dugan production corp.

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MAR 05 1986

BUREAU OF LAND MANAGEMENT
FARMINGTON RESOURCE AREA

BLM-FRA

AM ____ AAM ____
ADMIN. ____
FLUIDS ____
FSM ____
I & E-EAST ____
I & E-WEST ____
LANDS ____
MULTI-RES. ____
NAV. AFFAIRS ____
OPERATIONS ____
RANGE ____
SPECIAL PROJ ____
SOLIDS ____
ALL SUPV. ____ ALL EMPL. ____
FILES ____

RECEIVED
MAR 07 1986
OIL CON. DIV.
DIST. 3

March 3, 1986

Bureau of Land Management
Caller Service 4104
Farmington, NM 87499

Re: DUGAN PRODUCTION CORP.
Paul Revere #210
1850' FSL - 990' FWL
Sec. 22, T26N, R13W, NMPM
San Juan County, NM
NM-17781

Gentlemen:

Dugan Production hereby requests approval for long-term venting of casinghead gas from the captioned well, which was completed in the Bisti Lower Gallup formation on 1-22-86, from perforations between 4804' and 5103'. During an eight hour swab test on 1-23-86, the well produced 20 BO, 15 MCF and 115 BW (frac water), and an initial potential of 60 BOPD with a GOR of 750 SCF/STB was reported. The GOR was again tested on 2-20-86 during the state required completion GOR. During this 24 hour actual production test, 7.55 bbls of oil, 1.50 bbls of water and 9.02 MCF of gas were produced, of which only 3.92 MCFD was actually vented, the remaining 5.1 MCFD being required for lease use. (A copy of NMOCD form C-116 reporting this test is attached).

The well is equipped with a pump unit which has a 15 hp motor and a 250,000 BTU heater treater is required to separate the oil and water. The total fuel requirement for lease use is 5.1 MCFD.

The well is located approximately 5700' from the closest gas line. El Paso Natural Gas and Northwest Pipeline 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. In the event that this application is not approved, the Paul Revere #210 well will have ~~to~~ be shut-in, resulting in the loss of marginal oil revenues. Economics in support of our position are presented on the attached Table No. 1. Based upon our experience in the area, we would expect production to decline initially 30 - 40% 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 from the start of production, which we realize is optimistic, but even at that, the well will not pay-out in any reasonable time.

3/5/87

Our economics reflect an oil price of $24.00/bbl, less $1.00/bbl trucking, which was the value received on our last sale. This, however, will go down in March, 1986 to an unforeseen amount (currently approximately $18.50/bbl). Thus, our economics presented on Table No. 1 are again likely optimistic. The gas revenue forecast includes a gas price of $1.78/MCF which is approximately the current market price. It is very likely this price is also optimistic since gas prices are now being tied to fuel oil prices, which will be declining with declining crude oil prices.

Dugan Production has been disappointed with the performance of this well, and we are now faced with the problem of recouping as much oil revenue as possible before the economic limit of the well is reached. The well will likely never pay-out its drilling and completion cost, much less the added financial investment of a gas line and meter run.

In summary, we are asking for permission to vent approximately 4.0 MCFD for an indefinite period of time. Due to the remoteness of the well, poor gas market conditions and the low volumes of marketable gas produced, connecting the well for gas sales is not economically feasible at this time. Should any of these conditions change, we will re-evaluate the feasibility of selling gas from the Paul Revere #210.

Sincerely,

Barbara Williams

Barbara Williams
Petroleum Engineer

BW/cg

attach.