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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

RECEIVED
OIL CON. DIV.
DEC 23

CASE NO. 11863
ORDER NO. R-10923

APPLICATION OF DUGAN PRODUCTION CORPORATION FOR SURFACE
COMMINGLING AND OFF-LEASE MEASUREMENT, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 23, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of December, 1997 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant in this matter, Dugan Production Company ("Dugan"), is the lessor of the following described 1,453.39 acres of land in San Juan County, New Mexico:

- (a) the New Mexico State lease No. VA-0310 comprising Lot 2, the W/2 NW/4, and the NW/4 SE/4 of Section 36, Township 30 North, Range 14 West, NMPM (157.26 acres);
- (b) the Federal "I" Lease (U. S. Government lease No. SF-078110) comprising all of Section 1, Township 29 North, Range 14 West, NMPM (636.00 acres);

- (c) the U. S. Government lease No. **NM-033051** comprising the E/2 NE/4 of Section 35, Township 30 North, Range 14 West, NMPM (80 acres);
 - (d) the New Mexico State lease No. **B-11571** comprising Lot 4, the N/2 NW/4, the SE/4 NW/4, and the N/2 SW/4 of said Section 36 (246.70 acres);
 - (e) the New Mexico State lease No. **E-03149** comprising Lots 3, 6, and 7 of said Section 36 (130.92 acres);
 - (f) the New Mexico State lease No. **E-06714** comprising Lots 2 and 5 and the SW/4 NW/4 of said Section 36 (122.51 acres); and,
 - (g) the Winifred Fee Lease comprising the W/2 NE/4 of said Section 35 (80 acres).
- (3) Dugan currently operates the following described six wells within the above-described leases:
- (a) the Camp David Com Well No. 1 (**API No. 30-045-28428**) located in Unit "G" of said Section 36 currently produces from the Basin-Fruitland Coal (Gas) Pool and has dedicated thereto the standard 323.59-acre gas spacing and proration unit comprising Lots 1, 2, 3, 6, and 7, the W/2 NE/4, and the NW/4 SE/4 (E/2 equivalent) of said Section 36;
 - (b) the Federal "I" Well No. 4 (**30-045-20397**) located in Lot 3 (Unit C) of said Section 1 currently produces from the Harper Hill-Fruitland Sand-Pictured Cliffs Pool and has dedicated thereto the standard 157.00-acre gas spacing and proration unit comprising Lots 3 and 4 and the S/2 NW/4 (NW/4 equivalent) of said Section 1;
 - (c) the Federal "I" Well No. 5-R (**30-045-29351**) located in Unit "J" of said Section 1 currently produces from the Harper Hill-Fruitland Sand-Pictured Cliffs Pool and has dedicated thereto the standard 160-acre gas spacing and proration unit comprising the SE/4 of said Section 1;

- (d) the Federal "I" Well No. 6 (30-045-23207) located in Unit "G" of said Section 1 currently produces from the Harper Hill-Fruitland Sand-Pictured Cliffs Pool and has dedicated thereto the standard 159.00-acre gas spacing and proration unit comprising Lots 1 and 2 and the S/2 NE/4 (NE/4 equivalent) of said Section 1;
 - (e) the O'Henry Well No. 1 (30-045-08958) located in Lot 5 (Unit N) of said Section 36 currently produces from the Basin-Fruitland Coal (Gas) Pool and has dedicated thereto the standard 333.80-acre gas spacing and proration unit comprising Lots 4 and 5, the NW/4, and the N/2 SW/4 (W/2 equivalent) of said Section 36; and,
 - (f) the Winifred Well No. 2 (30-045-23200) located in Unit "G" of said Section 35 currently produces from the Harper Hill-Fruitland Sand-Pictured Cliffs Pool and has dedicated thereto the standard 160-acre gas spacing and proration unit comprising the NE/4 of said Section 35.
- (4) Division General Rule 303.A prohibits production from separate common sources of supply, or pools, to be commingled or confused before marketing and Division General Rule 309.A disallows the commingling of production from two or more separate leases in a common facility.
- (5) The applicant now seeks authority to commingle Harper Hill-Fruitland Sand-Pictured Cliffs Pool gas production with Basin-Fruitland Coal (Gas) Pool gas production from the above-described six wells in a common gas sales line.
- (6) Within the acreage dedicated to said wells the working interests, royalty interests, and overriding royalty interests are not common between the two horizons.
- (7) All six of the aforementioned wells are capable of marginal gas production (15 to 30 MCFPD) and the only associated liquids is water, which is typical to both pools in this area.
- (8) Dugan proposes to install a central gathering system which will transport all production (gas and water) from each well to a central battery located at the well site of Dugan's Federal "I" Well No. 4. The commingled gas stream will be compressed and sold through a central delivery point ("CDP") meter that is currently serving as this well's sales meter.

(9) Dugan further proposes to test each well with a portable trailer mounted test unit and three phase separator that is capable of measuring water, oil/condensate, and gas. It is Dugan's intent to test each well quarterly for the first year and annually thereafter; however, should it be necessary for any reason deemed appropriate the supervisor of the Division's Aztec District Office can order such retest.

(10) The commingled water stream is to be disposed of in Dugan's Stella Needs A Com Well No. 1 (API No. 30-045-08994) located in Unit "K" of said Section 36 (approved as a salt water disposal well by Division Administrative Order SWD-595, dated June 7, 1995).

(11) Each mineral interest owner (working, royalty, and overriding royalty) within this 1,453.39 acre area was provided notice of this application and at the time of the hearing no interested party entered an appearance in this matter nor filed an objection to the subject application.

(12) The subject application as proposed by Dugan exhibits sound engineering practices, is in the best interest of conservation, and should serve to protect correlative rights.

(13) Approval of this application will result in economic savings to the operator, is in the best interest of conservation, exhibits sound engineering principles, will serve to prevent waste and protect correlative rights, provided the installation of facilities for commingling production will permit the individual testing on a monthly basis of each of the wells on the subject leases.

(14) All test data and recommended allocation percentages should be reported to the supervisor of the Division's Aztec District Office and to the Farmington District Office of the United States Bureau of Land Management.

(15) The commingling facilities should be installed and operated in accordance with the applicable provisions of General Rule 303 of the Division and the Division's *"Manual for the Installation and Operation of Commingling Facilities."*

(16) The operator should notify the supervisor of the Aztec District Office of the Division of the date and time of the conductance of any tests of the subject wells in order that the tests may be witnessed.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Dugan Production Corporation, is hereby authorized to

surface commingle Basin-Fruitland Coal (Gas) Pool production from the following two wells located in Section 36, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico:

- (a) the Camp David Com Well No. 1 (API No. 30-045-28428) located in Unit "G" of said Section 36, which production is currently dedicated to a standard 323.59-acre gas spacing and proration unit comprising Lots 1, 2, 3, 6, and 7, the W/2 NE/4, and the NW/4 SE/4 (E/2 equivalent) of said Section 36; and,
- (b) the O'Henry Well No. 1 (30-045-08958) located in Lot 5 (Unit N) of said Section 36, which production is currently dedicated to a standard 333.80-acre gas spacing and proration unit comprising Lots 4 and 5, the NW/4, and the N/2 SW/4 (W/2 equivalent) of said Section 36;

with Harper Hill-Fruitland Sand-Pictured Cliffs Pool production from the following four wells:

- (c) the Federal "I" Well No. 4 (30-045-20397) located in Lot 3 (Unit C) of Section 1, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, which production is currently dedicated to a standard 157.00-acre gas spacing and proration unit comprising Lots 3 and 4 and the S/2 NW/4 (NW/4 equivalent) of said Section 1;
- (d) the Federal "I" Well No. 5-R (30-045-29351) located in Unit "J" of said Section 1, which production is currently dedicated to a standard 160-acre gas spacing and proration unit comprising the SE/4 of said Section 1;
- (e) the Federal "I" Well No. 6 (30-045-23207) located in Unit "G" of said Section 1, which production is currently dedicated to a standard 159.00-acre gas spacing and proration unit comprising Lots 1 and 2 and the S/2 NE/4 (NE/4 equivalent) of said Section 1; and,
- (f) the Winifred Well No. 2 (30-045-23200) located in Unit "G" of Section 35, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico, which production

is currently dedicated to a standard 160-acre gas spacing and proration unit comprising the NE/4 of said Section 35.

(2) The allocation of production from both the Basin-Fruitland Coal (Gas) and Harper Hill-Fruitland Sand-Pictured Cliffs Pools shall be determined by well testing with a portable trailer mounted test unit and three phase separator that is capable of measuring water, oil/condensate, and gas on a quarterly basis for the first year of operations and annually thereafter.

PROVIDED HOWEVER, the operator must retest at any time the supervisor of the Division's Aztec District Office deems it appropriate.

(3) The commingling facility and associated equipment shall be installed and operated in accordance with the applicable provisions of General Rule 303 of the Division and the Division's "*Manual for the Installation and Operation of Commingling Facilities*."

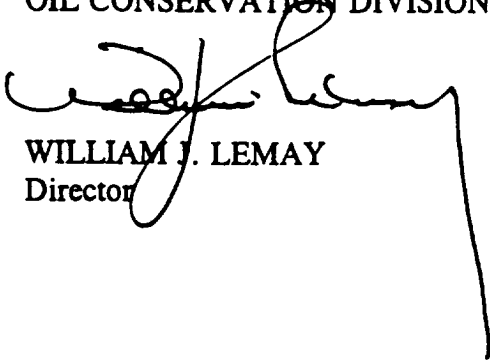
(4) The operator shall notify the supervisor of the Aztec District Office of the Division prior to implementation of the commingling process.

(5) It will be the responsibility of the producer to notify the transporter of this commingling authority.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

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