dugan production corp.

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FARMINGTON RESOURCE AREA
FARMINGTON, NEW MEXICO

JUL 08 1987
OIL CON. DIV.
DIST. 3

July 2, 1987

Ron Fellows
Bureau of Land Management
Caller Serivce 4104
Farmington, NM 87499

Re: Application for Long-Term Approval to Vent Casinghead Gas
Dugan Production Corp's Herry Monster #1
Lease #NM 17015
SW/4 SW/4 Section 12, T24N, R11W, NMPM
San Juan County, NM

Dear Mr. Fellows:

Dugan Production requests approval for long-term venting of casinghead gas from the above referenced well. The well was completed in a San Juan County Undesignated Gallup Pool on Jaunuary 11, 1983 and produces from perforations in the Gallup formation between 4682' and 4914'. The initial potential was 54 BOPD, TSTM gas and frac water. The GOR was last tested on May 15, 1987, during the New Mexico State required annual GOR test. The 24-hour actual production test resulted in a daily rate of 2.09 BO and 3.5 MCF (which is approximately the amount of gas required to operate the production equipment on the location). Production for the first four months of 1987 has averaged 2.0 BOPD and 6.7 MCFD of which approximately 3.2 MCFD was actually vented.

El Paso Natural Gas Company (EPNG) and Northwest Pipeline (NWPL) have both indicated they have no interest in installing facilities to connect marginal and/or remote wells to their systems. The expenditure required to sell gas from the subject well cannot be justified by the minor amount of revenues that might be generated by any future gas sales. Economics in support of our position are presented on the attached Table No. 1. Based on our experience in the area, we would expect production to decline initially 50-60% for the first year, 20-30% per year for approximately 2 years and then stabilize at a decline of approximately 10%/year. Our economics were calculated assuming a straight 10% decline of production from the date of completion, which we realize is optimistic. Our economics reflect a current oil price of $17.75/bbl which is higher than we received most months in 1986. Oil prices have fluctuated drastically within the last 12 months but we feel the amount used to be a reasonable value. The gas revenue forecast includes a gas price of $1.50/MCF which is higher than the current market price. It is likely this price is also optimistic in view of current gas price. We also used the May 8, 1986 New Mexico State C-116 which reflects the highest GOR the well has produced. In that 24 hour test, 1.26 BO and

APPROVED

THIS APPROVAL ... Indefinitely

JUL 01 1987

AREA MANAGER

709 BLOOMFIELD RD. • P. O. BOX 208 • FARMINGTON, NEW MEXICO 87499-0208 • PHONE: (505) 325-1821

NMOCD

7.42 MCF were produced for a GOR of 5889 (a copy is attached). Therefore, the gas production used in the economics is also very optimistic.

In summary, we are asking for approval for long-term venting of casinghead gas from the Herry Monster #1. Due to the low volumes of marketable gas produced, the remoteness of the well and the associated cost of installing a gathering line with a meter run, connecting the well for gas sales is not economically feasible at this time. Should any of these conditions change, we will re-evaluate the possibility of selling gas from the Herry Monster #1.

Sincerely,

Barbara L. Williams

Barbara L. Williams
Engineer

BLW/cg

attach.