

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF COLEMAN OIL & GAS,
INC. FOR AMENDMENT OF DIVISION
ADMINISTRATIVE ORDER SWD-806-B,
SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 13812 (De Novo)
ORDER NO. R-12820-A

ORDER OF THE COMMISSION

THIS MATTER, having come before the New Mexico Oil Conservation Commission (Commission) on March 13, 2008 at Santa Fe, New Mexico, on application of Coleman Oil & Gas, Inc. (Coleman) for amendment of the Oil Conservation Division's (Division) Administrative Order SWD-806-B, San Juan County, New Mexico, and the Commission, having carefully considered the evidence and other materials the parties submitted, now, on this 16th day of April, 2008,

FINDS:

1. Due public notice has been given, and the Commission has jurisdiction of this case and its subject matter.
2. By Administrative Order SWD-806 dated July 20, 2001, the Division authorized Coleman to utilize its Juniper SWD Well No. 1 (API No. 30-045-29732) located 880 feet from the North line and 730 feet from the West line (Unit D) of Section 16, Township 24 North, Range 10 West, NMPM, San Juan County, New Mexico for the injection of produced water for disposal purposes in the Mesaverde formation from a depth of approximately 3,820 feet to 3,980 feet through 2-7/8 inch plastic lined tubing set in a packer located at approximately 3,790 feet.
3. In May 2002, Coleman requested that the Division change the approved injection interval from 3,820 feet to 3,980 feet to 2,176 feet to 3,974 feet also through 2-7/8 inch plastic tubing set in a packer at approximately 2,125 feet. The Division approved the request on May 20, 2002 by Administrative Order SWD-806-A.
4. Pursuant to Administrative Order SWD-806-A, Coleman first perforated the Juniper SWD Well No. 1 in the Lower Menefee and Point Lookout member of the

Mesaverde formation from 3,036 feet to 3,974 feet and hydraulically fractured in this interval.

5. Coleman next perforated the Juniper SWD Well No. 1 in the Upper Menefee and Cliff House members of the Mesaverde formation from 2,176 feet to 2,758 feet and hydraulically fractured in this interval.

6. By letter dated October 28, 2005, the Division advised Coleman that the Division and the U.S. Environmental Protection Agency had determined that the upper Mesaverde injection interval contains protectable water. The Division proposed to amend Administrative Order SWD-806-A to limit the injection interval to a depth of 3,820 feet to 3,980 feet and to require remedial cementing operations on offsetting wells located within one-half mile of the Juniper SWD Well No. 1 in order to isolate the upper members of the Mesaverde formation from saltwater injection into the lower Mesaverde.

7. By Administrative Order No. SWD-806-B issued on May 18, 2006, the Division authorized Coleman to use its Juniper SWD Well No. 1 for injection of produced water for disposal purposes into the Point Lookout member of the Mesaverde formation from 3,036 feet to 3,974 feet through plastic-lined tubing set in a packer located within 100 feet above the top of the injection interval with Coleman to complete the following remedial work before commencing injection operations.

a. Coleman, under direction of the Aztec District Office, was to re-enter and re-plug the Monument Well No. 1 (API No. 30-045-21912) located 1650 feet from the North line and 990 feet from the East line of Section 17, Township 24 North, Range 10 West, NMPM, San Juan County, New Mexico. The goal of the procedure was to place cement across all former and future intervals of injection with the Mesaverde formation in the Juniper SWD Well No. 1 and to cover and isolate with cement any potential fresh water intervals. The work to re-enter the well was to be commenced prior to January 1, 2007 or the permit to inject into the Juniper SWD Well No. 1 was to expire.

b. Coleman was also to send to the Aztec District Office all available casing information and copies of electric logs for the Monument Well No. 2 (API No. 30-045-21463) located 800 feet from the North line and 800 feet from the West line of Section 16, Township 24 North, Range 10 West, NMPM, San Juan County, New Mexico.

8. On or about November 9, 2006, Coleman sought an order amending Administrative Order SWD-806-B to delete the provisions requiring Coleman to re-enter and re-plug the Monument Well No. 1.

9. The Division objected to the granting of Coleman's request to delete the provisions requiring that Coleman re-enter and re-plug the Monument Well No. 1.

10. After a hearing the Division in Order No. R-12820, dated October 22, 2007, granted Coleman's application to amend Division Administrative Order SWD-806-B to delete the requirement that Coleman re-enter and re-plug the Monument Well No. 1.

11. The Division authorized Coleman to use the existing perforations in the Juniper SWD Well No. 1 from 3,036 feet to 3,974 feet to dispose of saltwater into the Lower Menefee and Point Lookout members of the Mesaverde formation, but directed that Coleman perform the following remedial work before commencing or continuing injection into the Juniper SWD Well No. 1.

a. The Division ordered Coleman to re-enter the Monument Well No. 1 and place a 200-foot cement plug from 2,836 to 3,036 feet in order to protect fresh waters in the La Ventana and the Cliff House members of the Mesaverde formation.

b. The Division also directed Coleman to set an isolation packer at approximately 2,950 feet to isolate the Cliff House perforations in the Juniper SWD Well No. 1 and monitor the annulus integrity regularly with an electronic bottomhole pressure sensor.

12. On November 2, 2007, Coleman filed an application for hearing de novo before the Commission to challenge that part of Order No. R-12820 requiring Coleman to re-enter and re-plug the Monument Well No. 1.

13. Coleman has complied with the requirement to set an isolation packer in the Juniper SWD Well No. 1 and to install a downhole monitoring device in the Juniper SWD Well No. 1. Coleman installed the isolation packer in December 2006.

14. Coleman now seeks to re-enter and re-complete the Monument Well No. 1 for the disposal of produced water into the Entrada, and to be allowed to continue injection operations in the Juniper SWD Well No. 1.

15. Coleman has provided the Division with data concerning the Monument Well No. 1 and the Juniper SWD Well No. 1.

16. Based on the data that Coleman provided the Division does not oppose the proposed re-entry and deepening of the Monument Well No. 1 to dispose of produced water.

17. At the March 13, 2008 hearing before the Commission, Coleman presented testimony and evidence about its proposal to re-enter and deepen the Monument Well No. 1 and use it as a saltwater disposal well, including the need for an additional disposal well and the time Coleman anticipates it will take to obtain access and requisite permits for the well.

18. Coleman anticipates it will take 15 to 18 months to obtain permission to access the surface where the Monument Well No. 1 is located given that the surface is Navajo Nation Tribal Trust. This amount of time would be required regardless of whether Coleman re-entered and re-plugged the Monument Well No. 1 as ordered by the

Division or is allowed to re-enter and deepen the well to use it as a saltwater disposal well.

19. Coleman also presented testimony that the continued use of the Juniper SWD Well No. 1 pending re-entry and deepening of the Monument Well No. 1 to use as a saltwater disposal well will not harm potential fresh water sources if the injection is confined to the Menefee and Point Lookout formations.

20. The Division does not oppose allowing Coleman to continue injection operations in the Juniper SWD Well No. 1 if the Commission imposes the following conditions:

a. Coleman continues downhole monitoring of the Juniper SWD Well No. 1 as provided in Order No. R-12820; and

b. Coleman provides progress reports to the Aztec Office on a quarterly basis along with copies of documents related to the access and permitting process that Coleman submits to other agencies such as the United States Environmental Protection Agency, the Navajo Nation, and the United States Department of the Interior, Bureau of Land Management or the Bureau of Indian Affairs.

21. Coleman's proposal will protect fresh waters within the La Ventana and Cliff House members of the Mesaverde formation and prevent waste and protect correlative rights by allowing Coleman to continue to produce from the area of the Juniper SWD Well No. 1.

IT IS THEREFORE ORDERED THAT:

Coleman's application for amendment of the Oil Conservation Division's Administrative Order SWD-806-B, San Juan County, New Mexico is granted subject to the following conditions.

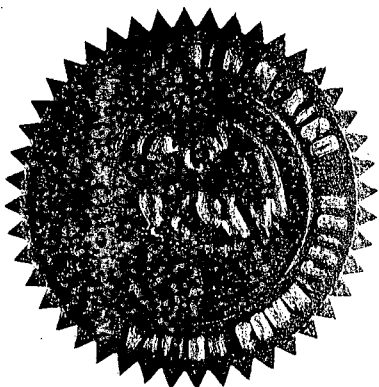
1. Coleman shall continue downhole monitoring of the Juniper SWD Well No. 1 as provided in Order No. R-12820.

2. Coleman shall provide progress reports to the Aztec Office on a quarterly basis along with copies of documents related to the access and permitting process that Coleman submits to other agencies such as the United States Environmental Protection Agency, the Navajo Nation, and the United States Department of the Interior, Bureau of Land Management or the Bureau of Indian Affairs.

3. Coleman shall complete re-entry and deepening of the Monument Well No. 1 within two years from the date of this order.

4. Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico on the 16th of April 2008.



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STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY, CPG, Member

A handwritten signature in cursive script, appearing to read "William Olson".

WILLIAM OLSON, Member

A handwritten signature in cursive script, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E., Chair