

**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:**

**CASE NO. 15435
ORDER NO. R-14130**

**APPLICATION OF DUGAN PRODUCTION COMPANY FOR APPROVAL OF
THE SUNFLOWER FRUITLAND PICTURED CLIFFS UNIT, SAN JUAN
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 21, 2016, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 25th day of February, 2016, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Dugan Production Company ("Applicant" or "Dugan") seeks approval of its Sunflower Fruitland Pictured Cliffs Unit comprising 6,976.53 acres, more or less, of Federal and State lands in San Juan County, New Mexico.

(3) The Unit comprises the following-described acreage located in San Juan County, New Mexico:

TOWNSHIP 24 NORTH, RANGE 12 WEST, NMPM

Section 6:	All
Section 7:	N/2

TOWNSHIP 24 NORTH, RANGE 13 WEST, NMPM

Sections 1, 2, 11, and 12:	All
Section 14:	N/2 NE/4 and NW/4

Section 15:	N/2
Sections 16 through 19:	All
Section 20:	N/2 and SW/4
Section 21:	NW/4

(4) The "Unitized Land" or "land subject to this agreement" includes "All oil and gas in the Fruitland/Pictured Cliffs interval" between the depths of 430 feet and 857 feet as shown on the log for the Southern Union Federal Well No. 1 (API 30-045-25410) located in Unit I, Section 12, Township 24 North, Range 13 West, NMPM, San Juan County, New Mexico, as described in Paragraph 3 and Exhibit C of the Unit Agreement.

(5) Existing wells and proposed wells drilled to the Fruitland formation and Pictured Cliffs Sandstone within the Unit Area are subject to the following pools:

- a. The Basin-Fruitland (Gas) Pool (Pool Code 71629) is governed by Special Rules adopted in 1998 under Division Order No. R-8768-F, providing for 320-acre gas spacing units with wells to be located no closer than 660 feet from exploratory unit boundaries;
- b. The WC 24N13W2P; Pictured Cliffs Pool (Pool Code 98182) is governed by Statewide Rules, which require 160-acre gas spacing and proration units with wells to be located no closer than 660 feet to the outer boundary of the Unit; and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

(6) Applicant appeared at the hearing through counsel and presented the following testimony:

- a. The Unit is comprised of 5 federal tracts, and 2 state tracts;
- b. Dugan Production Company is the sole working interest owner, and no overriding royalty interest owners exist in the Unit.
- c. Since the BLM acreage comprises approximately 91 percent of the Unit Area, the federal form was used with the following modifications:
 - i. It is limited to the Unitized Land of the Fruitland formation and Pictured Cliffs Sandstone; and
 - ii. The entire Unit is treated as undivided with each tract participating as per its acreage dedication.
- d. The form of this modified federal unit agreement is identical to that form used by the Commissioner of Public Lands of the State of New Mexico ("SLO") in that the Unit Area is considered as undivided or one single participating area;
- e. The Unit Agreement has been given written preliminary approval by both the SLO and the BLM;

- f. The SLO conditioned its final approval of the Unit Agreement upon approval of the Unit by the Oil Conservation Division;
- g. The available well control in the area demonstrates that the Unitized Land identified in the type log is laterally continuous across the entire Unit;
- h. These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient and uniform and common development;
- i. Applicant expects to reduce surface disturbances by the formation of this Unit and intends to protect the fresh water from harm due to drilling and oil field operations;
- j. The Unit will be developed to produce gas from the Fruitland formation and Pictured Cliffs Sandstone;
- k. The Bisti 2 Well No. 1 (API 30-045-35386) located in Lot 1, Section 2, Township 24 North, Range 13 West, is an active producer in the Basin Fruitland Coal (Gas) Pool, but is not part of the Unit;
- l. The Sunflower Unit Well No. 1 (API No. 30-045-35745), located in Unit P, Section 2, Township 24 North, Range 13 West, is considered by the BLM as "the initial development well"; and
- m. The effective date of the proposed Unit as stated in the Sunflower Fruitland Pictured Cliffs Unit Agreement will be based on the date of final approval by BLM and NMSLO.

The Division concludes as follows:

- (7) Applicant has provided proper and adequate notice of this application and of this hearing.
- (8) The Unit should constitute a single Project Area for gas well development pursuant to Division Rule 19.15.16.7.L (2) NMAC; provided however, the Project Area should be limited to Unit Wells.
- (9) Unit Wells should be defined as those wells allowed in the Sunflower Fruitland Pictured Cliffs Unit Agreement.
- (10) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Land.
- (11) The correlative rights of all interest owners in the Unit will be protected provided that the Unit is ultimately fully developed in the Unitized Land.
- (12) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit in order to maximize the recovery of oil and gas from the Unitized

Interval, thereby preventing waste, and will provide the Applicant the latitude to conduct operations in an effective and efficient manner within the Unit.

(13) The provisions contained within the Sunflower Fruitland Pictured Cliffs Unit Agreement are in compliance with Division rules, and the development and operation of the Unit Area, as proposed, comply with the Division's conservation principles.

(14) The Sunflower Fruitland Pictured Cliffs Unit should be approved and should be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Sunflower Fruitland Pictured Cliffs Unit is obtained by Applicant from the SLO and the BLM.

(15) The Applicant should provide to the Division a written copy of the final approval of the Sunflower Fruitland Pictured Cliffs by the SLO and the BLM. Applicant should submit a copy of the annual Sunflower Fruitland Pictured Cliffs Unit Plan of Development to the Division for review.

(16) Within 30 days of the effective date of this order the operator of this Unit should rename any existing Unit Wells and should dedicate all Unit Wells to the properly designated pools.

(17) The plan contained within the Sunflower Fruitland Pictured Cliffs Unit Agreement for the development and operation of the Unit should be approved in principle as a proper conservation measure.

(18) The Unit operator should file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator should file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(19) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) As per the application of Dugan Production Company ("Dugan" or "Applicant"), the Sunflower Fruitland Pictured Cliffs Unit (the "Unit") consisting of 6,976.53 acres, more or less, of Federal and State lands in San Juan County, New Mexico, is hereby approved.

(2) This order shall be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Sunflower Fruitland Pictured Cliffs Unit is obtained by Applicant from the SLO and the BLM. The final approval letters by the BLM and the SLO shall be provided to the Division.

(3) The Unit shall comprise the following-described acreage in San Juan County, New Mexico:

TOWNSHIP 24 NORTH, RANGE 12 WEST, NMPM

Section 6:	All
Section 7:	N/2

TOWNSHIP 24 NORTH, RANGE 13 WEST, NMPM

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Section 15:	N/2
Sections 16 through 19:	All
Section 20:	N/2 and SW/4
Section 21:	NW/4

(4) Dugan Production Company (OGRID 6515) is hereby designated the Unit operator.

(5) The "Unitized Land" or "land subject to this agreement" shall include "All oil and gas in the Fruitland/Pictured Cliffs interval" between the depths of 430 feet and 857 feet as shown on the log for the Southern Union Federal Well No. 1 (API 30-045-25410) located in Unit I, Section 12, Township 24 North, Range 13 West, NMPM, San Juan County, New Mexico, as described in Paragraph 3 and Exhibit C of the Unit Agreement.

(6) Unit Wells shall be those wells allowed in the Unit Agreement.

(7) All existing and future wells within the horizontal limits of this Unit but not designated per the agreement as Unit Wells shall remain dedicated and subject to the requirements of existing pools or statewide rules.

(8) The Unit shall constitute a single Project Area for gas well development pursuant to Division Rule 19.15.16.7.L (2) NMAC; provided however, the Project Area shall be limited to Unit Wells.

(9) Within 30 days of the effective date of this order the operator of this Unit shall rename any existing Unit Wells and shall dedicate all Unit Wells to the project area.

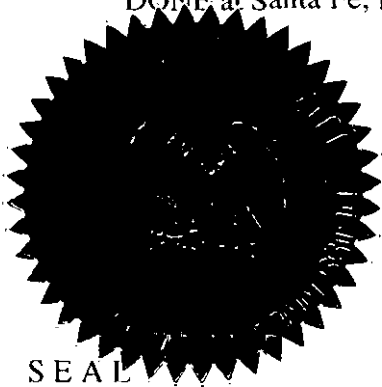
(10) The plan contained within the Sunflower Fruitland Pictured Cliffs Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure. All plans of development for the Sunflower Fruitland Pictured Cliffs Unit shall be submitted annually to the Division for review.

(11) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator shall file with the Division, within 60 days thereafter, counterparts

of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(12) Jurisdiction of this case 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

David R. Catanach

DAVID R. CATANACH
Director