



COLEMAN OIL & GAS, INC.

G. Chris Coleman
Vice President

VIA FEDERAL EXPRESS
AIRBILL: 8492 9569 2040

Friday, October 26, 2007

New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505-4000

Attention: Mr. Wayne Price

RE: COMMENTS
Proposed Pit Rule – Closed Loop Systems

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As an operator of many oil and gas wells in the San Juan Basin, Coleman Oil & Gas, Inc. is very concerned about the proposed pit rule changes currently under consideration.

Our concerns are that the proposed changes are being driven by sensational, emotional and political forces and not by sound and scientific reasoning. Please listen to and consider the scientific evidence and sound reasoning that other industry members have presented to the OCD.

In addition to the scientific and sound reasoning you must consider in your rule making process, you can't or shouldn't ignore the economic effects the new rules will have.

The proposed system could add up to \$150,000 to the cost of each and every oil and gas well drilled in the state. For a "barn burner" of a well this cost could be readily absorbed over the life of the well. For the wells that are still economically viable but not as robust as the "barn burner" this additional and unnecessary cost could make the difference between drilling the well and not drilling the well due to economics. While I am sure that there is a considerable segment of the New Mexico population that would not be heartbroken if there were fewer wells drilled here, the fact remains that the economic impact of the oil and gas extraction industry is huge.

I won't take up your time with the minutia of the economic impact of the oil and gas industry but you must understand that it contributes via:

- *The production taxes it pays into the State's coffers;*
- *The income taxes that the producers and its employees and contractors pay into the State's coffers;*
- *The royalties it pays into the State's coffers on both State and Federal leases;*
- *The New Mexico Gross Receipts taxes that the producers and its employees and contractors pays into the State's coffers by the consumption of retail products and services.*

If the OCD makes a change that is so costly to the operators to operate in New Mexico, the investors will take their money elsewhere, like Texas, Colorado and Wyoming, following the path of least resistance. As a state agency whose budget is fixed by the legislature you may not be too concerned about the economic side of things but I will venture a guess that the people who benefit from those funds paid into the State's coffers would be concerned. I would think that the State government would be interested in keeping their budgets balanced and tax revenue coming in the door instead of pushing the revenue generators away to other, more business friendly states.

As residents of New Mexico we want to enjoy the wonderful attributes our State has to offer, not the least of which is the environmental and visual quality. As business persons in the State of New Mexico we don't want to be burdened by unnecessarily restrictive and costly measures whose benefit is hard to quantify and is limited to a small percentage of scenarios.

To be sure there are instances in which the closed loop system might be necessary and is justified to safeguard the interests of New Mexicans; we are certainly not opposed to that. We are opposed to rules that are arbitrary, not necessary, based on a lack of good science and unsound reasoning.

Sincerely,



G. Chris Coleman
Vice President