

**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. 12936
ORDER NO. R-11185-A**

**APPLICATION OF DUGAN PRODUCTION CORPORATION FOR
AMENDMENT OF DIVISION ORDER NO. R-11185, SANDOVAL AND SAN
JUAN COUNTIES, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 10, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 28th day of October, 2002, 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) By Order No. R-11185 issued in Case No. 12120 on May 25, 1999, the Division authorized Universal Resources Corporation to commingle gas and associated gas liquids production from the Lybrook-Gallup and Alamito-Gallup Pools from thirty-eight (38) wells located in Sandoval and San Juan Counties, New Mexico, within its proposed South Lybrook Gathering System.

(3) The wells commingled within the South Lybrook Gathering System are located on all or portions of Federal Leases No. NM-06681, NM-06682, NM-016586, NM-058878, NM-10087, and NM-048989-A, and State Leases No. 00016172 and 00016174, covering parts of Sections 21, 22, 23, 27, 28, 31, 32, 33 and 34, Township 23 South, Range 7 West, NMPM, Section 2, Township 22 North, Range 8 West, NMPM, and Section 36, Township 23 North, Range 8 West, NMPM.

(4) The applicant, Dugan Production Corporation (“Dugan”), seeks to amend Division Order No. R-11185 by authorizing the Dugan Little “b” Well No. 2 (API No.

30-045-28333) located 1850 feet from the North and East lines (Unit G) of Section 36, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico, and the Dugan South Seas Well No. 1 (API No. 30-045-20897) located 1100 feet from the North line and 1135 feet from the East line (Unit A) of Section 6, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico, to be commingled within and added to the South Lybrook Gathering System.

(5) This case was styled such that in the absence of objection, this matter would be taken under advisement.

(6) The applicant appeared at the hearing through legal counsel.

(7) No other party appeared in this case.

(8) The evidence in this case demonstrates that:

(a) the South Lybrook Gathering System and the wells surface commingled within this system are currently operated by Questar Exploration and Production Company ("Questar"). By letter dated September 30, 2002, Questar advised the Division that it has agreed to allow Dugan to add its wells to the South Lybrook Gathering System, and recommended approval of Dugan's application in this case;

(b) the Little "b" Well No. 2 is currently completed in the Rusty-Chacra Gas Pool. The well is dedicated to a standard 160-acre gas spacing and proration unit comprising the NE/4 of Section 36. The well is located on State Lease No. LG-9090;

(c) the South Seas Well No. 1 is currently completed in the Rusty-Chacra Gas Pool. The well is dedicated to a standard 160-acre spacing and proration unit comprising the NE/4 of Section 6. The well is located on Federal Lease No. NM-89023;

(d) Dugan owns 100% of the working interest in both the Little "b" Well No. 2 and the South Seas Well No. 1;

- (e) The Little "b" Well No. 2, which was drilled and completed in January, 1991, and the South Seas Well No. 1, which was drilled and completed in August, 1993, have been shut-in since completion due to the absence of a gas pipeline connection;
- (f) Dugan anticipates that the Little "b" Well No. 2 and the South Seas Well No. 1 will produce approximately 60 MCF and 40 MCF of gas per day, respectively. A slight amount of water production from these wells is anticipated, and this liquid production will be separated and stored at each well site; and
- (g) current total daily production within the South Lybrook Gathering System is approximately 597 MCF of gas and 53 barrels of oil per day.

(9) Dugan has applied to the United States Bureau of Land Management (BLM) and to the Commissioner of Public Lands for the State of New Mexico to add the subject wells to the South Lybrook Gathering System. The evidence demonstrates that Dugan has received approval from both these entities.

(10) Dugan provided notice of this application to all interest owners within the South Lybrook Gathering System. No interest owner appeared at the hearing in opposition to the application.

(11) Dugan proposes that the production from the Little "b" Well No. 2 and South Seas Well No. 1 be allocated by separately metering the gas production from each well, utilizing allocation meters, prior to commingling. This data will then be used by Questar in conjunction with similar production data obtained from the other wells in the system, as well as total production measured at the central delivery point gas sales meter, to determine allocation factors for each well within the gas gathering system.

(12) The proposed method of allocation, which is described in greater detail in Dugan's application, is fair and reasonable, and will protect the correlative rights of all interest owners within the South Lybrook Gathering System.

(13) Approval of the application will provide Dugan the opportunity to economically produce its Little "b" Well No. 2 and South Seas Well No. 1, will extend

the economic life of these wells, thereby preventing waste, and will not violate correlative rights.

(14) The application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Dugan Production Corporation to amend Division Order No. R-11185 by authorizing the Dugan Little "b" Well No. 2 (API No. 30-045-28333) located 1850 feet from the North and East lines (Unit G) of Section 36, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico, and the Dugan South Seas Well No. 1 (API No. 30-045-20897) located 1100 feet from the North line and 1135 feet from the East line (Unit A) of Section 6, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico, Rusty-Chacra Gas Pool, to be commingled within and added to the South Lybrook Gathering System, is hereby approved.

(2) Production from the Little "b" Well No. 2 and South Seas Well No. 1 shall be determined by separately metering the gas production from each well, utilizing allocation meters, prior to commingling. This data shall then be used by Questar in conjunction with similar production data obtained from the other thirty-eight (38) wells in the system, as well as total production measured at the central delivery point gas sales meter, to determine allocation factors for each well within the gas gathering system, all as described in greater detail in Dugan's application.

(3) Jurisdiction is hereby 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

LORI WROTENBERY
Director

SEAL