



dugan production corp.



May 27, 1987

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BUREAU OF LAND MANAGEMENT
FARMINGTON RESOURCE AREA

Bureau of Land Management
Attn: Ron Fellows
Caller Service 4104
Farmington, NM 87499

OIL CON. DIV.
DIST. 3

Re: BLM Letter Dated 5-7-87
SF-080539-A (WC) 3162.7 (016)
Dugan Production's Hurt Lease
Section 14, T25N, R3W, NMPM
Rio Arriba County, NM

3 Hurt L, NWNE 14-25N-3W
4 Hurt L, NWNW 14-25N-3W

Dear Mr. Fellows:

We are writing in response to the captioned letter which indicated that two wells operated by Dugan Production, the Hurt No. 3 and Hurt No. 4, have not produced since January, 1986.

Both wells were completed in the Tapacitos Pictured Cliffs Pool during mid-1959 and have produced fairly continuously through 1985. During 1985 our gas contract with Gas Company of New Mexico (GCNM) was terminated effective January 1, 1986 as the result of negotiations mutually agreeable to both Dugan Production and Gas Company of New Mexico. Upon terminating our gas contract with GCNM, Dugan Production negotiated a gas purchase contract with El Paso Natural Gas Company (EPNG). As I am sure you are probably aware, during 1986, shortly after dedicating gas from the Hurt No. 3 and No. 4 to EPNG, EPNG ceased purchasing gas. Since the pipeline facilities connecting the Hurt No. 3 and No. 4 belong to GCNM, our gas is dedicated to EPNG and the gas market conditions have deteriorated such that EPNG will not take this gas, Dugan Production is faced with the dilemma of having shut-in gas wells that are capable of producing being connected to a pipeline with which we have no gas contract and having our reserves dedicated to a pipeline company that refuses to take the gas. The Hurt No. 3 and No. 4 wells are capable of producing and our current plans are to connect the wells to a gathering system for possible sales into the spot market. We have also recently drilled the Hurt No. 5, located in the SW/4 SW/4 of the subject section and are in the process of completing the well in the West Lindrith Gallup Dakota pool. Upon completing the Hurt No. 5, we hopefully will have a larger volume of gas to market.

The Hurt No. 3 and 4 wells have been good producers. Cumulative production to January 1, 1987 was 1,189,096 MCF for the Hurt No. 3 and 537,256 MCF for the Hurt No. 4. As previously mentioned, these wells have produced since mid-1959 and are in the latter stages of pressure depletion.

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During a production test conducted on the Hurt No. 3 January 1 thru 8, 1986, an average rate of 38 MCFD was tested at an average flowing pressure of 97 psia. A seven day shut-in pressure of 122 psia was measured on January 15, 1986. Results of this test were reported to the New Mexico Oil Conservation Division (NMOCD) on form C-122-A, a copy of which is presented on Attachment A. A check of the current shut-in pressure indicated that on May 21, 1987 the shut-in tubing pressure and shut-in casing pressure was 162 psia. The higher pressure measured on May 21, as compared to the pressure measured on January 15, 1986 likely reflects the length of shut-in time prior to the pressure measurements. ✓

The Hurt No. 4 well was last tested for deliverability April 18 thru 25, 1984, at which time an average rate of 26 MCFD was tested. A seven-day shut-in wellhead pressure of 108 psia was measured on May 2, 1984. A copy of this deliverability test as reported to the NMOCD on form C-122-A is presented on Attachment B. The shut-in wellhead pressure on the Hurt No. 4 was measured on May 21, 1987 to be 147 psia. Again, the higher shut-in wellhead pressure currently measured is likely the result of the length of shut-in time. ✓

At the time of shut-in, the Hurt No. 3 was averaging 50 to 60 MCFD and the Hurt No. 4 ten to 32 MCFD.

Dugan Production is working to secure a gas market for the Hurt No. 3 and 4 wells and we are optimistic that we will be able to do so upon completing the Hurt No. 5 (in the Gallup and Dakota) which hopefully will result in a larger volume of gas than is currently available from the No. 3 and 4 wells.

Dugan Production requests that the BLM approve the long-term shut-in status for the Hurt No. 3 and 4 wells since the wells are capable of producing but are not connected to a gas market. We are optimistic that arrangements can be made for returning the Hurt No. 3 and 4 to production and are working toward this end. ✓

Both wells are currently capable of production and should the BLM require a current test of deliverability rather than accept the tests presented on Attachments A & B, it will be necessary to vent the gas during the test since Gas Company of New Mexico will not take the gas and there is no exchange agreement between Gas Company and EPNG, and even if there were, EPNG will not take the gas.

In summary, the Hurt No. 3 and Hurt No. 4 wells are currently shut-in and are both capable of producing gas in paying quantities. ✓ The historic gas market into which these two wells jointly produced in excess of 1.7 billion cubic feet of gas was terminated effective 1-1-86 and Dugan Production is working to secure a gas market for this gas. We are currently completing the Hurt No. 5 which, hopefully, will aid in marketing gas from the older Hurt No. 3 and 4 wells. Until such time as we can resolve the many problems

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related to producing the Hurt No. 3 and 4 wells, we request the BLM approve the Hurt No. 3 and 4 wells for long term shut-in status. ✓

Should you need additional information or have questions regarding this matter, please feel free to contact me.

Sincerely,

John D. Roe

John D. Roe
Petroleum Engineer

JDR/cg

attachs.

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PLEASE file your Plans for
off-lease measurement on the
No. 3 Hurt well

THIS APPROVAL EXPIRES June 8, 1988

APPROVED
AS AMENDED

JUN 08 1987

James A. Roberts
for AREA MANAGER