

e
dugan production corp.

RECEIVED
AUG - 8 1996

August 7, 1996

OIL CON. DIV.
DIST. 3

Mr. Mike Pool
Bureau of Land Management
1235 LaPlata Highway
Farmington, NM 87401

Mr. Bill LeMay
New Mexico Oil Cons. Div.
2040 So. Pacheco St.
Santa Fe, NM 87505

Re: Off-lease Measurement & Sale
Dugan Production's Latex No. 1
Federal Lease No. NM-86080
NE NE (Unit A), Section 9, T-25N, R-10W, NMPM
San Juan County, New Mexico

Dear Mr. Pool and Mr. LeMay:

We are writing to request approval for the off-lease measurement and sale of produced natural gas from the captioned well. We do not anticipate that there will be any liquid hydrocarbon production, however should there ever be, all liquid hydrocarbons, along with water, will be separated, stored and sold on the lease at the well site.

This request for off-lease measurement and sale is the result of our connection to El Paso Field Services' (EPFS) gas gathering system being located in the SESW of Section 3, T-25N, R-10W; approximately 1600' removed from our lease. This is the closest pipeline connection available for this well and will require that we install ±2900' of line to deliver gas to the sales meter located on EPFS' line. Attachment No. 1 is reproduced from the Huerfano Trading Post, NW quadrangle map and presents the subject well, Dugan's Lease NM-86080, along with our proposed gas sales line and sales meter/tie-in to El Paso's line. The proposed meter site is located on EPFS' existing line and is approximately 53' from the south and 1688' from the west line of Section 3. At this time, this meter will only measure gas produced from Dugan's Latex No. 1 well. Should additional development occur on our lease, the subject meter might be considered for use as a CDP, however prior to that occurring, we will seek the appropriate approvals.

The Latex No. 1 was completed on 5-10-96 from perforations 1822-1830' in the Basin Fruitland Coal Pool. The perforated interval was fracture stimulated using 33,800 gallons 70Q foam and 44,000 pounds sand and has tested rates up to 285 MCFD. It is estimated that production into EPFS' system, which ranges from 95 to 130 psi, will average 50 to 100 MCFD with no liquid hydrocarbon and hopefully very little water. The well is equipped with a 2 phase, 750 psi working pressure separator manufactured by Enertek, Inc. It is anticipated that the separator's catalytic heater, which has a calculated fuel consumption of 0.18 MCFD, will only be used during the winter months (approx. November through April). There is no other anticipated lease fuel consumption at this time.

however should it become necessary to install a compressor, dehydrator or other equipment needed to produce the well, all lease fuel will be accounted for and reported along with all gas sales. At the meter site, there is also no lease equipment other than the meter and meter run which will be operated and maintained by EPFS. Should it ever be necessary to vent the well to unload wellbore fluid accumulations, all volumes vented will be accounted for using volumetric methods taking wellbore pressures into account. This is a procedure we use on all wells which require periodic purging in order to maintain production from being impaired by accumulated wellbore fluids (primarily water).

The gas line from the Latex No. 1 well to the meter/tie-in will be buried 4" fiberglass which will be regularly monitored for line integrity using Dugan's gas leak detector. Should there ever be gas lost from the gas line prior to measurement as the result of leaks and/or line breaks, we will account for the volumes using the appropriate procedures considering the circumstances and any such volumes will be reported along with gas sales and lease use.

We have not obtained a gas analysis from the Latex No.1 well, however do anticipate that the produced natural gas will have a composition similar to other Fruitland Coal wells in the general vicinity. Attachment No. 2 is a copy of a recent gas analysis taken from Dugan's Western Federal No. 7 well (located in Unit M, Section 7, T-26N, R-11W) which has a gravity of 0.568 and a dry heating value of 1021 BTU/cf and should be fairly similar to the gas produced from the Latex No. 1.

The spacing unit for the Latex No. 1 well comprises 320 acres in the N/2 of Section 9, T-25N, R-10W and includes only 1 lease, Federal Lease NM-86080. Dugan Production is the only working interest owner and there are no overriding royalty interest owners. Thus, with this application to the BLM, all interest owners have been notified as to our proposed off-lease measurement of natural gas produced from Dugan's Latex No. 1 well.

In summary, we request approval for the off-lease measurement and sale of natural gas produced from our recently completed Latex No. 1 well. Off-lease measurement is necessary in order to deliver gas into El Paso Field Services' gas gathering system at their meter site provided for this well. Any liquids produced will be separated, stored and sold on the lease at the well site.

Should you need additional information or have questions, please let me know.

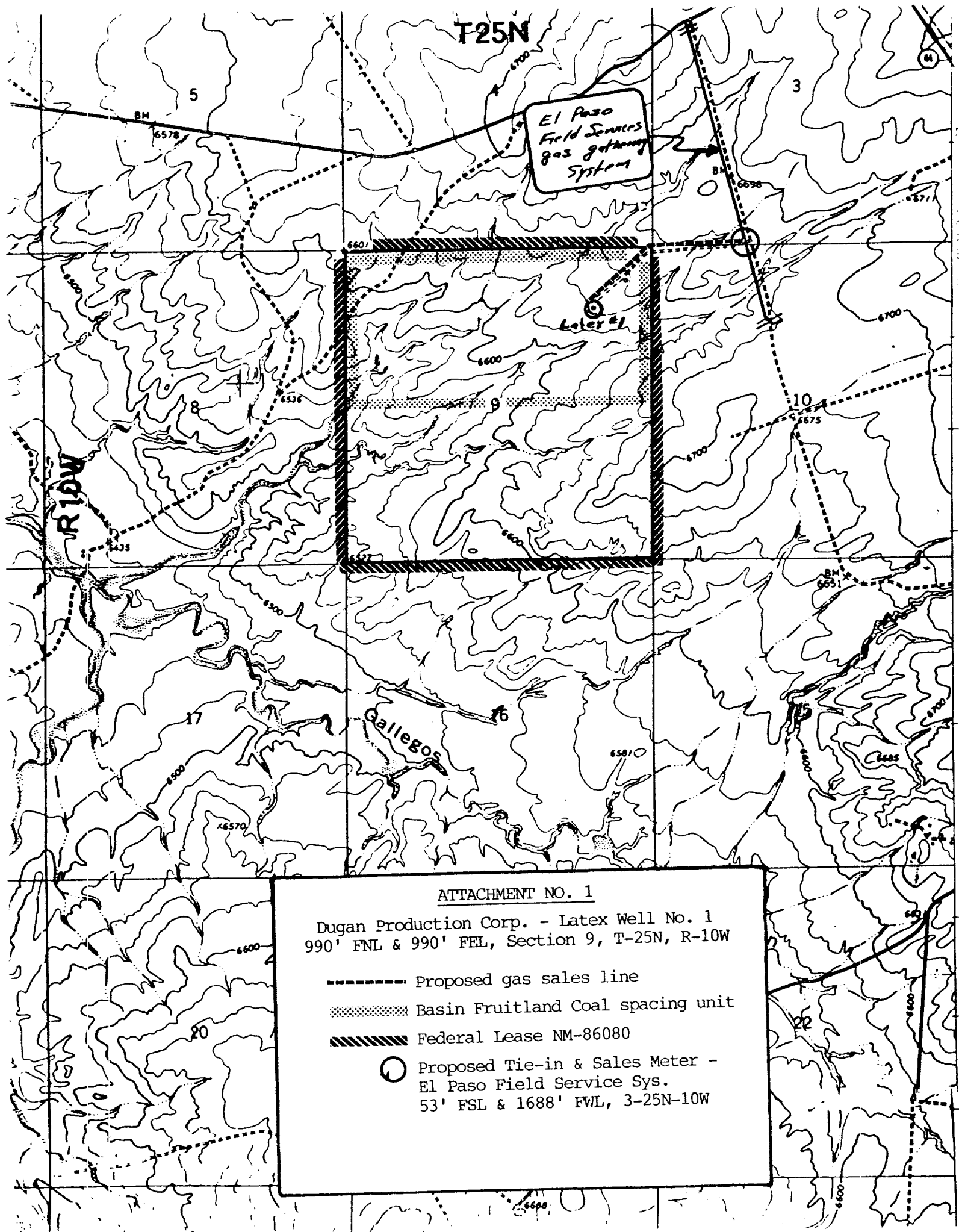
Sincerely,

John D. Roe

John D. Roe
Manager of Engineering

JDR/cg

✓cc: Frank Chavez - NMOC, Aztec



EL PASO NATURAL GAS COMPANY
VOLUME ACCOUNTING DEPARTMENT
MEASUREMENT DIVISION
POST OFFICE BOX 1482
EL PASO, TEXAS 79978
PHONE: (818) 841-2888

Attachment
No. 2
PS 1 of 1

DATE 2/08/88

CHROMATOGRAPHIC GAS ANALYSIS REPORT

MAILEE
28730

DUGAN PRODUCTION CORPORATION
P O BOX 420
FARMINGTON, MN 57489-0420

*Basin Fruitland Coal
M-7-26N-11W*

METER NUMBER 90189 - WESTERN FEDERAL #7
OPERATOR 1862 - DUGAN PRODUCTION CORP

ANALYSIS DATE 1/11/88 TYPE CODE 2 - ACTUAL
SAMPLE DATE 1/10/88 H2S GRAINS 0
EFFECTIVE DATE 2/01/88 LOCATION D - DANIELS FM
EFFECTIVE FOR 6 MONTHS

COMPONENTS	NORMALIZED MOL %	GPM
CO2	.24	.000
H2S	.00	.000
N2	.40	.000
METHANE	88.18 <i>- 98.19</i>	.000
ETHANE	.83 <i>- 0.83</i>	.222
PROPANE	.20	.085
ISO-BUTANE	.04	.013
NORM-BUTANE	.03	.008
ISO-PENTANE	.01	.004
NORM-PENTANE	.01	.004
HEXANE PLUS	<u>.08</u>	<u>.022</u>
	100.00	0.328

SPECIFIC GRAVITY .888 *- .562*

MIXTURE HEATING VALUE
(BTU @ 14.73 DRY) 1021

RATIO OF SPECIFIC HEATS 1.308

NO TEST SECURED FOR H2S CONTENT