



COLEMAN OIL & GAS, INC.

Bryan Lewis  
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Monday, May 19, 2003



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

Mr. Jim Lovato  
Bureau Of Land Management  
1235 La Plata Highway, Suite A  
Farmington, NM 87401

RE: Application for Surface Commingling

Dear Ms. Wrotenbery and Mr. Lovato :

This is a request for approval to surface commingle the gas production from the wells listed below:

**Township 26 North, Range 11 West, NMPM**

Ricky #1R	Section 18	NWNW	Basin Fruitland Coal	30-045-31165
Ricky Com #2R	Section 18	NWSW	Basin Fruitland Coal	30-045-31166
Meg Com #1	Section 19	SWNE	Basin Fruitland Coal	30-045-30999
Meg #2	Section 19	NWNW	Basin Fruitland Coal	30-045-30998

San Juan County, New Mexico

- Proposed System.** Surface commingling will allow production through only one compressor as opposed to a compressor for each well, thereby allowing the containment of operating costs and prolonging the economic life of the wells. The wells are commingled upstream of a CPD meter (number 95 115 01) to reduce measurement costs. All wells have an allocation meter on location. El Paso will maintain the CPD meter and the applicant, Coleman Oil & Gas, Inc. ("Coleman") will maintain the allocation meters. The gas will flow into the El Paso Natural Gas gathering system, adjacent to the Dugan Federal #7 well in the SWSW of Section 07 - Twp 26 N - Rge 11 W.

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 13279 Exhibit No. — 8  
Submitted By:  
NM Pro Energy  
Hearing Date: June 24, 2004

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2. **Location Map.** Exhibit 1 is a topographic map showing the locations of the wells subject to this Application for Surface Commingling.
3. **Well, Locations and Lease Numbers.** Exhibits 2A – 2D consist of acreage dedication plats for the subject wells. The wells and acreage dedications are tabulated below.

Ricky #1R	Section 18	W/2	NOO-C-14-20-5390
			NOO-C-14-20-5389
Ricky Com #2R	Section 18	W/2	NOO-C-14-20-5389
			NOO-C-14-20-5390
Meg Com #1	Section 19	N/2	NO-G-0103-1465
			NO-G-0103-1466
Meg #2	Section 19	N/2	NO-G-0103-1466
			NO-G-0103-1465

Exhibit 3 is a list of the royalty, overriding royalty and working interest owners in the wells.

4. **Schematic Diagram.** Exhibits 5 through 5D are schematic diagrams of the proposed surface commingling facilities.
5. **Lease Use Gas.** Each well has a pumping unit that uses approximately 1.5 MCFD of lease use gas and a separator that uses approximately 0.5 MCFD of lease use gas. One 110 HP compressor serves the system using approximately 24 MCFD of lease use gas which is allocated equally between the wells subject to this Application for Surface Commingling. When and if additional equipment is added to the system lease use gas to operate such equipment will be split equally between producing wells upstream of such equipment.
6. **Mechanical Integrity.** The entire system of flow lines will most likely be 4.0" O.D. - 0.642" wall thickness PE3408 SDR7 poly pipe with an internal yield of 267 psig. This line and all connections will be pressure tested to 150 psig.

As of the date of this Application the 4.0" poly line runs only between the Meg Com #1 and Ricky Com #2R wells. A 2 - 3/8" steel temporary surface pipeline runs from the Ricky Com #2R well to the El Paso tie in. This temporary surface pipeline has been tested to 150 psig. The temporary surface pipeline will be replaced with poly pipe in the near future. The production on these wells is inclining and the current use of the temporary surface pipeline allows Coleman the opportunity to review and determine the most suitable size of permanent poly pipe to use.

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The maximum shut-in surface wellhead pressure in this area is 110 psig. The average operating pressure of El Paso's lateral 10 D 1 is 70 - 90 psig; the maximum allowable operating pressure (MAOP) is approximately 150 psig.

7. **Production – Gravity/BTU.** The wells that are the subject of this Application are new drills therefore no production data is currently available. Gas analysis reports are attached as Exhibits 4A – 4D. None of the wells produces liquid hydrocarbons.
8. **Allocation Formula.** All wells have an allocation meter on location. The production assigned to each well will be the integrated volume from the CPD meter less the sum of the other allocation meters plus lease use gas. As an example, the CPD meter indicates total production of 3,325 MCF. Other well 1 allocation meter indicates 400 MCF production. Other well 2 allocation meter indicates 350 MCF production. Other well 3 allocation meter indicates 1,200 MCF production. Other well 4 allocation meter indicates 275 MCF production. The sum of these other well allocation meters is 2,225 MCF. CPD meter of 3,325 MCF less the sum of other allocation meters of 2,225 MCF plus lease use gas of 2 MCF is 1,102 MCF, the calculated production of the well in question. When the sum of the allocation meters doesn't equal the CPD meter, the gas production from each well will be calculated according to the volume its allocation meter indicates was produced divided by the sum of all of the allocation meters (percent) multiplied by the CPD meter indicated production plus lease use gas. As an example, the CPD meter indicates an integrated volume of 40,000 MCF gas was produced but the sum of the allocation meters indicate that 39,000 MCF was produced. The allocation meter of the well in question indicates 10,000 MCF of production divided by the sum of the allocation meters (39,000 MCF) equals 25.64% multiplied by the CPD meter volume of 40,000 MCF equals 10,256 MCF plus lease use gas of 60 MCF totals 10,316 MCF, the calculated production of the well in question. Royalties will be paid on the volumes according to applicable MMS and State of New Mexico guidelines.
9. **Line Purging.** It is anticipated that line purging will occur infrequently. Any lost gas due to purging the system will be allocated equally to each of the wells.
10. **Purged Fluids.** Any fluids purged will be natural gas and condensed water vapor.
11. **Meter Calibration Schedule.** El Paso will calibrate the CPD meter at least once each quarter, more frequently with higher gas volumes. Coleman will calibrate the allocation meters semi annually.
12. **Gas Analysis Schedule.** El Paso Field Services will analyze the gas from the commingled stream at least twice a year, more frequently with higher gas volumes.
13. **Effective Date.** It is requested that the approval for the Surface Commingling contemplated herein be April 06, 2003, the date the Ricky #1R well was first

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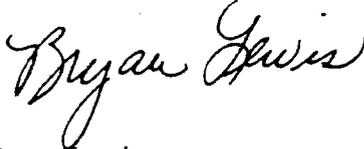
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delivered. The system has been operational since March 11, 2003, the date the Ricky Com #2R was first delivered.

Sincerely,

COLEMAN OIL & GAS, INC.



Bryan Lewis  
Landman

*Attachments:*

<i>Exhibit 1</i>	<i>Topographic maps</i>
<i>Exhibit 2A - 2D</i>	<i>Acreage dedication plats</i>
<i>Exhibit 3</i>	<i>List of owners in leases</i>
<i>Exhibit 4A - 4D</i>	<i>Gas Analysis reports</i>
<i>Exhibit 5 - 5D</i>	<i>Schematic Diagrams</i>

*cc:*

*Mr. Frank Chavez, Supervisor District 3  
New Mexico Oil Conservation Division  
1000 Rio Brazos Road  
Aztec, NM 87410*

