

**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. 13460
ORDER NO. R-12352**

**APPLICATION OF COLEMAN OIL & GAS, INC. FOR AN EXCEPTION TO
DIVISION RULE NO. 104.C(2)(c), SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 7, 2005, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 18th day of May, 2005, 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" or "applicant") seeks exception to Division Rule No. 104.C.(2)(c) to allow two operators within a single standard 320-acre Basin-Fruitland Coal Gas Pool spacing and proration unit comprising the N/2 of Section 12, Township 24 North, Range 11 West, NMPM, San Juan County, New Mexico.

(3) This unit would be simultaneously dedicated to Dugan Production Corporation's proposed Kermit Com Well No. 90 (API No. 30-045-32707) to be located at a standard gas well location in the NW/4 of Section 12, and to Coleman Oil & Gas, Inc.'s proposed Juniper Com Well No. 32-12 to be located at a standard gas well location in the NE/4 of Section 12.

(4) Dugan has almost 100 percent of the working interest in the NW/4 of Section 12, with James B. Fullerton being the only other working interest owner. Dugan has been chosen by the working interest owners to be the operator in the NW/4.

(5) Coleman has a 50 percent working interest in the NE/4 of Section 12 and EOG Resources, Inc. ("EOG") has the remainder of the working interest. Coleman has been chosen by the working interests to operate in the NE/4.

(6) Coleman, Dugan, and EOG were all represented at the hearing by legal counsel. No one opposed this application.

(7) A geologist from Coleman was present at the hearing and presented testimony for Coleman as follows.

(a) The NE/4 of Section 12 is a Navajo allotted lease jointly owned by EOG and Coleman. The NW/4 of Section 12 is a portion of a federal lease owned by Dugan and Fullerton Resources.

(b) Notice of this hearing was sent to all working interests and to the U.S. Bureau of Land Management and the U.S. Bureau of Indian Affairs.

(c) Dugan and Coleman both have contiguous operations offsetting their respective portions of this spacing unit.

(d) Owners within the N/2 of Section 12 have reached an agreement whereby Dugan and Coleman will drill and complete their own wells, operate their own wells, pay for operations of their own wells, but will each pay royalties under a type of communitization agreement to all royalty owners in the N/2 of Section 12.

(e) Production of oil, gas, and water for each well will be reported monthly to the Division by the operator of that well.

(8) Based on the facts as presented in this case, the Division finds:

(a) the application should be approved, granting permission for two separate operators to each produce its separate well within a standard Basin-Fruitland Coal Gas Pool spacing unit;

(b) each operator should be responsible for all operations of its well including obeying all Division rules and regulations;

(c) oil, gas, and water production from each well should be processed, metered, stored, and reported separately; and

(d) prior to commencing drilling and production operations from each well, the operator of that well should consult with the U.S. Bureau of Land Management to assure that its proposed method of production within the spacing unit is in compliance with all applicable rules and procedures of that agency.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Coleman Oil & Gas, Inc. ("Coleman" or "applicant"), is hereby granted an exception to Division Rule No. 104.C.(2)(c) and allowed two operators within a single standard 320-acre Basin-Fruitland Coal Gas Pool spacing and proration unit comprising the N/2 of Section 12, Township 24 North, Range 11 West, NMPM, San Juan County, New Mexico.

(2) This unit shall be simultaneously dedicated to Dugan Production Corporation's proposed Kermit Com Well No. 90 (API No. 30-045-32707) to be located at a standard gas well location in the NW/4 of Section 12 and to Coleman Oil & Gas, Inc.'s proposed Juniper Com Well No. 32-12 to be located at a standard gas well location in the NE/4 of Section 12.

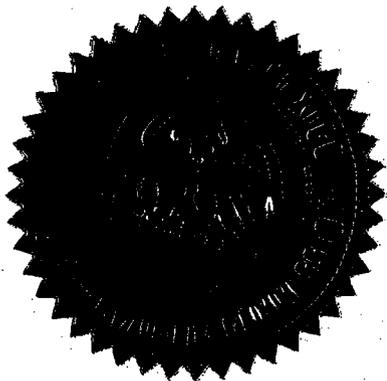
(3) Prior to commencing drilling and production operations from either well, each respective operator shall consult with the U.S. Bureau of Land Management to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of that agency.

(4) Each operator shall be responsible for all operations concerning its well including obeying all Division rules and regulations.

(5) Oil, gas, and water production from each well shall be processed, metered, stored, and reported separately.

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

J. Daniel Family

for

MARK E. FESMIRE, P.E.
Director