

**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. 11897
Order No. R-10963**

**APPLICATION OF DUGAN PRODUCTION
CORP. FOR COMPULSORY POOLING AND
DOWNHOLE COMMINGLING, RIO ARRIBA
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 8, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th day of February, 1998, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) Division Case Nos. 11897 and 11899 were consolidated at the time of the January 8th hearing for the purpose of testimony. In addition, testimony was taken at the January 8th hearing in related Case No. 11920 which appeared on the Examiner Hearing Docket for February 5, 1998.
- (3) The applicant, Dugan Production Corporation, seeks an order pooling all mineral interests in the Blanco-Mesaverde and Basin-Dakota Gas Pools underlying the S/2 of Section 14, Township 26 North, Range 7 West, NMPM, Rio Arriba County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for said pools. This unit is to be dedicated to its proposed Mona Lisa Well No. 2 to be drilled at a standard gas well location 1620 feet from the South line and 1850 feet from the East line (Unit J) of Section 14.
- (4) The applicant further seeks authority to downhole commingle Blanco-Mesaverde and Basin-Dakota Gas Pool production within the subject well.

(5) By Order No. R-10961 issued in companion Case No. 11899 on February 18, 1998, the Division, upon application of Dugan Production Corporation, established two 160-acre non-standard gas spacing and proration units in the Blanco-Mesaverde and Basin-Dakota Gas Pools comprising the SE/4 and SW/4 of Section 14, Township 26 North, Range 7 West, NMPM.

(6) As a result of the issuance of Order No. R-10961, the portion of the immediate case seeking to compulsory pool the interests within the S/2 of Section 14, thereby forming a standard 320-acre gas spacing and proration unit for the Blanco-Mesaverde and Basin-Dakota Gas Pools, is unnecessary and should therefore be dismissed.

(7) In support of its application to downhole commingle Blanco-Mesaverde and Basin-Dakota Gas Pool production within the Mona Lisa No. 2, the applicant presented evidence and testimony which indicates that:

- a) Dugan expects to encounter marginal gas production only from the Blanco-Mesaverde and Basin-Dakota Gas Pools;
- b) gas streams from both zones are expected to be compatible;
- c) neither zone is considered to be fluid sensitive and past commingling in the immediate area has not shown any indications of fluid compatibility problems;
- d) the proposed downhole commingling should serve to extend the economic life of both producing intervals, thereby preventing waste;
- e) the estimated bottomhole pressures within the Mesaverde and Dakota formations, obtained from offset well data, are as follows:

Mesaverde	1087 psia
Dakota	2680 psia
- f) although the bottomhole pressures exceed the requirements set forth in Division Rule No. 303.C., the applicant requested that the Division take administrative notice of the engineering evidence and testimony presented in Case No. 11815, in which case Conoco Inc. demonstrated that even though the bottomhole pressure of the Dakota formation exceeds the original bottomhole pressure of the Mesaverde formation, there is no possibility of damage to the Mesaverde formation, nor will there be any loss of reserves, waste, or violation of correlative rights. Conoco presented this evidence in support of a downhole commingling request for its San Juan 28-7 Unit which is located approximately four miles northwest of the proposed Mona Lisa No. 2;

- g) the value of the commingled production is not less than the sum of the values of the individual production.

(8) No offset operator or interest owner appeared at the hearing in opposition to the proposed downhole commingling.

(9) The applicant proposed that the production from the Mesaverde and Dakota formations within the Mona Lisa No. 2 be allocated as follows. The proposed allocation is based upon data obtained from offset wells producing from the Mesaverde and Dakota formations:

	Gas	Condensate
Basin-Dakota Gas Pool:	60%	60%
Blanco-Mesaverde Gas Pool:	40%	40%.

(10) The proposed allocation of production is reasonable and should be adopted.

(11) Approval of the proposed downhole commingling will allow the applicant to economically recover the gas reserves within the Blanco-Mesaverde and Basin-Dakota Gas Pools underlying the SE/4 of Section 14, will allow the applicant to extend the economic life of the proposed Mona Lisa No. 2 which should result in the recovery of gas which otherwise may not be recovered, thereby preventing waste, and will not violate correlative rights.

(12) The operator should immediately notify the supervisor of the Aztec District Office of the Division any time the subject well has been shut-in for seven consecutive days and shall concurrently present, to the Division, a plan for remedial action.

IT IS THEREFORE ORDERED THAT:

(1) The application of Dugan Production Corporation for an order pooling all mineral interests in the Blanco-Mesaverde and Basin-Dakota Gas Pools underlying the S/2 of Section 14, Township 26 North, Range 7 West, NMPM, Rio Arriba County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for said pools, said unit to be dedicated to its proposed Mona Lisa Well No. 2 to be drilled at a standard gas well location 1620 feet from the South line and 1850 feet from the East line (Unit J) of Section 14, is hereby dismissed.

(2) The applicant, Dugan Production Corporation, is hereby authorized to downhole commingle Blanco-Mesaverde and Basin-Dakota Gas Pool production within its Mona Lisa Well No. 2, to be drilled at a standard gas well location 1620 feet from the South line and 1850 feet from the East line (Unit J) of Section 14, Township 26 North, Range 7 West, NMPM.

(3) Gas production from both intervals shall be simultaneously dedicated to a 160-acre non-standard gas spacing and proration unit comprising the SE/4 of Section 14 (the subject of companion Case No. 11899).

(4) The following allocation formula shall be applied to the total production attributed to this well:

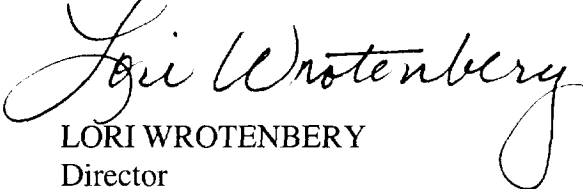
	Gas	Condensate
Basin-Dakota Gas Pool:	60%	60%
Blanco-Mesaverde Gas Pool:	40%	40%

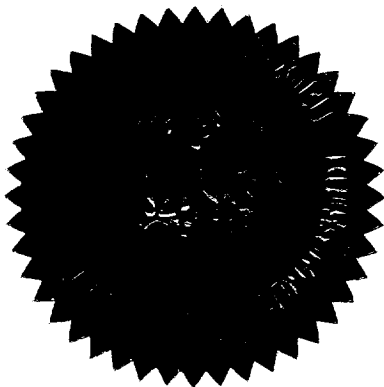
(5) The operator of the subject well shall immediately notify the Division's Aztec District Office any time the well has been shut-in for seven consecutive days and shall concurrently present to the Division a plan for remedial action.

(6) Jurisdiction of this cause 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


LORI WROTENBERY
Director



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