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dugan production corp.

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January 17, 1990

Ron Fellows
Bureau of Land Management
1235 La Plata Highway
Farmington, NM 87401

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OIL CON. DIV
DIST. 3

Re: Request for Approval of Surface Commingling
And Off-lease Measurement of Gas & Liquid Production

FEDERAL LEASES #NM 32124, #NM 36951, #NM 36952
Located in Section 6 and 9, T23N, R10W;
Section 1, T23N, R11W, NMPM
San Juan County, New Mexico

Dear Mr. Fellows:

Dugan Production has received BLM approval for the surface commingling and off-lease measurement of gas and a minor amount of drip accumulation for a total of 69 wells on 33 leases which produce into our Good Times Gathering System. Dugan Production has installed over 160,000 feet of gathering system in order to gather gas from the previously mentioned wells and leases in order to deliver gas to El Paso Natural Gas Company (EPNG) at their master meter located in the NENE of Section 13, T24N, R10W, NMPM. On December 5, 1986 Dugan Production Corp. received BLM approval to deliver gas from our Good Times System to Mesa Petroleum at their master meter located in the SESE of Section 22, T24N, R8W after EPNG refused to continue purchasing the gas. Dugan Production has recently drilled, or plans to drill in the near future, additional wells in the immediate vicinity of our Good Times Gathering System. These wells are identified on the attached Table No. 1 which also presents information pertinent to each well. These wells are or will be completed in the Gallup formation and, as such, will likely be capable of producing only low volumes of oil and casinghead gas. From log analysis, these wells are comparable with the other wells drilled and previously approved for surface commingling and off-lease measurement of gas and a very minor amount of liquid hydrocarbons that occasionally condenses within the gathering system. The recently completed wells have performed very similarly to the other South Bisti Gallup wells Dugan Production has drilled and we anticipate that upon

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completion, the production performance of the proposed wells will also be similar to the other South Bisti Gallup wells. We are requesting this approval at this time since we plan to connect all new wells to the gathering system for gas sales as soon as possible to benefit from any flush production that may exist. In view of the proximity of the wells to the existing system, the necessary rights-of-way having been secured, and in view of the depressed gas prices, Dugan Production desires to deliver gas for sale rather than vent the associated gas during the testing and early production of each well.

Figure No. 1 is a reproduction of the Blanco Trading Post, Kimbeto, Huerfano Trading Post SW and Pueblo Bonito NW topographic quadrangles. We have presented the proposed Good Times Gathering System highlighted in yellow. Also indicated are the lease boundaries for Dugan Production Corp's leasehold interest in this general area and the well locations that have been drilled as of this date. The commingling of gas production from each lease is only by virtue of the fact that a common system is utilized to gather and transport the produced gas to the master meter of the pipeline company and it should be stressed that all gas volumes will be continuously measured with a standard meter run using a Barton Dry Flow Meter installed by Dugan Production on each well or lease prior to leaving the lease and being placed into the Good Times Gathering System. The measurements made with Dugan Production's meter runs will be used to allocate the gas sales volume at the master meter back to the individual wells. All of the oil is collected, stored, measured and sold at each well or lease. The only liquid hydrocarbons that are not actually recovered on the lease and sold from the lease are very minor amounts of drip that occasionally accumulate in the pipeline and are recovered near the Good Times Gathering System master meter run from our drip trap.

With this letter we request approval for the extensions to the Good Times Gathering System as described above, which includes off-lease measurement of produced casinghead gas and the storage and off-lease measurement of a very minor amount of drip. In addition, we are requesting approval for the surface commingling of produced casinghead gas from the wells summarized on Table No. 1. We also request approval to produce any future wells located on these leases in a similar manner. It should be remembered that Dugan Production Corp. has incurred a substantial investment in installing this gathering system which, had we not done so, it would be necessary to vent the gas associated with oil production in producing these wells. This gathering system was installed by Dugan Production at our sole expense following extensive

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negotiations with El Paso Natural Gas and Northwest Pipeline Companies, both of which refused to make wellhead connections for wells in this area. The only way either pipeline company would even consider accepting the gas produced from the subject wells was if we gathered and delivered the gas to a central point on their existing system.

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

Sincerely,



Barbara Williams
Engineer

BW/cg

attachs.

APPROVED
JAN 19 1990
[Signature]
AREA MANAGER