 31, Township 22 South, Range 31 East, Los Medanos-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 31 to be dedicated to the well.

CASE 5794: Application of Continental Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 31, Township 22 South, Range 31 East, Los Medanos Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location in Unit L of said Section 31. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5795: Application of Continental Oil Company for an exception to the provisions of Order No. R-1670, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 21(A) of the General Rules and Regulations for the prorated gas pools of Northwestern New Mexico contained in Order No. R-1670, to permit the reporting of Basin Dakota production from wells on its Northeast Haynes Lease in Township 24 North, Range 5 West, Rio Arriba County, New Mexico, without the necessity of separately measuring the production from each well.

CASE 5777: (Continued & Readvertised)

Application of Gifford & Mitchell and M. B. Wisenbaker for pool creation, pool rules, and a non-standard gas spacing unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for Pennsylvanian production for its Horse Back Well No. 1 located 1000 feet from the South line and 1980 feet from the East line of Section 33, Township 26 South, Range 36 East, Lea County, New Mexico, the promulgation of pool rules therefor, including a provision for 640-acre spacing and approval for a 589.52-acre non-standard gas spacing unit comprising all of partial Sections 33 and 34 of the aforesaid township.

Docket No. 30-76

Dockets Nos. 31-76 and 32-76 are tentatively set for hearing on November 10 and November 23, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - THURSDAY - NOVEMBER 4, 1976

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 5743: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit John W. Adams, Executor of Estates of R. W. and June Adams; and Ruth McGahey, Fred McGahey and David McGahey dba Adams & McGahey, American Employers' Insurance Company, and all other interested parties to appear and show cause why the following wells located in Township 21 North, Range 30 East, Harding County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program:

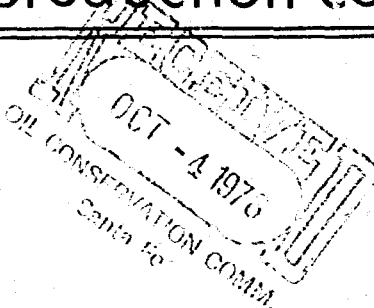
Gonzales Well No. 2, located in Unit P of Section 9; Adams & McGahey Well No. 1, located in Unit B of Section 16; and Gonzales "A" Well No. 1, located in Unit H of Section 32.

Upon application of John W. Adams, this case will be heard De Novo pursuant to the provisions of Rule 1220.

Case 5793



dugan production corp.



October 1, 1976

Joe D. Ramey
Secretary-Director
New Mexico Oil Conservation Commission
Box 2088
Santa Fe, NM 87501

Re: Application for Approval of Unorthodox Location
for the Sherman Edward #2A Well in Rio Arriba
County, New Mexico

Dear Mr. Ramey:

Enclosed are the following items regarding the application for approval of exception to the Blanco Mesaverde Gas Pool Rules for the unorthodox location of the Sherman Edward #2A Well in the NW/4 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico:

1. Three copies of the Application for Approval of Unorthodox Location of the Sherman Edward #2A Well.
2. Three copies of the Certificate of Mailing stating that all operators of leases offsetting the dedicated acreage for this well, the USGS, and the Supervisor of the District III Office of the Oil Conservation Commission have been notified of this Application.

Please set this Application for hearing on October 27, 1976, if possible.

Sincerely,

Richard T. C. Tully

Richard T. C. Tully
General Counsel

cb

Enclosures

Joe D. Ramey
October 1, 1976
Page 2

Case 5793

xc: Al R. Kendrick
Supervisor, District III
Oil Conservation Commission
1000 Rio Brazos Road
Aztec, NM 87410

Phil T. McGrath, District Engineer
U. S. Geological Survey
Box 959
Farmington, NM 87401

Don Wolf, District Landman
Southland Royalty Company
1010 Denver Club Building
518 17th Street
Denver, CO 80202

D. N. Canfield, Director of Land
El Paso Natural Gas Company
Box 1492
El Paso, TX 79978

John Shephardson
Northwest Pipeline Corporation
One Park Central, Suite 340-A
1515 Arapahoe
Denver, CO 80202

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

In The Matter Of The Application
Of Dugan Production Corp. For
Exception To The Special Blanco
Mesaverde Gas Pool Rules For
The Unorthodox Location of
The Sherman Edward #2A Well
In Rio Arriba County, New Mexico

APPLICATION

The Applicant, Dugan Production Corp. by and through its general counsel, Richard T. C. Tully, hereby makes application for an exception to Rules 2(A) and 2(B) of the Special Rules and Regulations for the Blanco Mesaverde Gas Pool to allow for unorthodox location of the Sherman Edward #2A Well in the NW/4 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

The Applicant further states:

1. The Applicant is the lessee of federal lease NM 23047 which covers the N/2 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. The Applicant is also the lessee of federal lease NM 23048 which covers the S/2 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

2. The legal location of the Sherman Edward #2A Well has previously been approved as an unorthodox location for topography reasons by the New Mexico Oil Conservation Commission on June 17, 1976 through Administrative Order NSL-774, and is as follows:

Township 29 North, Range 5 West, NMPM
Section 3: 2500' FNL - 510' FWL
Rio Arriba County, New Mexico

3. The Applicant has drilled a well called the Sherman Edward #2 Well in the SW/4 of Section 3 in compliance with Rules 2(A) and 2(B) of the above mentioned Special Rules.

The Applicant now wishes to secure the approval for the unorthodox location and an exception to Rules 2(A) and 2(B) of the above mentioned Special Rules for the Sherman Edward #2A Well by locating this well in the NW/4 of Section 3.

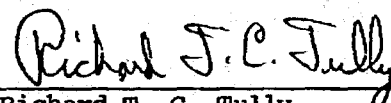
4. The Applicant would point out there have already been two Blanco Mesaverde dry holes drilled in Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. These Blanco Mesaverde dry holes were drilled in the SW/4 of Section 3 and in the NE/4 of Section 3 of the above township and range, and were drilled in compliance with Rules 2A and 2B of the Special Rules and Regulations of the Blanco Mesaverde Pool.

5. The dedicated acreage for the Sherman Edward #2A would be the N/2 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

6. The proposed unorthodox location may result in the recovery of additional hydrocarbons since no Blanco Mesaverde well has previously been drilled in the NW/4 of Section 3. The recovery of additional hydrocarbons will thereby prevent waste, and will not violate correlative rights.

WHEREFORE, the Applicant requests this Application be set for hearing on October 27, 1976 for the purpose of granting an exception to the mentioned Pool Rules by allowing an unorthodox location for the Sherman Edward #2A Well in Rio Arriba County, New Mexico.

Respectfully submitted,


Richard T. C. Tully
General Counsel
Dugan Production Corp.
Box 234
Farmington, NM 87401

CERTIFICATE OF MAILING

I certify that I mailed a copy of the Application for Exception to the Blanco Mesaverde Pool Rules for the Unorthodox Location of the Sherman Edward #2A Well in Rio Arriba County, New Mexico to all operators of leases offsetting the dedicated acreage for this well, the U. S. Geological Survey, and the Supervisor of the District III Office of the Oil Conservation Commission.

Richard T. C. Tully

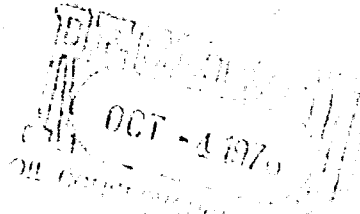
Richard T. C. Tully

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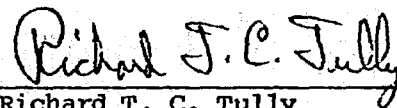
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5. The dedicated acreage for the Sherman Edward #2A would be the N/2 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

6. The proposed unorthodox location may result in the recovery of additional hydrocarbons since no Blanco Mesaverde well has previously been drilled in the NW/4 of Section 3. The recovery of additional hydrocarbons will thereby prevent waste, and will not violate correlative rights.

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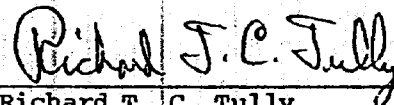
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5. The dedicated acreage for the Sherman Edward #2A would be the N/2 of Section 3, Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

6. The proposed unorthodox location may result in the recovery of additional hydrocarbons since no Blanco Mesaverde well has previously been drilled in the NW/4 of Section 3. The recovery of additional hydrocarbons will thereby prevent waste, and will not violate correlative rights.

WHEREFORE, the Applicant requests this Application be set for hearing on October 27, 1976 for the purpose of granting an exception to the mentioned Pool Rules by allowing an unorthodox location for the Sherman Edward #2A Well in Rio Arriba County, New Mexico.

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Richard T. C. Tully

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO 5793

Order No: R- 5314

APPLICATION OF DUGAN PRODUCTION CORPORATION
FOR AN UNORTHODOX GAS WELL LOCATION,
RIO ARriba COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 27, 1976,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of November, 1976, the Commission,
a quorum being present, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the
Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Dugan Production Corporation, seeks
approval of an unorthodox gas well location, 2500 feet from the North
line and 510 feet from the West line of Section 3, Township
29 North, Range 5 West, NMPM, to test the
Mesaverde formation, Blanco Mesaverde Gas Pool,
Rio Arriba County, New Mexico.

(3) That the N/2 of said Section 3 is to be dedicated to the
well.

(4) That a well at said unorthodox location will better enable
applicant to produce the gas underlying the proration unit.

(5) That no offset operator objected to the proposed unorthodox
location.

-2-

Case No. _____
Order No. R- _____

(6) That approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That an unorthodox gas well location for the Mesaverde applicant's Sherman Edward Well No. 2A ~~located~~ located formation is hereby approved for ~~at a point 2500~~ at a point 2500 feet from the North line and 510 feet from the West line of Section 3, Township 29 North, Range 5 West NMPM, Blanco Mesaverde Gas Pool, Rio Arriba County, New Mexico.

(2) That the N/2 of said Section 3 shall be dedicated to the above-described well.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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