

March 14, 2005

HAND DELIVERY

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13460

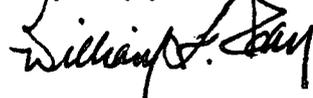
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Re: Application of Coleman Oil & Gas, Inc. for an exception to Rule 104.C(2)(c) to authorize two operators in a single 320-acre Basin-Fruitland Coal Gas Pool spacing unit, San Juan County, New Mexico.

Dear Mr. Fesmire:

Enclosed is the Application of Coleman Oil & Gas, Inc. in the above-referenced case as well as a copy of the legal advertisement. Coleman Oil & Gas, Inc. requests that this matter be placed on the April 7, 2005 Examiner Hearing docket.

Very truly yours,



William F. Carr

Enclosures

cc: Mr. Alan Emmendorfer
Coleman Oil & Gas, Inc.
Post Office Drawer 3337
Farmington, New Mexico 87499

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

**APPLICATION OF COLEMAN OIL & GAS, INC. FOR AN EXCEPTION TO RULE 104.C(2)(c)
TO AUTHORIZE TWO OPERATORS IN A SINGLE 320-ACRE BASIN-FRUITLAND COAL GAS
POOL SPACING UNIT, SAN JUAN COUNTY, NEW MEXICO.**

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CASE NO. 13460

APPLICATION

COLEMAN OIL & GAS, INC. ("Coleman"), through its undersigned attorneys, hereby makes application for an order granting an exception to the provisions of Division General Rule 104.C(2)(c) to allow two operators on a single standard 320-acre coal gas spacing unit in the Basin-Fruitland Coal Gas Pool comprised of the N/2 of Section 12, Township 24 North, Range 11 West, NMPM, San Juan County, New Mexico and in support of its application states:

1. The N/2 of Section 12, Township 24 North, Range 11 West is located in the "Low Productivity Area" of the Basin-Fruitland Coal Gas Pool. The Rule 7(d) of the Special Rules and Regulations for this pool provide for two wells per standard 320-acre gas spacing unit provided the second well shall not be drilled in the quarter section containing the initial coal gas well.

2. Coleman is the owner of the working interest in the NE/4 of Section 12 on which it proposes to drill its Juniper Com Well 32-12 at a standard Basin-Fruitland Coal Gas Pool well location. Dugan Production Corporation is the owner of the working interest in the NW/4 of Section 12 on which it proposes to drill its Kermit Com Well 90 at a standard Basin-Fruitland Coal Gas Pool well location.

3. Each operator desires to develop its acreage with a coal gas well drilled at a standard location in the in the N/2 of this section. However, the parties cannot reach an agreement on the AFE costs or on the terms of an Operating Agreement covering this property and neither desires to cede operations of its acreage in the N/2 of the section to the other operator.

4. To resolve the issues between the parties concerning the development of this acreage, Dugan and Coleman have reached an agreement, subject to Division approval of an exception to the provisions of Rule 104.C(2)(c), whereby Dugan will drill and operate its well in the NW/4 of this section and Coleman will drill and operate its well in the NE/4 of the section. A copy of the letter dated February 17, 2005 that memorialized this agreement is attached as Exhibit A to this application.

5. Division Rule 104.C(2)(c) requires the operator of an infill well on a 320-acre unit to be the same as the operator of the initial well. Therefore, Coleman and Dugan cannot operate and produce their respective wells without this exception to Division Rules.

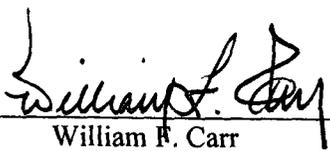
6. Coleman therefore requests an exception to Division Rule 104.C(2)(c) to allow two operators in the Basin-Fruitland Coal Gas Pool in the Standard Coal gas spacing unit comprised of the N/2 of Section 12.

7. Approval of this application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Coleman Oil & Gas, Inc. requests that this application be set for hearing before a Division Examiner on April 7, 2005, and that after notice and hearing as required by law and the Rules and Regulations of the Oil Conservation Division, the Division enter its order granting this application.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

William F. Carr

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ATTORNEYS FOR COLEMAN OIL & GAS, INC.

CASE 13460:

Application of Coleman Oil & Gas, Inc. for an exception to Division Rule 104.C(2)(c) to authorize two operators in a single 320-acre Basin Fruitland Coal Gas Pool spacing unit, San Juan County New Mexico.

Applicant in the above-styled cause seeks an order granting an exception to Division Rule 104.C(2)(c) to allow two operators in a standard 320-acre spacing unit comprised of the N/2 of Section 12, Township 24 North, Range 11 West, NMPM, to form a standard 320-acre gas spacing in the Basin-Fruitland Coal Gas Pool. This spacing unit is located approximately 30 miles southeast of Bloomfield, New Mexico.