

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. 12485
ORDER NO. R-11462

APPLICATION OF COLEMAN OIL & GAS INC. FOR APPROVAL OF A PILOT PROJECT, INCLUDING AN EXCEPTION TO RULES NO. (4) AND (7) OF THE SPECIAL RULES AND REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS POOL, FOR THE PURPOSE OF ESTABLISHING A PILOT PROGRAM TO DETERMINE THE COMMERCIAL FEASIBILITY FOR FRUITLAND COAL GAS WELLS, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 7, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 10th day of October, 2000, 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) The applicant, Coleman Oil & Gas Inc. ("Coleman"), seeks an exception to Rules No. (4) and (7) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as established by Division Order No. R-8768, as amended, to conduct a pilot project to determine the commercial feasibility of producing the Basin-Fruitland Coal Gas Pool within an area in Township 24 North, Range 10 West, NMPM, San Juan County, New Mexico. Specifically, the applicant seeks approval to:

- (a) establish a pilot project area comprising the S/2 of Section 9, the E/2 of Section 17 and all of Section 16, Township 24 North, Range 10 West, NMPM;

- (b) utilize 160-acre effective well spacing within the pilot project area in an attempt to accelerate the coal de-watering process to determine whether the Basin-Fruitland Coal Gas Pool can be economically produced in this area of the San Juan Basin;
- (c) as an exception to the well density requirements for the Basin-Fruitland Coal Gas Pool, utilize three wells as de-watering/producing wells within Section 16: the Juniper "16" Well No. 11 to be drilled at an unorthodox (off pattern) coal gas well location 975 feet from the North line and 1075 feet from the West line (Unit D); the existing Coleman Juniper Well No. 1 (**API No. 30-045-29593**) located at a standard coal gas well location 1310 feet from the South line and 1200 feet from the West line (Unit M); and the Juniper "16" Well No. 32 to be drilled at a standard coal gas well location 1750 feet from the North line and 1545 feet from the East line (Unit G); and
- (d) drill its Juniper "17" Well No. 41 at a standard coal gas well location 900 feet from the North line and 1140 feet from the East line (Unit A) of Section 17, and its Juniper "9" Well No. 14 at a standard coal gas well location 1075 feet from the South line and 975 feet from the West line (Unit M) of Section 9.

(3) The W/2 of Section 16 is to be dedicated to the Juniper "16" Well No. 11 and the Juniper Well No. 1, the E/2 of Section 17 is to be dedicated to the Juniper "17" Well No. 41, the S/2 of Section 9 is to be dedicated to the Juniper "9" Well No. 14, and the E/2 of Section 16 is to be dedicated to the Juniper "16" Well No. 32, all forming standard 320-acre gas spacing and proration units in the Basin-Fruitland Coal Gas Pool.

(4) Rules No. (4) and (7) of the "*Special Rules and Regulation for the Basin-Fruitland Coal Gas Pool*" require, respectively, that each well be located on a standard unit containing 320 acres, and that the well be located in the NE/4 or SW/4 of a single governmental section no closer than 660 feet to any outer boundary of the proration unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

(5) The proposed pilot project area is located a considerable distance southwest of the Fruitland coal "fairway," which is the most prolific producing portion of the Basin-Fruitland Coal Gas Pool within the San Juan Basin.

(6) The Fruitland coal formation in the area of the pilot project is under-pressured, and wells in this area generally exhibit marginal gas producing rates and high water producing rates. As a result, very few wells have been drilled for Fruitland coal development in this area.

(7) The applicant presented engineering evidence that demonstrates:

- (a) economic gas production from the Basin-Fruitland Coal Gas Pool has not yet been established within this area;
- (b) the proposed increased well density will accelerate the coal de-watering process, will aid the methane desorption process, and will ultimately allow Coleman to determine whether commercial coal gas production can be established in this area;
- (c) Coleman proposes to produce all five wells simultaneously during the coal de-watering process. Coleman estimates that it will take at least one year before commercial gas production can be established within the pilot project area; and
- (d) during the coal de-watering process, small amounts of gas will be produced in conjunction with water production from wells in the pilot project area.

(8) Coleman proposed that it be allowed to produce all five wells simultaneously within the pilot project area until such time as commercial gas production is established in any one of the wells in the project area. Once this commercial gas production is established, Coleman testified that it will produce only one well within the W/2 of Section 16, and that the remaining well will be shut-in.

(9) Based upon its economic analysis, Coleman proposed that a stabilized producing rate of 125 MCF gas per day be defined as a commercial producing rate for the purpose of this order.

- (10) Division records and testimony presented demonstrate that:
- (a) the S/2 of Section 9 and the E.2 of Section 17 are federal leases;
 - (b) the W/2 of Section 16 is a state lease (Lease No. V-5292), and the E.2 of Section 16 is a state lease (Lease No. B-10889);
 - (c) Coleman owns 100% of the working interest within the S.2 of Section 9, the E.2 of Section 17 and the W/2 of Section 16;
 - (d) Coleman owns 25% of the working interest in the E/2 of Section 16, with the remaining interest owned by Koch Exploration Company ("Koch"); and
 - (e) Coleman is in the process of negotiating with Koch to obtain a farmout agreement covering the E/2 of Section 16. Coleman testified that it expects to secure this agreement with Koch prior to initiating operations within the pilot project area.

(11) Pursuant to the requirements set forth in Rule No. (4) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," Coleman notified Robert L. Bayless, Dugan Production Corporation and Koch of its application in this case. No operator or interest owner appeared at the hearing in opposition to the application.

(12) No evidence was presented to demonstrate that Coleman has notified the United States Bureau of Land Management ("BLM") or the Commissioner of Public Lands for the State of New Mexico of its intent to initiate this pilot project.

(13) The evidence presented demonstrates that approval of this application will afford the applicant the opportunity to determine whether commercial gas production can be established in the Basin-Fruitland Coal Gas Pool in this area, which will allow the recovery of Fruitland coal gas reserves that may otherwise not be recovered, thereby preventing waste, and will not violate correlative rights.

(14) Coleman's proposed pilot project should be approved subject to the following provisions:

- (a) prior to commencing drilling operations, Coleman shall advise the BLM and the Commissioner of Public Lands for the State of New Mexico of its intent to initiate the proposed operations within the pilot project area;
- (b) prior to commencing drilling operations, Coleman shall secure a farmout or other type of agreement from Koch with regards to the Koch-operated acreage within the E/2 of Section 16. Coleman shall advise the Division at such time as this agreement has been secured; and
- (c) Coleman shall be authorized to simultaneously produce all five wells within the pilot project area until such time as any one of the wells in the project area achieves an average monthly producing rate of 125 MCF gas per day. At that time, Coleman shall be required to cease production from the Basin-Fruitland Coal Gas Pool from either the Juniper Well No. 1 or the Juniper "16" Well No. 11.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Coleman Oil & Gas Inc. ("Coleman"), is hereby granted an exception to Rules No. (4) and (7) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*" to conduct a pilot project to determine the commercial feasibility of producing the Basin-Fruitland Coal Gas Pool within an area in Township 24 North, Range 10 West, NMPM, San Juan County, New Mexico.

- (2) Coleman is further authorized to:
 - (a) establish a pilot project area comprising the S/2 of Section 9, the E/2 of Section 17 and all of Section 16, Township 24 North, Range 10 West, NMPM;
 - (b) utilize 160-acre effective well spacing within the pilot project area in an attempt to accelerate the coal de-watering and methane desorption processes within the Fruitland coal interval to determine whether the Basin-Fruitland Coal Gas Pool can be

commercially produced in this area of the San Juan Basin;

- (c) utilize three wells as de-watering producing wells within Section 16: the Juniper "16" Well No. 11 to be drilled at an unorthodox (off pattern) coal gas well location, also hereby approved, 975 feet from the North line and 1075 feet from the West line (Unit D); the existing Juniper Well No. 1 (**API No. 30-045-29593**) located at a standard coal gas well location 310 feet from the South line and 1200 feet from the West line (Unit M); and the Juniper "16" Well No. 32 to be drilled at a standard coal gas well location 1750 feet from the North line and 1545 feet from the East line (Unit G); and
 - (d) drill its Juniper "17" Well No. 41 at a standard coal gas well location 900 feet from the North line and 1140 feet from the East line (Unit A) of Section 17, and its Juniper "9" Well No. 14 at a standard coal gas well location 1075 feet from the South line and 975 feet from the West line (Unit M) of Section 9.
- (3) Prior to commencing drilling operations within the pilot project area, Coleman shall:
- (a) advise the BLM and the Commissioner of Public Lands for the State of New Mexico of its intent to initiate the proposed operations within the pilot project area; and
 - (b) secure a farmout or other type of agreement from Koch with regards to the Koch-operated acreage within the E/2 of Section 16. Coleman shall advise the Division at such time as this agreement has been secured.
- (4) Coleman is hereby authorized to simultaneously produce all five wells within the pilot project area until such time as any one of the wells in the project area achieves an average monthly producing rate of 125 MCF gas per day. At that time, Coleman shall cease production from the Basin-Fruitland Coal Gas Pool in either the Juniper Well No. 1 or the Juniper "16" Well No. 11.

(5) Coleman shall immediately advise the Division at such time as any one of the wells within the pilot project area becomes capable of producing at an average monthly rate of 125 MCF gas per day.

(6) 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

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