



dugan production corp.

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October 31, 2008

Mark E. Fesmire, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Surface Order Commingling Order PLC-317
Dugan Production Corp.
Waterford 90 CDP
San Juan County, New Mexico

Dear Mr. Fesmire,

The captioned order includes a provision that "The allocation and the CDP meters shall be calibrated monthly". We see no reason for requiring monthly calibration of the three allocation and CDP gas sales meters and request that the calibration requirements be amended to be the same as the twenty five other CDP gas sales gathering systems operated by Dugan Production Corp. (i.e., in accordance w/BLM's Onshore Order No. 5).

Established production from the Waterford 90 and Mike 1J currently averages 97 mcf/d (Waterford 90 = 89 mcf/d & Mike 1J = 8 mcf/d) and we anticipate production from the Waterford Com 90S to be approximately 200 mcf/d after the well is frac'd. Currently the Waterford Com 90S is producing very little gas. Our application included production histories for the Mike 1J and Waterford 90 as Attachment No. 5. Based upon their established production histories, these two wells are both considered to be "low volume" gas wells in Commission Order R-9617 (Case NO. 10398 that amended OCD Rule 403 to provide for alternate methods of measuring gas production from low capacity wells) and BLM's NTL-92-5 which modify the calibration frequency of BLM's Onshore Order No. 5 from once a quarter to semi-annually for wells producing 100 mcf/d or less. The BLM has also approved our September 18, 2008 application with gas measurement to be in accordance with BLM's Onshore Order No. 5 as are all other gathering systems operating by Dugan Production Corp.

I have also checked with Enterprise Field Services, and they are unaware of any conditions on these three wells that would warrant monthly meter calibrations on allocation and CDP sales meters. This requirement will place a very significant and unnecessary work effort upon Dugan Production for the allocation meters and upon Enterprise Field Services for the CDP gas sales meters. Should we be required to do monthly calibrations, each meter will be calibrated 12 times per year at a cost of \$1,800 per meter which compares to a cost of \$600/year for each of the two meters requiring quarterly calibrations and \$300/year for each of the two meters requiring semi-annual calibrations, thus, for monthly required calibrations, we will be spending approximately \$7,200/year compared to \$1,800/year following the requirements of Onshore Order No. 5.

To our knowledge, BLM's Onshore Order No. 5 has historically been the guidance document for gas measurement and is being used not only by oil and gas producers, but by the pipeline companies.

Should you need additional information, please let me know.

Sincerely,

John D. Roe, P.E.
Engineering Manager

JDR/tmf