

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. 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:

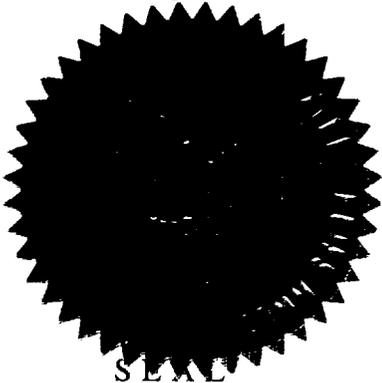
(4) This installation shall be installed and operated in accordance with the applicable provisions of Rules 303 and 309.B of the Division's Rules and Regulations and the Division "*Manual for the Installation and Operation of Commingling Facilities*".

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

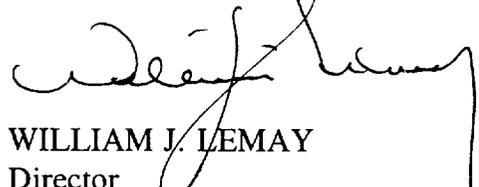
FURTHER, It is the responsibility of the operator to notify the transporter of this commingling authority.

(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