



April 4, 2007

VIA HAND DELIVERY

Mr. Richard Ezeanyim
Chief Engineer and Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy, Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case No. 13894: Application of Coleman Oil & Gas, Inc. for Simultaneous Dedication. San Juan County, New Mexico.

Dear Mr. Ezeanyim:

Enclosed for your consideration is the Pre-hearing Statement of Coleman Oil & Gas, Inc. in the above-referenced case. Also enclosed are copies of the exhibits that Coleman plans to offer at next week's examiner hearing. As you will see from the enclosed, the Pre-hearing Statement references these exhibits and identifies the purpose of each.

Mr. J. E. Gallegos of PRO NM Energy, Inc. has contacted me concerning this application and the data that Coleman has developed in support of this application. I have also provided to Mr. Gallegos copies of Coleman's Pre-hearing statement and exhibits.

Very truly yours,

William F. Carr

Enclosures

cc: Mr. Alan Emmendorfer
Coleman Oil & Gas, Inc.

**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. 13894

**APPLICATION OF COLEMAN OIL & GAS, INC. FOR
SIMULTANEOUS DEDICATION, SAN JUAN
COUNTY, NEW MEXICO**

PRE-HEARING STATEMENT

This Prehearing Statement is submitted by Holland & Hart LLP as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Coleman Oil & Gas, Inc.
Attn: Alan Emmendorfer
1610 Wynkoop Street, Suite 550
Denver, CO 80202
(303) 623-2401

ATTORNEY

William F. Carr, Esq.
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 988-4421

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OTHER PARTIES

PRO NM Energy, Inc.

J. E. Gallegos, Esq.
640 St. Michael's Drive, Suite 300
Santa Fe, New Mexico 87505
(505) 988-4548

STATEMENT OF CASE

Applicant seeks an order granting an exception to Rule 7(d)(1) of the Special Pool Rules and Regulations for the Basin-Fruitland Coal Gas Pool to authorize the simultaneous dedication of the W/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico to the following four existing coal gas wells:

1. **Ricky Well No. 1** (API No. 30-045-25976) located 790 feet from the

- north line and 875 feet from the West line (Unit D);
2. **Ricky Well No. 1R** (API No. 30-045-31165) located 765 feet from the North line and 830 feet from the West line (Unit D);
 3. **Ricky Well No. 2** (API No. 30-045-25977) located 1850 feet from the South line and 790 feet from the West line (Unit L); and
 4. **Ricky Well No. 2R** (API No. 30-045-31166) located 1845 feet from the South line and 745 feet from the West line (Unit L).

PROPOSED EVIDENCE

APPLICANT

WITNESSES

EST. TIME

EXHIBITS

Alan Emmendorfer (Geology)

Approx. 30 min.

Approx. 6

Mike Hanson (Engineering)

(Coleman may call Mr. Hanson if needed to respond to engineering issues in this case)

Mr. Emmendorfer will provide a brief history of the development of the Fruitland Coal under these lands. The Ricky 1 and 2 Wells were drilled in 1984 on 160-acre units in the Gallegos Sand Gas Pool and were completed in the upper coal zones, Coleman acquired these wells in 2002 with the intention of drilling replacement wells to produce the Basal Coal and then plug the original wells. Coleman put compression on the existing wells and experienced a significant increase in production. Coleman then drilled the Ricky wells 1R and 2R to the Basal coals and obtained Division approval for the subject production test.

Mr. Emmendorfer will present the results of the two year production test conducted by Coleman on four wells in the W/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico to determine if it is economically viable to complete wells in this portion of the Basin-Fruitland Coal Reservoir in the upper coal gas intervals. Coleman segregated and separately produced coal stringers in the individual wellbores to determine the economic viability and feasibility of producing these intervals in these existing four wellbores without completing them or commingling them in one wellbore. The Upper Fruitland Coal was produced in two wells (the Ricky 1 and Ricky 2 Wells) and the Basal Coal was produced in the other two wells (the Ricky 1 R and the Ricky 2R Wells). These wells are twinned locations and drilled from the same location - approximately 50 feet apart. Since Coleman usually only developed the lower coals, this test presented an opportunity to

determine the productivity of the upper coals.

Mr. Emmendorfer will present the following exhibits:

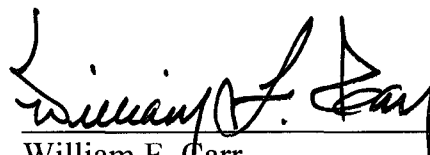
- Exhibit No. 1: Land Map showing the Coleman acreage in the area, the location of the subject spacing unit and subject wells, other Fruitland Coal Gas wells in the area and offset operators.
- Exhibit No. 2: Type log showing the depth of the individual coal zones and the shale barriers separating them.
- Exhibit No. 3: Completion map showing individual producing coal intervals in the producing wells in the area.
- Exhibit No. 4: N/S Cross Section shows each well on this spacing unit and the perforated intervals in the zones producing in each well. There are four wells on the Fruitland Coal on this acreage instead of the two permitted under the special rules for this pool. This exhibit presents a side-by-side correlation of the wells. The subject wells are only 50 feet apart and the replacement wells are producing only out of the Basal Coal and the old wells from two thin coal stringers approximately 50 to 100 feet above the Basal Coal section.
- Exhibit No. 5: Summary of Production presented in tabular and graphic format. This exhibit contains production information on each of the four wells that are the subject of this application. Each of the original wells were drilled in 1984 and had a good decline history. When Coleman put compression of the wells the production jumped from 10 to 20 MCF per day to 40 to 60 MCF per day in the original producing zones. The production histories for each well does not indicate that it is affected by production for the other well drilled as a twinned well from the same location. The data shows that there has been no interference between these wells
- Exhibit No. 6: Bottomhole pressure data for the subject wells is presented in tabular and graphic format. Now have reliable data that shows no communication in the Coals. Coleman has been taking at least quarterly, a bottomhole fluid measurement to determine static

bottomhole pressure to determine if there is horizontal interference in the Fruitland Coal package. Coleman has the date on which the fluid level was made and calculated a static bottomhole pressure and that number is shown in pounds. This data is shown in two forms – one is on a bar graph and the other a linear graph showing the difference in bottomhole pressures. This data indicates there is no vertical communication from the Basal Coal zone with the Upper Coal stringers in the W/2 of Section 18 in these wells that are approximately 50 feet apart.

Coleman's evidence shows that the shut in pressure differentials and dipping decline rates indicate no pressure communication between the basal and the upper coals in this area. Furthermore, the decline curve analysis between these wells also proves that absence of communication between these wells. After two years of testing, it is clear that there is no communication between the four wells tested and Coleman requests authorization to simultaneously dedicated the W/2 of said Section to these four wells in the Basin- Fruitland Coal Gas Pool.

PROCEDURAL MATTERS

Following the filing of its application in this case, Coleman discovered that the legal advertisement for the case contained an error in the description of the subject property. However, the notice letters sent by Coleman to affected parties correctly identified the acreage. Coleman has caused the case to be re-advertised correctly identifying the subject lands . The notice period for the correct advertisement will not have run on April 12, 2007. Because of witness availability problems on April 26th, and because the Division has allowed Coleman to continue to produce these wells pending the outcome of this hearing, Coleman requests that it be allowed to present its case on April 12th and have the hearing continued to April 26th to allow the notice period to run. On that date, Coleman will request the case be taken under advisement on the April 12th record.



William F. Carr
Attorney for Coleman Oil & Gas, Inc.