

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:

See Also Order L.

R-10655-16

CASE NO. 11583
ORDER NO. R-10655

**APPLICATION OF DUGAN PRODUCTION CORPORATION FOR AN
EXCEPTION TO DIVISION RULES 303.A AND 309.A TO PERMIT SURFACE
COMMINGLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 8, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of August, 1996, the Division Director, having considered the record and the recommendations of the Examiner, and being fully advised in the premises.

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) The subject matter was advertised in such a manner that the application and supplemental data provided the Division would be considered and taken under advisement in the absence of objection.

(3) The applicant in this matter, Dugan Production Corporation ("Dugan"), is the owner and operator of the following two wells both located in Lot 1 (NE/4 NE/4 equivalent) of Section 2, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico:

(a) the Com Well No. 2 (API No. 30-045-23199),
located at an unorthodox gas well location 1125 feet from
the North line and 1070 feet from the East line, which was

drilled to a total depth of 1,250 feet in late 1978 and in March, 1979 was completed in the Harper Hill-Fruitland Sand-Pictured Cliffs Pool; and,

(b) the Com Well No. 1-E (API No. 30-045-23940), located at a standard gas well location 810 feet from the North line and 940 feet from the East line, which was drilled to a total depth of 5,992 feet in late 1979 and in February, 1980 was completed in the Basin-Dakota Pool.

(4) A non-standard 156.65-acre gas spacing and proration unit, approved on August 24, 1978 by the Aztec District Office of the Division by Order NWU 3-746, comprising Lots 1 and 2 and the S/2 NE/4 (NE/4 equivalent) of said Section 2 is dedicated to Harper Hill-Fruitland Sand-Pictured Cliffs Pool gas production from the Com Well No. 2.

(5) Basin-Dakota gas production from the Com Well No. 1-E is dedicated to the 316.65-acre gas spacing and proration unit comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 of said Section 2.

(6) Division General Rule 303.A prohibits production from separate common sources of supply (pool) to be commingled or confused before marketing and Division General Rule 309.A disallows the commingling of production from two or more separate leases in a common facility.

(7) The applicant now seeks authority to commingle Harper Hill-Fruitland Sand-Pictured Cliffs Pool gas production from its above-described Com Well No. 2 and Basin-Dakota Pool gas production from its above-described Com Well No. 1-E in a common gas sales line.

(8) According to the application provided the Division the working interests, royalty interests, and overriding royalty interests are not common between the two horizons/proration units.

(9) The applicant further indicates that both wells currently produce through individual two stage compressors located at the wells and by eliminating one of the compressors such related operating costs can result in a 50 percent savings.

(10) Dugan proposes to convert the existing gas sales meter for the Com Well No. 1-E to a central delivery point ("CDP") meter for gas sales from both the Com Well Nos. 1-E and 2. To insure the proper allocation of gas sold to the CDP meter, Dugan

proposes to continue using and to maintain the existing sales meter on the Com Well No. 2 for allocation purposes and will continuously measure gas volumes being produced from the Com Well No. 2. The only product that Dugan intends to commingle is the natural gas streams from each well.

(11) Dugan further proposes to continue producing liquid production, both condensate and produced water, from both wells separately and storing said liquids at the wellsite of each well and not allow the commingling of liquids at any time.

(12) All interest owners of both the Com Well Nos. 1-E and 2 were notified of the proposed commingling, and no interest owner appeared at the hearing in opposition of the application.

(13) The subject application submitted contends that commingled gas from both wells sold to a single CDP meter will allow the Com Well Nos. 1-E and 2 to produce more economically and reduce operating costs such that it will extend the life of these wells and increase ultimate recovery from their respective spacing and proration units, thereby preventing waste.

(14) The subject application as proposed by Dugan exhibits sound engineering practices, is in the best interest of conservation, and should serve to protect correlative rights.

(15) The subject application should therefore be approved.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Dugan Production Corporation, is hereby authorized to commingle Harper Hill-Fruitland Sand-Pictured Cliffs Pool gas production from its Com Well No. 2 (API No. 30-045-23199), located at an unorthodox gas well location 1125 feet from the North line and 1070 feet from the East line (Lot 1/Unit A) of Section 2, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico and Basin-Dakota Pool gas production from its Com Well No. 1-E (API No. 30-045-23940), located at a standard gas well location 810 feet from the North line and 940 feet from the East line (Lot 1/Unit A) of said Section 2 into a common gas sales line.

(2) The existing gas sales meter on the Com Well No. 1-E shall be converted to a central delivery point ("CDP") meter for gas sales from both the Com Well Nos. 1-E and 2. To insure proper allocation of gas from both wells sold to the CDP meter, the existing sales meter on the Com Well No. 2 shall be utilized and maintained for allocation purposes.

(3) Dugan shall continue producing liquid production, both condensate and produced water, from both wells separately and storing said liquids at the wellsite of each well and not allow the commingling of liquids at any time.

IT IS FURTHER ORDERED THAT:

(4) This installation shall be installed and operated in accordance with the applicable provisions of Rules 303 and 309.B of the Division's Rules and Regulations and the Division "*Manual for the Installation and Operation of Commingling Facilities*".

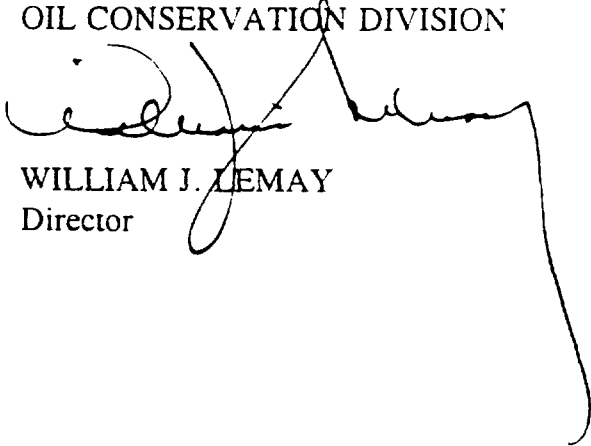
(5) Dugan shall notify the Aztec District Office of the Division upon implementation of the commingling process.

FURTHER, It is the responsibility of the operator to notify the transporter of this commingling authority.

(6) Jurisdiction is hereby 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


WILLIAM J. LEMAY
Director

S E A L

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:

See Also Order No. R-10655

CASE NO. 12389
ORDER NO. R-10655-A

APPLICATION OF DUGAN PRODUCTION CORP. FOR AMENDMENT OF
SURFACE COMMINGLING DIVISION ORDER R-10655, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 4, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th day of May, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) By Order No. R-10655 issued in Case No. 11583 on August 19, 1996, the Division authorized Dugan Production Corporation to surface commingle Harper Hill Fruitland Sand-Pictured Cliffs Gas Pool production from its Com Well No. 2 (API No. 30-045-23199) located at an unorthodox gas well location 1125 feet from the North line and 1070 feet from the East line (Lot 1/Unit A) of Section 2, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, and Basin-Dakota Gas Pool production from its Com Well No. 1-E (API No. 30-045-23940) located at a standard gas well location 810 feet from the North line and 940 feet from the East line (Lot 1/Unit A) of Section 2 in a common gas sales line.

(3) Order No. R-10655 further stipulated that: i) the existing gas sales meter on the Com Well No. 1-E be converted to a central delivery point ("CDP") meter for gas sales from both the Com Wells No. 1-E and 2; and ii) to ensure proper allocation of production from each of the commingled wells, the existing sales meter on the Com Well No. 2 be utilized and maintained for allocation purposes.

(4) The applicant, Dugan Production Corp. ("Dugan"), seeks to amend Order No. R-10655 to authorize: i) the addition of the following described three wells to the gas gathering system currently in place for the Com Wells No. 1-E and 2, designated by Dugan as the "Tabor Gathering System"; ii) the utilization of the existing CDP meter as the sales point for the five commingled wells; iii) off-lease measurement and gas sales for the three new wells; and iv) the utilization of conventional metering equipment at each wellsite to allocate production to each of the five commingled wells:

- (a) Com Well No. 4 (**API No. 30-045-29986**), which is located at a standard gas well location 790 feet from the North line and 1450 feet from the West line (Unit C) of Section 2, Township 29 North, Range 14 West, NMPM, and is currently completed in the Harper Hill Fruitland Sand-Pictured Cliffs Gas Pool;
- (b) Federal "I" Well No. 99 (**API No. 30-045-29989**), which is located at a standard gas well location 1488 feet from the North line and 1106 feet from the East line (Unit H) of Section 3, Township 29 North, Range 14 West, NMPM, and is currently completed in the Basin-Fruitland Coal Gas Pool; and
- (c) Tabor Com Well No. 90 (**API No. 30-045-29994**), which is located at a standard gas well location 2510 feet from the North line and 1100 feet from the East line (Unit H) of Section 35, Township 30 North, Range 14 West, NMPM, and is currently completed in the Basin-Fruitland Coal Gas Pool.

(5) This case was styled such that ***"In the absence of objection this application will be taken under advisement."***

(6) Dugan did not appear at the hearing but presented evidence for admission in this case.

(7) All interest owners within the proposed commingled area were provided notice of this hearing. No interest owner appeared in opposition to the application.

- (8) Dugan presented evidence demonstrating that:
- (a) the commingled area comprises all or portions of four federal leases, NM-33051, NM-101992, NM-0206995 and SF-078110, four state leases, B-11242, E-2526, E-6714 and LG-3736, and two fee leases, Dugan's King and Winifred Leases;
 - (b) the interest ownership is not uniform throughout the commingled area;
 - (c) as of the hearing date, Dugan has received approval of its proposed commingling from the Commissioner of Public Lands for the State of New Mexico;
 - (d) the Com Well No. 4, Federal "I" Well No. 99 and Tabor Com Well No. 90 will all require wellhead compression to deliver gas into El Paso's system; and
 - (e) the Com Well No. 4, Federal "I" Well No. 99 and Tabor Com Well No. 90 tested at initial producing rates of 360 MCFGD (average for February, 2000), 143 MCFGD (test date December 9, 1999), and 130 MCFGD (test date December 6, 1999), respectively.

(9) Division Rule 309-B.A.(5)(b) currently states: "To commingle production from two or more separate leases in a common tank battery where there is diversity of ownership (whether in working interest, royalty interest, or overriding royalty interest) the hydrocarbon production from each lease shall be accurately measured and determined in accordance with the applicable provisions of the Division 'Manual for the Installation and Operation of Commingling Facilities,' then current."

(10) Dugan's evidence further demonstrates that the proposed commingling will result in substantial savings in capital and operating costs by utilizing a single compressor for the five commingled wells and will increase the ultimate recovery of gas by extending the economic life of the wells, thereby preventing waste.

(11) Dugan proposes to allocate oil, gas and water production to each of the commingled wells in the following manner:

- (a) gas will be individually metered at each wellsite utilizing conventional gas meters. Gas will then be transported to the central battery, located in Unit A of Section 2, Township 29 North, Range 14 West, where it will be compressed and delivered to the CDP meter. Data obtained from the allocation meters and from the CDP meter will be utilized to allocate gas production to each commingled well;
- (b) any condensate or oil produced from any of the commingled wells will be separated, metered and stored at each well site. No commingling of this fluid will occur; and
- (c) water produced from each of the commingled wells will be transported to the central battery and commingled. Associated gas will be separated and allocated back to the commingled wells. Water will be disposed of at an approved disposal facility. Individual well water producing rates will be periodically determined utilizing a portable three phase test unit.

(12) Dugan's proposed method of allocation is fair, reasonable and will protect correlative rights.

(13) Approval of the application will result in economic savings to the operator, is in the best interest of conservation, is based upon sound engineering principles, and will serve to prevent waste and protect correlative rights.

(14) The commingling facilities should be installed and operated in accordance with the applicable provisions of Division Rules No. 303 and 309, and the Division's "Manual for the Installation and Operation of Commingling Facilities."

IT IS THEREFORE ORDERED THAT:

(1) The application of Dugan Production Corp. to amend surface commingling Division Order No. R-10655 is hereby approved.

(2) Dugan Production Corp. is hereby authorized to surface commingle Harper Hill Fruitland Sand-Pictured Cliffs, Basin-Dakota and Basin-Fruitland Coal Gas Pool production from the following described five wells in San Juan County, New Mexico:

- (a) Com Well No. 2 (**API No. 30-045-23199**), which is located at an unorthodox gas well location 1125 feet from the North line and 1070 feet from the East line (Lot 1/Unit A) of Section 2, Township 29 North, Range 14 West, NMPM, and is currently completed in the Harper Hill Fruitland Sand-Pictured Cliffs Gas Pool;
- (b) Com Well No. 1-E (**API No. 30-045-23940**), which is located at a standard gas well location 810 feet from the North line and 940 feet from the East line (Lot 1/Unit A) of Section 2, Township 29 North, Range 14 West, NMPM, and is currently completed in the Basin-Dakota Gas Pool;
- (c) Com Well No. 4 (**API No. 30-045-29986**), which is located at a standard gas well location 790 feet from the North line and 1450 feet from the West line (Unit C) of Section 2, Township 29 North, Range 14 West, NMPM, and is currently completed in the Harper Hill Fruitland Sand-Pictured Cliffs Gas Pool;
- (d) Federal "I" Well No. 99 (**API No. 30-045-29989**), which is located at a standard gas well location 1488 feet from the North line and 1106 feet from the East line (Unit H) of Section 3, Township 29 North, Range 14 West, NMPM, and is currently completed in the Basin-Fruitland Coal Gas Pool; and
- (e) Tabor Com Well No. 90 (**API No. 30-045-29994**), which is located at a standard gas well location 2510 feet from the North line and 1100 feet from the East line (Unit H) of Section 35, Township 30

North, Range 14 West, NMPPM, and is currently completed in the Basin-Fruitland Coal Gas Pool.

(3) Oil, gas and water produced from each of the commingled wells shall be transported, metered and allocated in the following manner:

- (a) gas shall be individually metered at each wellsite utilizing conventional gas meters. Gas shall be transported to the central battery, located in Unit A of Section 2, Township 29 North, Range 14 West, where it will be compressed and delivered to the CDP meter. Data obtained from the allocation meters and from the CDP meter shall be utilized to allocate gas production to each commingled wells;
- (b) any condensate or oil produced from any of the commingled wells shall be separated, metered and stored at each well site. No commingling of this fluid shall occur; and
- (c) water produced from each of the commingled wells shall be transported to the central battery and commingled. Associated gas shall be separated and allocated back to the commingled wells. Water will be disposed of at an approved disposal facility. Individual well water producing rates shall be periodically determined utilizing a portable three phase test unit.

(4) The commingling facilities shall be installed and operated in accordance with the applicable provisions of Division Rules No. 303 and 309, and the Division's "Manual for the Installation and Operation of Commingling Facilities."

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

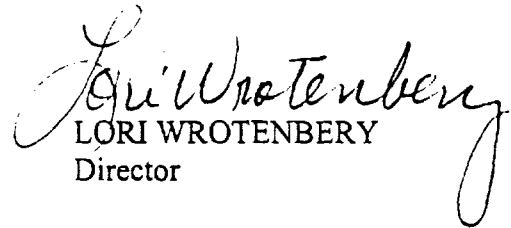
Case No. 12389

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

SEAL