



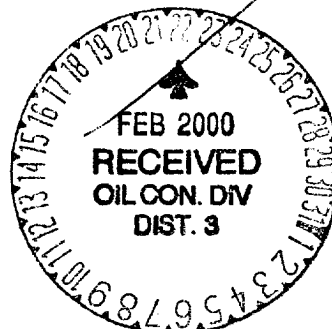
**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

February 16, 2000

Dugan Production Corporation
P. O. Box 420
Farmington, New Mexico 87499-0420

Attention: Kurt H. Fagrelus



Re: *Application for location exception.
Carpenter Com. Well No 90
1767' FSL & 280' FWL (Unit L)
Sec. 25-T30N-R14W, NMPM,
Basin-Fruitland Coal (Gas) Pool,
San Juan County, New Mexico.*

Dear Mr. Fagrelus:

Reference is made to the following: (i) your application dated January 10, 2000; (ii) the New Mexico Oil Conservation Division's ("Division") initial response by letter dated January 18, 2000 from Mr. Michael E. Stogner, Engineer in Santa Fe; (iii) your re-submittal of this application dated January 27, 2000; (iv) the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, dated October 17, 1988, as amended by Division Orders No. R-8768-A, dated July 16, 1991, and R-8768-B, dated February 10, 2000 (see copy attached); and (v) the records of the Division.

Section 70-2-11, NMSA 1978, of the Oil and Gas Act ("Act") empowered the Division to prevent waste and to protect correlative rights. In order to carry out this assignment Section 70-2-12 directed the Division to make rules, regulations, and orders that: (i) require wells to be drilled, operated, and produced in such a manner as to prevent injury to neighboring leases or properties; and (ii) fix the spacing of wells. The placement of oil and gas wells is the single most elementary and fundamental aspect of oil and gas conservation law. Another way this is effectively accomplished is through prorationing. The Basin-Fruitland Coal (Gas) Pool is an unprorated gas pool where: (i) production allowables are not issued; (ii) operators are allowed to produce their wells at unrestricted rates of flow; and (iii) the only method employed to protect correlative rights is by controlling well density and locations. Further, when the Basin-Fruitland Coal (Gas) Pool was formed special rules were adopted that served to assure that an efficient and effective pool-wide plan of development was instituted.

After meticulous review of your application the Division finds that the requested unorthodox location for Dugan Production Corporation's Carpenter Com. Well No. 90, being only 280 feet from Section 26, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico, is considered to be a correlative rights violation. The reason being that this proposed location severely encroaches the SE/4 of Section 26 which lands would be included in either a standard 320-acre stand-up gas spacing and proration unit comprising the E/2 of Section

26 or a lay-down unit comprising the S/2 of Section 26 for Basin-Fruitland Coal (Gas) Pool development. In either case the S/2 SE/4 of Section 26 would be included in either 320-acre unit. The S/2 SE/4 of Section 26 being fee acreage is entitled to 25% of the royalty interest from any future coal gas production to the standard 320-acre unit assigned. Therefore, this offsetting 320-acre area where the 25% fee acreage is adversely affected by this encroachment.

Further, it is our understanding that Dugan Production Corporation's policy to stay a minimum of 500 feet from existing deeper wells is to avoid damaging wells and/or the coal gas productive interval. Then, drilling and completing a well 280 feet to a property line will consequently have the same adverse affects to this neighboring property (SE/4 of Section 26) thereby complicating the correlative rights issue even further.

Finally, any company policy that goes against Division rules and procedures, especially if that policy results in the violation of correlative rights and/or creates waste, can not under any circumstances supersede the rules set forth.

Since there are locations within the SW/4 of Section 25 available to Dugan Production Corporation that are considered to be "standard coal gas well locations" pursuant to revised Rule 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," your application is hereby **denied**.

Your application brought to light some interesting observations that would be good to bring up at the Basin-Fruitland Coal (Gas) Pool study committee.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Aztec
Mr. Steve Salzman - U. S. Bureau of Land Management, Santa Fe
Mr. Neel McBride - U. S. Bureau of Land Management, Farmington
Ms. Kathy Valdes, NMOCD - Santa Fe
Ms. Lori Wrotenbery, Director - NMOCD, Santa Fe