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. 13,279
APPLICATION OF COLEMAN OIL AND GAS, INC., FOR AN EXCEPTION TO RULE 7.(D) OF THE SPECIAL POOL RULES AND REGULATIONS FOR BASIN-FRUITLAND COAL GAS POOL TO AUTHORIZE THE SIMULTANEOUS DEDICATION OF THE WEST HALF OF SECTION 18, TOWNSHIP 26 NORTH, RANGE 11 WEST, NMPM, TO FOUR EXISTING COAL GAS WELLS, SAN JUAN COUNTY, NEW MEXICO	)	

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 24th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 24th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

June 24th, 2004
Examiner Hearing
CASE NO. 13,279

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	13	29
Exhibit 2	15	29
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Exhibit 5	23	29
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* * *

Pro NM Energy/Proyect	Identified	Admitted
Exhibit 1	42	50
Exhibit 2	42	50
Exhibit 3	42	50
Exhibit 4	43	50
Exhibit 5	43	50
Exhibit 6	44	50
Exhibit 7	45	50
Exhibit 8	48	50

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A P P E A R A N C E S

FOR THE APPLICANT:

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By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 10:55 a.m.:

EXAMINER CATANACH: At this time I'll call Case 13,279, the Application of Coleman Oil and Gas, Inc., for an exception to Rule 7.(d) of the Special Pool Rules and Regulations for Basin-Fruitland Coal Gas Pool to authorize the simultaneous dedication of the west half of Section 18, Township 26 North, Range 11 West, NMPM, to four existing coal gas wells, San Juan County, New Mexico.

Call for appearances.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P. We represent Coleman Oil and Gas, Inc., in this matter, and I have one witness.

EXAMINER CATANACH: Additional appearances? That would be you, Mr. Kellahin.

MR. KELLAHIN: Mr. Catanach, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin. I'm appearing this morning on behalf of Mr. Gene Gallegos, doing business as Pro NM Energy, Inc., and Mr. Martin and Carolyn Proyect. I have no witnesses.

EXAMINER CATANACH: Is that written somewhere?

MR. KELLAHIN: It's in the prehearing statement.

EXAMINER CATANACH: Thank you, sir.

Okay, will the witness please stand to be sworn

in?

(Thereupon, the witness was sworn.)

ALAN P. EMMENDORFER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. Alan P. Emmendorfer.

Q. Mr. Emmendorfer, where do you reside?

A. Arvada, Colorado.

Q. By whom are you employed?

A. Coleman Oil and Gas.

Q. And what is your position with Coleman Oil and Gas?

A. I'm a petroleum geologist.

Q. Have you previously testified before the New Mexico Oil Conservation Division?

A. Yes, I have.

Q. At the time of that testimony, were your credentials as an expert in petroleum geology accepted and made a matter of record?

A. Yes, they were.

Q. Are you familiar with the Application filed in this case on behalf of Coleman Oil and Gas?

A. Yes, I am.

Q. Are you familiar with the status of the lands in the portion of the Basin-Fruitland Coal Gas Pool that is the subject of this hearing?

A. Yes, I am.

Q. Have you made a geological study of the area that's the subject of this case?

A. Yes.

Q. And are you prepared to review that work with the Examiner?

A. Yes, I am.

MR. CARR: We tender Mr. Emmendorfer as an expert in petroleum geology.

EXAMINER CATANACH: Any objection?

MR. KELLAHIN: Mr. Examiner, I have some questions for Mr. Emmendorfer.

EXAMINER CATANACH: Okay.

EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Emmendorfer, did you testify in the Gavilan-Mancos hearing?

A. Yes, I have.

Q. You testified as an expert geologist in those hearings, did you not?

A. Yes, I was.

Q. During those hearings did Mr. Carr cross-examine you?

A. Yes, he did.

Q. And during that process of cross-examination did you teach Mr. Carr how to count from one to ten?

A. Not -- just up to nine.

MR. KELLAHIN: We have no objections to Mr. Emmendorfer's qualifications. He is an expert.

EXAMINER CATANACH: Mr. Emmendorfer is so qualified.

Another transcript for the ages.

DIRECT EXAMINATION (Resumed)

BY MR. CARR:

Q. Mr. Emmendorfer, it's an honor that you've selected me to represent you after some of my prior transgressions.

Could you explain to Mr. Catanach what it is that Coleman seeks in this case?

A. Mr. Examiner, in this case Coleman seeks an exception to Rule 7.(d) of the Special Pool Rules and Regulations of Basin-Fruitland Coal Gas Pool, which is to authorize the simultaneous dedication of the west half of Section 18, Township 26 North, Range 11 West of San Juan County, New Mexico, to four existing coal gas wells.

Further, Coleman seeks authorization to conduct a

one-year production test on these wells by segregating in individual wellbores and separately producing coal gas stringers to determine the economic viability of producing the upper coal intervals in this portion of the pool and to determine the feasibility of producing these intervals in these existing coal gas wells without completing and commingling the production of all the stringers in individual wellbores.

Q. Can you -- The four wells that are the subject of the hearing, can you identify those, please?

A. Yes, the four wells that are the subject of this Application are all operated by Coleman and are located in the west half of Section 18, 26 North, 11 West. They are specifically, the Ricky Number 1 well, located 79 feet from the north line and 875 feet from the west line; the Ricky Number 1 R, located 765 feet from the north line and 830 feet from the west line; the Ricky Number 2 well, located 1850 feet from the south line, 790 feet from the west line; and the Ricky Number 2 R well, located at 1845 feet from the south line and 745 feet from the west line.

Q. Mr. Emmendorfer, in this Application you have at this point in time four wells on this 320-acre unit that go to and are capable of producing from the Basin-Fruitland Coal Gas Pool?

A. That is correct.

Q. The original wells, the Ricky 1 and 2, were drilled some time ago, and we'll get into that, and were completed in an upper coal interval?

A. That's correct.

Q. And Coleman has drilled deeper wells to the basal coal?

A. Correct.

Q. And what you're proposing is that you produce all four, but that by doing this, at no time will you have more than two wells capable of producing on this unit from any coal stringer under the spacing unit?

A. That is correct.

Q. What is the character of the lands in this spacing unit?

A. In this approximate 320-acre spacing unit there are two Navajo-allotted leases, each consisting of approximately 160 acres.

Q. Has Coleman reviewed this Application with the Aztec office of the Oil Conservation Division?

A. Yes, initially we sent the letter and contacted the Aztec OCD Office requesting to be allowed to conduct this test, and their only comment was that something of this matter had to be taken up at a hearing in Santa Fe.

Q. And what we're here today doing is seeking an exception to Rule 7.(d) of the special rules for this pool

that provides that no more than two wells per standard 320-acre spacing unit will be permitted?

A. That is correct.

Q. Okay. What is the purpose of the production test that you have discussed?

A. The purpose of this production test would be to compare the production rate from the older, original wells on compression with the production from the wells as they were produced naturally from the coal prior to compression. In addition, we will see if producing this coal in this fashion will result in increased production and whether it will be efficient and of commercial value.

If that does not work, we still have not violated the intent of Rule 7.(d) in that no more than two wells per 320-acre unit are producing from any of the separate intervals. We will be able to save costs by not having to produce all of the individual -- all the gas, commingle all the gas from each of the different coal stringers in one wellbore.

Q. Can you explain to the Examiner the production tests that you're proposing?

A. Coleman seeks an exception to the Rule 7.(d) to authorize it to produce all four wells and to conduct a 12-month production test on these wells. All four of these subject wells have been hydraulically stimulated, and

Coleman proposes to conduct this test with meters on all four wells so that the gas produced from each of these intervals can be monitored.

The production data then will be matched with the original decline curves from the original wells, the Ricky 1 and 2 wells, to determine if there is communication between zones, the basal coal zones and the upper coal strings, and we will then use this data from this one-year test to determine if it is economically viable to complete this well or other wells in the area within this portion of the reservoir and these upper coal gas intervals.

Currently there are only four wells within the area that have been producing only from these upper coal stringers, the Ricky 1 and the Ricky 2 being two of those four wells.

If wells are produced for a year or more with compression, it will be possible to project reserves that can be recovered from these upper zones. This information may provide new incentives to either request that the Ricky Number 1 and 2 well continue to be produced in this manner or that other wells that Coleman operates or other operators have in this particular area could be completed in upper coal stringers to provide additional income and revenue.

Furthermore, the simultaneous dedication of all

four wells on this 320-acre spacing unit in the Basin-Fruitland Coal Gas Pool will permit Coleman to produce the gas from the individual zones without incurring additional expense of completing and commingling the lower and upper coal intervals in individual wellbores.

Q. Mr. Emmendorfer, let's go to what's been marked Coleman Exhibit Number 1. Would you identify that and review it, please?

A. Yes, Exhibit Number 1 is a map of the Ricky area wells, predominantly a portion of Township 26 North, Range 11 and Range 12 West, with an additional few sections up in 27 North, Range 11 and 12 West. Coleman's acreage and the wells that they operate within the Basin-Fruitland Coal Pool are shown in yellow. The subject 320-acre spacing unit, which is comprised of the west half of Section 18, 26 North, 11 West, is shown as outlined in red and also highlighted in yellow.

Also identifies each of the well names and all of the operators offsetting current coalbed methane wells on this map.

Q. Could you review for Mr. Catanach the history of the Fruitland Coal development of this west-half spacing unit?

A. Okay, originally the Ricky Number 1 well and the Ricky Number 2 well were drilled in 1984 by Simmons

Engineering Company as South Gallegos, Pictured Cliffs and Fruitland Sand wells. Each are on a 160-acre dedication. The original wells in this acreage were slimhole completions, and they were completed only in upper coal stringers, which we will see later on in my testimony.

It produced from 1984, and they were producing at the rate of about 60 to 80 MCF a day.

November 1st, 1988, the Basin-Fruitland Coal Gas Pool was created. At that time it was realized that certain wells within the Basin may have been producing as coal wells before the pool was created, and that was the case with the Ricky 1 and 2 wells. And they were then brought into the pool in 1989 as two wells, the Ricky 1 and the Ricky 2, on the two 160-acre leases, and put into a 320-acre pool at that time.

The wells were purchased in March of 2003 by Coleman Oil and Gas with the idea of drilling replacement wells to produce the main basal Fruitland Coal zone.

In anticipation of drilling the wells, while we were waiting for approval of the APDs, we added compression to the leases, and this resulted in improving production rates, which I will also discuss later in my testimony.

In March of 2003, we drilled and completed the Ricky Number 1 R and the Ricky Number 2 R as replacement wells, twinned on the existing locations. These were then

-- these wells were completed in the lower basal coal zone, which is approximately 12 to 15 foot thick. And to get approval to produce the replacement wells, the Ricky Number 1 and Number 2 wells were shut in and proposed to be plugged, but we have not plugged them yet, and they remain shut in to date.

Between the lower basal coal zone in the replacement wells and the upper coal stringers that are producing -- that had produced in the past on the original wells, there is about a 20 to 30-foot shale barrier between the coals, and we feel that that has been an effective frac barrier.

The replacement wells were drilled and completed with 4-1/2-inch casing and 2-3/8-inch tubing. They produce with artificial lift at rates of 200 to 300 MCF per day.

Q. Let's go to Exhibit 2, the type log. Would you refer to this exhibit and review the stratigraphy of the area?

A. Exhibit Number 2 is a type log for the subject area, and in particular it utilizes the original Ricky Number 1 well that was drilled in 1984 by Simmons Engineering. It is typical of the stratigraphy throughout the San Juan Basin, both in an above-and-below-the-Basin Fruitland Coal interval. The bottom portion of the well, which was TD'd in the Pictured Cliff sandstone, is at an

approximate depth of 1280 feet on the type log.

The Fruitland formation consists of sand shales and multiple coal stringers and extends from approximately 10,045 feet [*sic*] down to approximately 1280 feet in depth. And above the Fruitland formation is the Kirtland shale.

If you will notice, Mr. Examiner, on the type log, the perforations for this original slimhole completion are shown at about -- they're about 4-foot intervals, one at approximately 1200 foot and one at approximately 1225 feet, and they were not completed in the basal coal stringer or coal zone, which occurs -- it's about 12 to 15 foot thick in this well and occurs at about a depth of 1262 to 1280 feet in depth.

As you're -- I'm sure you're well aware, the areas where cavitation is appropriate for the Basin-Fruitland Coal Pool, all of the coal stringers are cavitated and commingled within the wellbore and produced. In other areas of the Basin, some of the operators produce and frac, complete all or some of the coal stringers, and in some areas, which is very typical of the area in the Ricky area, the basal coal zone is the only zone that is completed because of the additional costs and risk of completing these thin coal stringers.

Q. You testified there were only four wells in the Ricky area that, in fact, separately produced the other

coal stringers.

A. That's correct.

Q. And you have a fact situation here where, because you have these other wells, you can independently test those stringers; isn't that right?

A. That is correct.

Q. And if they hold up as they indicated they might on the initial work you did on these wells prior to drilling the replacement -- if they hold up that way, it may be that you can show that the additional cost of completing these wells uphole in these shallower stringers is economically feasible and desirable?

A. That is correct.

Q. All right, let's go to the cross-section, Coleman Exhibit Number 3.

A. Exhibit Number 3 is a north-south cross-section in the west half of Section 18. It shows all four of the current wellbores that are capable of producing from the Basin-Fruitland Coal reservoir.

On the right-hand side of the cross-section, which is the northwest corner of Section 18, we have the original Ricky Number 1 well. Adjacent to that is its twin replacement well, the Ricky Number 1 R. And then we have on the far left-hand side of the cross-section, which is in the southwest corner of Section 18, the Ricky Number 2

well. This was originally drilled as the Melissa Number 1, but when it was reincorporated into the Basin-Fruitland Coal the name changed to the Ricky Number 2 because of the 320-acre dedication at that time. And adjacent to that well is a log of the Ricky Com Number 2 R, which is a replacement well for the Ricky Number 2 well.

It is a little stratigraphic cross-section showing the same stratigraphy that was outlined in Exhibit Number 2, which was the type log utilizing the Ricky Number 1 well.

What I would like to point out is that the perforations for each of the four wells are marked in red, and as you can see, there are no perforations from the twin wells that are common the same coal stringers. The original Ricky Number 1 well had two perforations at approximately 1200 feet and approximately 1225 feet, and then about a 20- to 30-foot shale barrier below that to the basal coal zone, which is completed in the Ricky 1 R, as you can see, at a depth of approximately 1260 to 1270 foot in depth.

Likewise, if we go to the south portion of the cross-section, the Ricky Number 2 well was completed in two coal stringers above the basal coal zone, and you have 20 to 30 feet of shale as a barrier between the lower basal coal zone, which was completed in the Ricky Com Number 2 R.

But you can see from this cross-section that there are only two wells completed in any one coal stringer within the 320-acre spacing unit.

Q. Let's go to Exhibit Number 4, the map showing coal gas wells by producing zone.

A. Exhibit Number 4, kind of an activity map for the Ricky area, which is the same area that was shown in Exhibit Number 1.

Again, the wells and acreage that Coleman Oil and Gas operates in the Basin-Fruitland Coal field are shown in yellow. The operator and well names for each of the wells are shown in blue. The subject west half of 18 is outlined in red, besides being highlighted in yellow. And we have a red letter designating which zones, which coal stringers in each of the subject wells -- or each of the wells surrounding this area have been completed in.

If one of the wells were only completed in one or more of the upper coal stringers, such as the Ricky 1 and the Ricky 2 wells were completed in, that is designated as a *B*.

If it was only -- if the wells were only completed in the basal coal zone, which is similar to the Ricky Number 1 R and the Ricky Com Number 2 R, they are designated as a *C*.

If an operator has completed both an upper -- or

several upper coal stringers with the basal coal stringer, coal zone, within one wellbore, it is designated as *U*.

And then of course there's always an exception that haunts us. There is a *U**, and that well is located in the southeast of Section 36, 27 North, 12 West. That well was originally drilled and completed in an upper coal stringer and the Pictured Cliffs sandstone and completed as a South Gallegos-Fruitland Sand-Pictured Cliff well. And for whatever reason, it was never redesignated as a Pictured Cliff and Fruitland Coal well; it was always just considered a South Gallegos-Fruitland Sand-Pictured Cliff well.

But what I'd like to point out on this map is that Coleman, along with several of the other operators, have only produced -- completed the wells that they've drilled in the -- Excuse me, I just noticed a drafting error. Geologists always call it a drafting error when they get to the Examiner Hearings.

We have -- I need to make a correction here. If we were to change the *B* wells to being basal coal only on the legend, the *U* as the upper coal only, the *C* as a combination of upper and basal, then my map is correct, and I apologize for the confusion on that.

MR. KELLAHIN: May I ask a question for clarification?

EXAMINER CATANACH: Yes.

MR. KELLAHIN: The coding within the display is correct; it's how it's done at the bottom here?

THE WITNESS: That's correct.

MR. KELLAHIN: So upper coal is *U* instead of *B*, basal is *B* instead of *C*, and combination of the two is *C* instead of *U*?

THE WITNESS: That's correct. I didn't catch that whenever our draftsman made this, and I apologize.

So if I may continue then, Coleman's wells, which are highlighted in yellow, are completed and designated as *B*, which stands for basal coal only, except for the two Ricky wells, the Ricky 1 and Ricky 2, that were existing slimhole wells that we purchased, which were completed only in the upper coal zone. The other two wells that are completed only in that upper coal zone are located in the west half of Section 7, 26 North, 11 West.

There are a few other wells that have been completed in a combination of both upper coal stringers and basal coal zones, so that with this production testing if we can get a good idea of what these upper coal stringers can do with compression, then we have a better idea and understanding of what these upper coal stringers could do in one additional infill location that Coleman has yet to drill on our 320-acre development in this area.

And also as some of the wells become noncommercial -- and we have a couple of those at this time -- then we could have a better idea and understand the risk of completing these upper coal stringers in some of the existing coal wells, and perhaps produce more commercial gas.

Q. (By Mr. Carr) Mr. Emmendorfer, in the Ricky 1 R and 2 R you could go in and add the upper coal zones in those wellbores? I mean, that is physically possible?

A. That is correct.

Q. What would the cost be, approximately, per well?

A. Probably about $70,000. Between getting a pulling unit out to pull the rods and pumps, frac'ing the wells, digging a pit to clean up the wells after frac and returning them back to production, we're looking at probably about $70,000 per well.

Q. When you drill a new well, you also have additional costs you incur if you also complete in those upper coal zones; isn't that right?

A. Well, that's if you decide to frac those upper zones in a two-stage -- two frac jobs. And it's always been our understanding and my experience that in the Bisti area of the San Juan Basin, that you would need to have two frac jobs, because I feel that, one -- you do one frac job and you've got those upper coals taking a portion of your

frac fluid, you don't know how well of a completion you get on that basal coal zone, so you would have to do two separate frac jobs, and yes, that would incur additional cost.

Q. Because of this, these problems with completing both the main basal coal and these upper stringers, Exhibit Number 4 shows that in fact operators in the area have been generally bypassing these upper zones; isn't that right?

A. That's correct.

Q. And I mean obviously, if you're authorized to do this, it will save you some cost, correct?

A. Yes.

Q. It's also going to give you a chance to independently evaluate these zones and determine if in this area it's economically worth attempting to complete them along with the main basal coal?

A. That's correct.

Q. Let's go to Exhibit Number 5. Would you identify and review that for Mr. Catanach?

A. Exhibit Number 5 is production data from the four Ricky wells. And first we have the rate-time curve for the Ricky Number 1 well. And right behind that is the ONGARD production data for the well. Being as that it's ONGARD production, it is only from 1993 to the present.

But what I would like to show with this

production curve is that you had a very distinct decline occurring within the original Ricky Number 1 well, and at the time that Coleman purchased the well it was producing approximately 10 MCF a day.

And then you can also see with the advent of compression that Coleman put on the well in anticipation of drilling a replacement well, how the production increased to somewhere between 30 to 60 MCF a day at that well. Yet we don't have a long time period to do any kind of decline rates, and then of course reserve calculations, for these upper coal stringers in that well.

Second production curve is the Ricky Number 2. It is the same rate-time curve and production data from ONGARD, and again you had very distinct decline setting in.

Again, this well was producing at about 10 MCF a day when Coleman purchased it, and you can see the subsequent jump in production due to compression being added for the well. And again, you don't have a long enough production history to get a good decline curve for the well.

And then we have the Ricky 1 R production curve, and we only have a few months to about a year's worth of production on that data. And that well is still on an incline, so we don't have ultimate recovery figures for this well at this time.

And then finally the Ricky Com 2 R is the same, where we have production and it's limited to approximately one year, and it's been up and down due to -- mainly due to compressor problems, but it still seems to be on a general incline. And we do not have, again, good production data to establish what ultimate recovery would be for this well in the basal coal zone.

Q. Mr. Emmendorfer, do you believe there's been communication between the basal coal and the thin coal layers above that were completed in the Ricky 1 and 2?

A. No, we do not.

Q. And what do you base that on?

A. Well, when we completed the replacement wells, being as they were twins to each other, we shut in the original wells when we did our frac jobs, and we monitored casing pressure, surface casing pressure, at that time, and we did not see an increase or a decrease before, during or after the frac jobs.

And additionally, looking at the initial instantaneous shut-in rates from the frac jobs on the replacement wells, they did not indicate any breakthrough into any depleted or other zone that had been produced previously. They were very similar to the other wells that we have completed within the area, out of just that basal coal zone.

In addition, we have -- we took -- we looked at the surface pressures from -- casing pressures from both the original wells and the replacement wells. And then we shot fluid levels on both the original wells, which are shut in, and the replacement wells, which are producing. And those pressures are greatly different.

In the Ricky Number 1 well, the casing pressure as of about three weeks ago was 86 p.s.i., the replacement well had 15 p.s.i.

Shooting the fluid levels for both wells indicates that the bottomhole pressure for the Ricky Number 1 was at 100 p.s.i., whereas the replacement well was at 30 p.s.i.

The casing pressures for the Ricky 2 and the 2 R were 92 p.s.i. for the original well which was shut in, and 20 p.s.i. for the 2 R well.

And the static fluid levels for the bottomhole pressure indicated that the Ricky Number 2 original well was at 107 p.s.i., and the Ricky 2 R was at 35 p.s.i.

Q. Mr. Emmendorfer, what is Coleman prepared to do, to assure that during this one-year test period there is no communication between the zones?

A. Well, what we would propose to do is, every quarter shoot fluid levels on all four of the wells -- and of course they would all be producing at that time -- and

to then monitor what the bottomhole pressures would be, producing pressures would be, between all four of the wells to see if they stabilized at the same level which would indicate communication, or at levels which would indicate that they weren't communicated.

Additionally, being in this area, we suffer the curse of the Chaco Plant maintenance every year, which is typically about five to seven days where most of our wells are shut in, and at that time we could utilize that shut-in time to shoot static bottomhole pressures on all four of the wells, to get an idea of any type of pressure communication.

And then further, with an additional year of the production data, between all four wells we can look at their decline curve, the rates of decline between the different wells, and with the pressure data we get from the fluid levels and the static bottomhole pressures we can then make a determination of whether the different coal stringers within the Fruitland Pool are in communication or have been separated effectively by that shale barrier.

Q. Mr. Emmendorfer, what conclusions have you reached from your geological study of the area?

A. Well, we have a situation here where we have four Fruitland Coal wells that are capable of production on a standard 320-acre spacing unit. The opportunity exists to

gather information from each of the four wells to see what individual production rates under compression can be recovered, and ultimately recovered, from these upper coal intervals.

This information, then, could be utilized by us to ask for a continuation of production of those original wells or to use that information in making recommendations to complete the upper coal zone and our other wells in our area when economics or production time dictates that, you know, we could effectively go in and complete these wells in an upper zone if they show to be commercial.

And then there's the potential economic savings of this, that we don't have to initially plug these wells, and we can get data that can be used by all the operators in the area without incurring additional expense.

Q. In your opinion, will granting this Application be in the best interests of conservation, the prevention of waste and the protection of correlative rights?

A. Yes.

Q. Is Exhibit Number 6 an affidavit confirming that notice of this Application has been provided to all affected interest owners in accordance with Division Rules?

A. Yes, it is.

Q. Did you notify all offsetting operators of this Application?

A. Yes,we did.

Q. And in tracts where there was not a Division-designated operator, did you notify all interest owners?

A. Yes, all the interest owners that we were aware of and that had operating rights also.

Q. Were Exhibits 1 through 6 prepared by you or compiled under your direction?

A. Yes, they were.

MR. CARR: May it please the Examiner, at this time I would move the admission into evidence of Coleman Oil and Gas Exhibits 1 through 6.

EXAMINER CATANACH: Any objection?

MR. KELLAHIN: No objection.

EXAMINER CATANACH: Exhibits 1 through 6 will be admitted.

MR. CARR: Pass the witness.

EXAMINER CATANACH: Mr. Kellahin? And before you start, may I ask you what the interest of these parties are in this case?

MR. KELLAHIN: Mr. Gallegos has interests in the east half of Section 18, as I understand it. I've not been advised as to where the interest of Martin and Carolyn Proyect is located.

EXAMINER CATANACH: Thank you, sir.

MR. KELLAHIN: Both parties were notified by

Coleman as affected parties by the Application.

EXAMINER CATANACH: Okay.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Emmendorfer, would you turn to your Exhibit Number 3? If you'll unfold that, let's look at your reproduction of the Ricky Number 1 log.

A. Mr. Kellahin, you said Exhibit Number 3?

Q. Yeah, 3.

A. Okay.

Q. Two is the type log, right?

A. This is 2, this is 3, this is 4...

MR. KELLAHIN: Mr. Carr and I are in the same boat now.

MR. CARR: Thank you, Mr. Emmendorfer.

THE WITNESS: You owe me one.

Q. (By Mr. Kellahin) Let's look at my Number 3. The Ricky Number 1 is a way for me to ask you this question. When we look at the Basin-Fruitland Coal Gas Pool, can you show me what the Division uses as the top and the bottom of that pool?

A. I'm fairly sure that what the Division uses is also what the geological definition of the Fruitland formation is, and that is, at the top is the last-occurring carbonaceous shale/coal zone in that shale package that's

pretty transitional with the Kirtland formation above that. And then below, at the base of the Fruitland interval, is the last coal zone before the marine Pictured Cliff sandstone.

Q. For the area that you characterized as the upper coal sequences or zones and the basal coal, am I correct in understanding the Division treats all that as one pool?

A. Yes, you are.

Q. And they allow the operator to make a selection as to whether they complete a well in the upper, basal or a combination?

A. That's correct.

Q. So that's a choice the operator makes?

A. Yes, sir.

Q. When we look at this shale barrier you described a while ago that in your opinion separates what we call the upper coals from the basal coal, can you indicate for me on the log for the Ricky Number 1 where we could shade that area in, where we have the separation between basal coal and upper coals?

A. That would be at an approximate depth of 1225 feet, or -26 feet, to a depth of 1262 feet.

Q. Okay. Are you advancing the proposition that the Division should separate the basal coal completions from wells completed in the upper coals --

A. No.

Q. -- and treat it as a different pool?

A. No.

Q. So at this point, regardless of where the operator chooses to complete his coal wells, he is allowed to have two coal wells in a 320, and he may complete those in the basal or the upper or any combination?

A. That's correct.

Q. Are you aware of any case like this where the Division allows four coal gas wells to be produced at the same time in a spacing unit?

A. Not at this time, no.

Q. This would be the first one?

A. Yes, sir.

Q. When we look at this interval -- and I'll call it the -- I think it was a shale separation between the basal coal and the upper coals?

A. I'm sorry?

Q. Was it a shale component of the rock that separates the basal from the upper coals?

A. Yes, sir.

Q. When you frac'd -- Looking at this cross-section again, and looking at the Ricky 1 4, when you fractured the basal coal, did you fracture through that shale zone to communicate with the upper coals?

A. The Ricky 1 4 or the Ricky 1 R?

Q. The Ricky 1 replacement.

A. Okay.

Q. 1 R.

A. No, we did not. If you will notice, we have 10 feet of perforations and approximately 16 foot of coal, and we do not perforate the entire coal interval into -- in containing the frac within that coal seam itself, instead of having it grow out of zone, and it was not our intent to put a massive frac job on and frac to the surface or to the depths of the earth. It was strictly to access the gas that would be contained in that basal coal zone.

Q. Let's go back, then, to the Ricky 1, the original well. It had two sets of perforations in what I understand to be upper coal intervals.

A. Correct.

Q. At the time that well stopped producing, what was the cumulative total of gas produced out of that 1 well?

A. When it stopped producing or when -- till we added compression?

Q. When did you add compression?

A. August of 2003.

Q. So before you added compression there was a cum total. Could you give that to me?

A. Yes, the ONGARD data shows it to be 121,572 MCF.

Q. Okay. On February 22nd of 2003, Coleman filed a sundry notice indicating it was going to plug and abandon this wellbore.

A. That is correct.

Q. At that time was the cumulative production -- is it this number, the 121,000?

A. Yes, sir.

Q. So that's before compression?

A. Correct.

Q. At that point in time, what kind of daily rate did you get from that well?

A. It was approximately -- somewhere between 8 and 10 MCF a day.

Q. Then after that, you added compression?

A. Yes, sir.

Q. And what happened to your daily rate?

A. It went up to about 30 to 40 MCF a day.

Q. At what rate is that well currently producing?

A. It's shut in.

Q. When did you shut it in?

A. In April of 2003, so that we could get a C-104 approved to produce the replacement well.

Q. So at no time during this process did you produce the replacement wells concurrently with the original well?

A. That's correct.

Q. Prior to deciding to file the form in February of last year to plug the Ricky 1 well, did you examine the opportunity for going down and perforating the basal coal?

A. Yes, but we had looked at that when we first originally bought the wells. They're slimhole wells, and there's just no room in that wellbore to frac down tubing. You have to frac down casing, you've got those little perforations. We did not think that we could get an effective completion of that lower zone.

Q. So you had a problem with the parent well that did not allow you to achieve an opportunity to test the basal coal?

A. That's correct.

Q. When we look at the log from that well for the basal coal, can you read it for me and tell me what your net thickness is for the basal coal?

A. For the original well?

Q. Yeah.

A. 16 feet.

Q. Are you using a cutoff to get that?

A. Basically a gamma-ray, in combination with the induction log. There was no other logs run on that. Typically, I would use a density cutoff.

Q. So what would be the density cutoff?

A. 2.75 grams per cubic centimeter.

Q. When you look over, compare the basal coal signature on this log from the Ricky 1, the parent, original well, read over and compare it to what you see on the log for the replacement well. How many net feet do you see in the replacement well?

A. Fifteen.

Q. Do you see any material difference between the replacement well log and the original well --

A. No, sir.

Q. -- in the basal coal?

A. No.

Q. Physically, how far apart is the parent well from the replacement well?

A. Approximately 50 feet. I would have to actually do a triangulation to get the exact amount, but it's approximately 50 feet.

Q. About 50 feet. What's your definition of a replacement well, Mr. Emmendorfer?

A. A well to replace a wellbore that had been producing from a particular zone, and to use that as a well to further access reserves assigned to that producing horizon.

Q. Was the Ricky 1 as the original well, depleted in the upper coals to the point where you decided to replace it with the replacement well?

A. At the time we bought the wells, when they were doing less than 10 MCF a day, yes, that was the idea of purchasing those wells, was to drill the replacement wells and access the basal coal zone.

Q. Under your plan for the replacement well, you would come back in and add perforations in the upper coal, in the replacement well?

A. No, that's typically not been our standard operating procedure in this area. We have been only accessing the basal coal zones and the wells in this particular area.

Q. So you go back to the parent well, you're going to put those on compression and produce those concurrently with the basal coal on the replacement well?

A. That's what we're asking to do.

Q. And what are you trying to demonstrate by that test?

A. Well, as I testified earlier, the original wells produced for approximately 10 years and declined to a noncommercial rate of about 8 to 10 MCF a day, and they had a very established decline associated with -- through that 10 years, 20 years of production.

However, when we put compression on and the compression was added to -- for the replacement wells, we noticed an increase in production from those upper coal

stringers. And we don't know if that will last for six months, or it could last for another X number of years at a commercial rate. We would like to be able to test those upper stringers with compression to try and get a determination of ultimate recovery, to then be able to apply both to this 320 and to the other wells that we operate within the general area.

Q. The test, then, is not designed to validate the separation between the basal coal and the upper coals?

A. It's not designed to validate it, but it would, in effect, show that there is separation between the two.

Q. The principal objective of the test, then, is to put the upper coal perforations on the parent well under compression and to see -- How will that tell you whether or not you want to come back and add upper perforations in the replacement?

A. Well, we won't want to do that in this particular instance, but in other wells that we operate in the area it would tell us that. If we can show that after a year, that there are still commercial rates to be recovered from these upper coal stringers in the original wells, then we would ask that we be allowed to do that at that time.

If it declines -- I mean, we've only got five, six months worth of production on compression, then we have no idea how long that will last. If they just die, then we

will definitely want to plug those wells.

Q. What does it cost to plug, say, the parent well?

A. I had no firm figures, but I would imagine it would be -- a slimhole, $4000 to $6000, but I don't know that, I haven't prepared an AFE to plug them.

Q. Do you see any problem with the completions in the upper coal in the parent well, in terms of near-wellbore damage in those perforations, running kind of engineering tests to tell you that those perforations are still open and accessible to the reservoir?

A. I'm not sure I understand your question.

Q. I'm trying to understand if there's a mechanical reason or a near-wellbore problem that can be fixed so that you can further deplete those upper coal zones by doing something else.

A. I still don't understand the question.

Q. Well, would you acidize these perforations now?

A. No, we would --

Q. No further action taken --

A. That's correct.

Q. Using a modern wellbore for the Ricky Number 2 replacement well, would you have a problem --

A. Excuse me --

Q. -- in adding --

A. Excuse me, Number 2 or the Number 1 R?

Q. I'm sorry, the Number 1 R.

A. Okay.

A. The 1 R, taking the 1 R. Would you take the 1 R and add the upper coals and produce them concurrently with the basal coal?

A. No, I would recommend not.

Q. So the strategy, then, is for your company to produce the basal coal first? If you have a new wellbore, you produce the basal coal first?

A. Currently, right now, we have only gone after the basal coal, because we are not real comfortable with how much production can be recovered from these upper coal stringers, and the cost and risk associated with frac'ing -- multiple frac jobs in one well has limited us from going after these thin coal stringers.

Q. When you look at your Exhibit 4, there appears to be other operators in the area that, in fact, do that. They combine the upper and the basal coal.

A. That is correct, and there's also operators such as -- let's see here -- that have done only the basal one, similar to what we have done.

Q. If you look up in -- I see what you're saying, right. There's a pattern where some of them do it and some don't?

A. That's correct.

Q. Is there anything about this proposed test that you could not have requested at the time that you drilled the replacement wells?

A. I think I understand your question, saying, could we have done this -- had this hearing before we drilled a replacement well?

Q. Yeah, before you're committed to spending the money for the replacement well, could you have applied for the additional wells for this test, back in February of last year?

A. Well, the additional wells for the test are the actual original wells. The replacement wells were to access the thicker coal interval. And yes, we could have asked for that at that time, but we weren't -- the mindset originally was, we were going to drill replacement wells.

Q. Mr. Emmendorfer, I've gone through the OCD files here in Santa Fe. I'm not sure they're complete, but I've pulled out some of the documents from the Ricky 1 and replacement well. Just to make sure that I understand the sequence of how this was done, if I may show those to you...

MR. KELLAHIN: Mr. Carr, would you like to look at those before I ask Mr. --

MR. CARR: No, go ahead, Mr. Kellahin.

Q. (By Mr. Kellahin) Mr. Emmendorfer, if you'll

turn to what I've marked as New Mexico Pro Energy Exhibit 1, this is the application for a permit to drill filed by Simmons for the Ricky 1, the original well, back in April of 1984. And then we turn that, and then we have the plat. So that's when this well was approved to be drilled.

And then I have Exhibit 2, which is for the replacement well under Coleman's name, filed in December of '02. So we've decided to abandon the parent well, drill a replacement well about 50 feet removed from the parent well, and that approval was obtained in late '02.

And then when we turn by the location map, in February, on Exhibit Number 3, of '03 Coleman's filed to plug and abandon the parent well. So at that point in time Coleman had made the decision to plug the parent well and drill the replacement well.

A. Yes, as I have stated earlier, we bought these original wells with the idea of drilling replacement wells and plugging them. The other wells, the original wells, because you had to have only one well producing on a 160 or two per 320.

Q. At the time that you were doing this, had you evaluated the Ricky 1 to see that it did not have further opportunities for you?

A. Well, we knew that we couldn't frac through the perforations into that lower zone.

Q. And then Exhibit 4 is the Ricky replacement well, showing that it was spud on January 5th of '03, completed for first production in February 19th of '03. So now we have the replacement well producing.

At what point in time did you decide that you wanted to have the parent well and the replacement well to be produced concurrently?

A. Earlier this year we looked at what we had to do for the year, and one of those would be to plug the replacement -- or the original wells, and we decided that we had an opportunity to gain a lot of information at really no cost and at no conflict with anyone's correlative rights to produce the wells and gain additional data.

Q. On the parent well, is the plan to have a separate compressor installed on each parent well?

A. No, sir, we're going to have -- we have a CDP and have one compressor for all four wells and have meters on each of the different wells.

Q. Are you currently producing the replacement well using a compressor?

A. Yes, sir.

Q. What is your current rate on the replacement well?

A. It's between 200 and 300 a day.

Q. If you'll look at Exhibit 5 that I've presented

to you, on February 24th of this year, the BLM is reminding you of the sundry notice filed the year before and asking you your plans on the parent well.

A. Yes, sir.

Q. And if you turn beyond that, on March 9th, Mr. Hayden from the OCD in Aztec is talking to you about the original and the replacement well?

A. That's correct.

Q. It says, "In the matter of your request to simultaneously produce..." I could not find anything in these files, prior to this letter, indicating that Coleman had made a request for simultaneous production. Is there such a letter?

A. Yes, sir, we had sent one to the Aztec OCD --

Q. Do you remember --

A. -- very, very similar to the one we sent to Mr. Stogner.

Q. Okay, so the letter to Mr. Stogner of March 31st is very much like an earlier letter you sent to the Aztec office?

A. That's correct.

Q. Do you happen to recall the date of that letter?

A. To answer your question, no, I can't recall it, but I can tell you what the date of it is.

Q. Please, sir.

A. March 5th, 2004.

Q. Are you refreshing your recollection by looking at an actual copy of the letter?

A. Correct.

MR. KELLAHIN: Mr. Carr, would you provide that to me after the hearing?

MR. CARR: Yes, I will.

MR. KELLAHIN: Thank you.

Q. (By Mr. Kellahin) So following Mr. Hayden's letter, then on March 30th Coleman has written to Mr. Stogner and has outlined this plan for this 12-month test. That's what you're doing on Exhibit Number 7 that I've presented you?

A. Yes.

Q. What's the basis for the 12 months, Mr. Emmendorfer?

A. We're just hoping that within -- we have about six months of production data from those original wells with compression, and we're hoping that an additional 12 months could give us a start to a decline that would be -- provide the information needed to generate the data for enhanced -- or ultimate -- estimated ultimate recovery from these upper coal wells. It's not a firm date that, you know, one year is the exact date that we need. We just are assuming that that would be a date that we could get

information. It could be -- it could take longer, I don't know. We just -- we don't -- we'll just have to produce the wells and see.

Q. Do you have any type of pressure decline curves, pressure points, to construct a pressure P/Z decline?

A. We do not have those at this time.

Q. So you would be using production decline?

A. And bottomhole pressures from fluid levels and casing pressures to do that.

Q. Could you not -- Have you constructed a production-decline plot on the parent well, prior to compression?

A. Yes, we can see the decline. I don't have a curve drawn on the exhibit.

Q. It's not in the exhibit book, is it?

A. No, it's -- standard decline-curve methods, you can very easily see a decline in those wells.

Q. So the plan, then, is to add the compression to the parent well, re-establish a new production decline and calculate an EUR for the well?

A. That's correct.

Q. And that would then tell you what?

A. It would tell us how much additional recovery we could expect from those original wells, and if they are still producing at a commercial rate we could ask for our

continuation of the production of those wells, and it could give us an estimated ultimate recovery for -- that we could use as a model for the other wells that we have that are currently producing only out of the basal coal zone, and use that data to determine if we would ever want to complete the upper coal stringers in any of those wells.

And we also have additional infill wells yet to drill within this map area, that we could then use this information to determine if we would want to do a two-stage completion on those wells and complete those upper zones.

Q. So if we're looking at the replacement well and doing the test, you want to see if you can produce a sufficient quantity of gas that would allow you to pay this 70,000 upper coal completion on the replacement well and still make a profit?

A. Well, we're not asking to complete the upper coal zone in the replacement wells.

Q. Tell me again, what was the $70,000?

A. That would be if we were wanting to complete the upper coal stringers in the replacement wells.

Q. So you would compare that, then, to whether it's more economic to produce the additional gas out of the parent well and pay for the cost of compression?

A. Yes.

Q. Have you estimated how much additional gas that

you need to produce to make this economic?

A. No, I have not.

Q. I came across one last filing in here, Mr. Emmendorfer, that I wanted to ask you how this fits together. I found in the file, Mr. Emmendorfer, what I've marked as my Exhibit 8. It has to deal with an application by Coleman in May of last year for surface commingling, and if you turn over to page 3 and look at paragraph 8, there's an allocation formula that's based upon allocation meters on each location.

During this -- Was this ever implemented?

A. This is for four wells, the two replacement Ricky wells and two wells in Section 19 that are coal gas wells.

Q. Yeah, was this ever done?

A. Yes.

Q. How does this fit together with your plan for the test?

A. What we would do would put the two original wells in with these four wells -- we still have meters on those original wells, we haven't scavenged the original wells -- and then allocate back using a new allocation formula reflective of the six wells.

And this is something we do all the time. We have lots of the wells on the location map that I showed that have CDPs, and allocate back standard formulas that

are acceptable to the OCD.

Q. So the allocation meter on the parent well would be the means by which you measure production out of the upper coal interval?

A. That's correct.

Q. Are the replacement wells and the May Com 1 and 2, are these all lower basal coal wells?

A. That's correct.

Q. So the only upper coal wells are going to be the parent well?

A. That's correct.

Q. Does that create any kind of problem in deciding how much gas has been produced by the parent well?

A. I don't see any problem -- foresee any problem.

Q. As long as you had that meter on the parent well?

A. Yes.

Q. Mr. Emmendorfer, do other operators do what you do, produce the basal coal first?

A. Well, as -- I've noted some on Exhibit Number -- bear with me -- Exhibit Number 4, there are several other operators that produce only the basal coal at this time, and that includes, if you will look to the west, the northeast of 13, 26 and 12, Red Wolf Production. And that's a brand-new well this year, they're completing only out of the basal coal stringer.

And additionally to the east in Sections 17, 26 and 11, they produce only out of the basal coal stringer.

So to answer your question, yes, there's several of the other operators, including wells that have been drilled this year, where they're only producing out of this basal coal zone.

Q. You mentioned the cavitation technique of completing the coal wells. Is that something that is done in this area?

A. No, sir, it's not. It's over in the overpressured area.

MR. KELLAHIN: That concludes my examination of Mr. Emmendorfer, Mr. Catanach.

We move the introduction of New Mexico Pro Energy's Exhibits 1 through 8.

MR. CARR: No objection.

EXAMINER CATANACH: Exhibits 1 through 8, Pro New Mexico, will be admitted. I have a few questions.

MR. CARR: Mr. Catanach, I have just a couple of redirect. Do you want me to go before you?

EXAMINER CATANACH: Yeah, go ahead.

REDIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Emmendorfer, prior to drilling replacement wells on this spacing unit you put compression on the

original wells; isn't that correct?

A. That's correct.

Q. And these original wells, when you put the compression on them, performed better than expected?

A. Yes, they did.

Q. And that's what's driving this Application?

A. That's correct.

Q. Now, you've shut those original wells in?

A. Yes.

Q. You don't know, if they were put back on production, if they would hold up and continue to produce at the pre-shut-in levels?

A. That's correct.

Q. What you're going to be able to get, if this Application approved, is information that's going to tell you whether or not, in the wells on this spacing unit or other wells in the area, it's economically viable to chase the reserves in these upper sands; isn't that right?

A. Upper coals, yes.

Q. Mr. Kellahin says, you know, is it customary for other operators to produce the basal coal first? They only produce the basal coal; isn't that right?

A. Up to this date I'm not aware of any operator that has produced the basal coal and then gone up and frac'd and completed the upper stringers.

Q. If the data you get makes these upper coals more attractive, other operators might later come back and produce these or might decide to include them when they drill the well on the first instance?

A. Yes, including us.

Q. Until that happens, what's happening to the gas in the upper coal?

A. It's staying where it's at, underground.

Q. And if this Application isn't granted, will the gas that remains in those upper zone stay in the ground?

A. Yes, sir.

Q. Will be wasted?

A. Yes, sir.

MR. CARR: That's all I have.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Emmendorfer, are -- how many of the wells in this area are on compression?

A. I can't speak for the other operators, but all of ours are.

Q. All of your wells are on compression?

A. Yes. And I have a feeling that most everyone else has gone to compression.

Q. So that's one of the things -- Is that one of the things that needs to be there in order to make this

possibly attractive --

A. Yes.

Q. -- it has to be on compression?

A. It definitely helps. And that's why we originally moved compression on. We had the compressor available at that time to put it on the lease in anticipation of putting the replacement wells on -- under compression.

Q. Okay. What are the cumulative recovery -- what is the cumulative gas recovery from the Number 2 well prior to compression?

A. According to the ONGARD production data -- and that would be the cum through July of 2002 -- it would be 79,353 MCF of gas.

Q. Okay. Have you guys done an analysis based upon those cums from those two wells to indicate whether or not it would be economic to complete those zones, based on those recoveries?

A. No, we haven't done a detailed analysis.

Q. Do you have an opinion as to whether those would be -- by just those recoveries, whether it would be economic to do that?

A. That's -- Depending on gas price, it might be break-even, especially with the risk involved with an additional frac job on the wellbore itself. I think that

they -- at these prices it would probably be commercial, but at lower gas prices it would be probably a wash.

Q. What happens after the one-year period? Are you -- do you anticipate -- if the wells remain at commercial rates, do you anticipate asking for an extension of this test?

A. Yes, sir.

Q. Maybe making it a permanent situation?

A. Yes, sir, seeing as how it really isn't anything more than effectively two wellbores draining the entire Fruitland Coal interval on a 320, we would ask for that if it deems to be commercial.

Q. And in your opinion you're not violating any correlative rights by this procedure?

A. No, it's not like we've got one of these wells on one edge of our lease and the other well on the other half. They're twin wells on a standard location.

Q. If you determine by this test that it is feasible to maybe complete the upper coals, or economic to complete the upper coals in some of these wells, is it feasible to go into existing wells to do this?

A. Yes, it would, but what we would probably do is wait until there was a mechanical reason to move a rig onto the well and pull the tubing and pumps and -- rods and pumps, and complete the well at that time, unless it looks

like it's an astounding commercial success, you know, we -- you may just want to just go in there and start a program, but I would anticipate that we would look at it on a well-by-well basis as operations dictate.

Q. Okay, have you looked at the geology in this area? Do the upper coals basically look generally the same?

A. If they're present. They come and go, but they're all -- all these upper coal stringers in any of the wells that they're present, there are two to four feet of coal, and they're about the same bulk density based off of the existing wells. Sometimes there's four stringers, sometimes there's two. They vary.

And that's one of the risks involved with, you know, not having a good handle on estimated ultimate recoveries.

EXAMINER CATANACH: I think that's all I have from this witness.

Do you guys have any other questions?

MR. KELLAHIN: No, thank you, sir.

MR. CARR: That concludes my examination of this witness.

EXAMINER CATANACH: Okay. Mr. Kellahin, I don't know what your client's position is in this case --

MR. KELLAHIN: I'll tell you very quickly.

EXAMINER CATANACH: Okay.

MR. KELLAHIN: We're opposed to doing this. We think it's particularly odd, it's not allowed by the Rules. If the argument is to examine the opportunity to recover additional coal gas out of the upper coals, it's not waste under the definition if it's not economic to recover the gas.

It appears to me that the wells were abandoned when they were producing less than 10 MCF a day, and the plan by Coleman was, in fact, to plug and abandon them. It's hard to believe that you could move over 50 feet, drill what is a true replacement well, and then ask to continue to produce the parent well. We think it sets a bad precedent in here.

I don't think this is really a science project, it's simply an excuse not to spend $4000 to $6000 and plug the parent well. That parent well cannot do anything more for you.

The Division leaves it up to the operators to make their choices on how they access the coal, and it ought to stay that way. I don't think we ought to be exposed to a science project. I don't see any waste here, except for the fact that we've wasted part of the day on what I think is a frivolous application, and you ought to deny it.

EXAMINER CATANACH: Thank you, Mr. Kellahin.

Any -- ?

MR. CARR: Mr. Catanach, Mr. Kellahin's argument is that the Rules are the Rules. Coleman has been abiding by the Rules and is here today, consistent with the Rules, seeking authorization to produce some wells that will give data that may be very valuable in developing additional reserves in this area and that will prevent waste.

Mr. Kellahin would like you not to allow it because we don't know. But we're asking you to allow it because we don't know, and what we're proposing will, in the short term, prevent waste on this spacing unit and can lead to additional recovery in this portion of the Basin-Fruitland Coal Gas Pool. And in all the protesting we've heard the only argument we hear contrary to this is, the Rules are the Rules. They have not told us that their correlative rights would be impaired, because they will not.

All we want is two wells per coal seam on this spacing unit. That is consistent with the intent of the Rule. To go the other way says, you're not going to have data, you're going to leave these reserves in the ground, and what could be very beneficial, well, we're going to leave that behind because the Rule is the Rule.

EXAMINER CATANACH: I'm going to ask one more

question of the witness.

FURTHER EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Emmendorfer, is this situation unique to this spacing unit, or is there others out there that may be similar to this?

A. The only other ones that I would be aware of would be the two wells operated by Dugan Production Company currently, which is in the west half of Section 7, 26 North, 11 West, just to the north of us. I don't know what their plans are about drilling, you know, other wells -- replacement wells for the basal coal or not, but they're completed only in the upper coal stringers. I can't speak for Dugan Production Company.

In this area those are the only ones that I'm aware of, and in general I doubt if there are very many other ones that are like this.

EXAMINER CATANACH: Okay, thank you.

Mr. Carr, what I would like, if you would, please, provide me with a detailed copy of the test procedure. There were many details that --

MR. CARR: Okay.

EXAMINER CATANACH: -- I don't want to miss any in case we decide to approve this, including the monitoring of the casing pressures and things like that, just to make

sure that I have the procedure right, if we choose to approve this.

MR. CARR: You wanted something, Tom?

THE WITNESS: Right here.

MR. KELLAHIN: The letter.

THE WITNESS: This is my only copy.

EXAMINER CATANACH: Anything further, gentlemen?

MR. KELLAHIN: No, sir.

MR. CARR: No, sir.

EXAMINER CATANACH: There being nothing further, Case 13,279 will be taken under advisement.

(Thereupon, these proceedings were concluded at 12:20 p.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13279, heard by me on June 24 2004.

David R. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 30th, 2004.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006