

# dugan production corp.

June 17, 1987

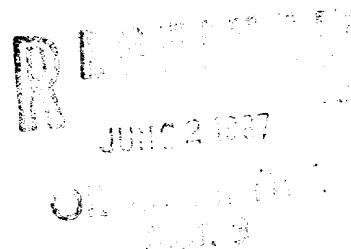
Ron Fellows  
Bureau of Land Management  
Caller Service 4104  
Farmington, NM 87499

RECEIVED

JUN 17 1987

BUREAU OF LAND MANAGEMENT  
FARMINGTON RESOURCE AREA

Re: Application for Long-term Venting Approval  
Dugan Production Corp's  
Lucky Billy Charlie No. 2  
Lease #NOO-C-14-20-7467  
Located Unit M, Section 22, T27N, R13W, NMPM  
San Juan County, NM



Dear Mr. Fellows:

Dugan Production requests approval for long-term venting of casinghead gas from the captioned well. The well was completed in the Gallegos Gallup Extension formation on 9-14-85 with an initial potential of 144 BOPD, 65 MCFD and 192 (frac water) BOPD and a GOR of 450 SCF/STB. The GOR was last tested on 11-13-86 during the state required scheduled GOR and the 24 hour actual production resulted in 11.33 bbls of oil, 1 bbl of water and 35.9 MCF of gas being produced of which 30.8 MCF 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 requirements for lease use is 5.1 MCFD). The well is currently being produced two or three days per month and has averaged 17.3 BOPD while producing since 1/1/87. Since July 1986, we have produced the Lucky Billy Charlie No. 2 on a limited basis in order to minimize the amount of gas vented and maintain the producing status of the lease.

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 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 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

APPROVED SUBJECT TO PAYMENT OF ROYALTY  
PER BIA WRK

*[Signature]*  
AREA MANAGER

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

NMOCD

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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.

NWPL has refused in the past to enter into a gas contract for gas sales from the subject well. They offered to sell us their existing pipeline which connects with an EPNG pipeline approximately  $\frac{1}{2}$  mile from the well. NWPL's asking price far exceeded the \$25,000 EPNG would charge for a meter run installation. As you can see from the attached economics, neither option is economically feasible. Dugan Production has been working with EPNG and NWPL since completion of the well. We have attached a copy of our most recent letter to EPNG which involves the connection of this well to a pipeline system. We believe that a gas line connection is imminent but because of our past experiences and frustrations of dealing in the current gas market, we are requesting approval for long-term venting.

In summary, we are asking for approval for long-term venting of casinghead gas from the Lucky Billy Charlie No. 2. This is necessary due to the low volumes of marketable gas produced and the associated cost of installing a meter run which at this time is uneconomical. We are also requesting long-term venting approval because we have experienced many set-backs and delays with getting this well connected for gas sales and we wish to be prepared for any new unforeseen delay. We are optimistic this well will be connected in the future but we are currently forced to vent the gas associated with production which is necessary to maintain the producing status of the lease until such time as we are able to obtain a pipeline connection for gas sales.

Sincerely,

A handwritten signature in dark ink, appearing to read "Barbara L. Williams", with a stylized, flowing script.

Barbara L. Williams  
Engineer

BLW/cg

attachs.