



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

January 31, 2006

Dugan Production Corporation
709 E. Murray Drive
P.O. Box 420
Farmington, NM 87499-0420

Attention: John Roe:

Administrative Order NSL-5329

Dear Mr. Roe:

Reference is made to the following:

(i) your original application (**administrative application reference No. pTDS0603035146**) submitted to the New Mexico Oil Conservation Division ("Division") on January 20, 2006; and

(ii) the Division's records in Santa Fe and Aztec: all concerning Dugan Production Corporation's request for an unorthodox oil well location in the Bisti-Lower Gallup Pool (Oil **5890**) for its Bitsili Well No. 1 that was drilled 1470 feet from the North line and 1780 feet from the East line (Unit G) of Section 19, Township 24 North, Range 9 West, NMPM, San Juan County, New Mexico.

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of Division Rules 104.F;
- (2) the Bisti-Lower Gallup Pool is currently governed by Order No. R-1069-G, which provides for 80-acre oil spacing and proration unit, and requires that wells be located no closer than 330 feet to any quarter-quarter section boundary of the proration unit;
- (3) the Bitsili Well No. 1 was originally drilled at standard oil well location to test the Dakota formation;
- (4) the Dakota formation was found to be poorly developed with marginal oil production;
- (5) Dugan Production Corporation now proposes to complete the Bisti-Lower Gallup oil Pool and down hole commingle production from the Dakota and the Gallup Pools;

(6) the Bitsili Well No.1 is at an unorthodox oil well location with respect to the Bisti-Lower Gallup oil Pool pursuant to Division Order No. 1069-G;

(7) Dugan Production is the only lease holder and operator within one-half mile radius of the Bitsili Well No.1, therefore, there are no offset operators that require notice; and

(8) It appearing that the applicant has satisfied all of the appropriate requirements of Rule 104.F, the subject application should be approved.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox Bisti-Lower Gallup oil well location for Dugan Production Corporation's Bitsili Well No. 1 is hereby approved.

(2) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P.E.
DIRECTOR

MEF/re

cc: New Mexico Oil Conservation Division - Aztec
Bureau of Land Management (BLM) - Farmington