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:	)	
APPLICATION OF COLEMAN OIL AND GAS, INC., FOR SIMULTANEOUS DEDICATION, SAN JUAN COUNTY, NEW MEXICO	)	CASE NO. 13,894

ORIGINAL

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Hearing Examiner

May 24th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, May 24th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

May 24th, 2007
Examiner Hearing
CASE NO. 13,894

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A P P E A R A N C E S

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* * *

WHEREUPON, the following proceedings were had at 1:34 p.m.:

EXAMINER JONES: Okay, let's go back on the record this afternoon and call Case Number 13,894, Application of Coleman Oil and Gas, Incorporated, for simultaneous dedication, San Juan County, New Mexico.

Call for appearances.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P.

We represent Coleman Oil and Gas, Inc., in this matter, and I have one witness.

EXAMINER JONES: Other appearances?

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin. I'm appearing today on behalf of Mr. Gene Gallegos, who does business as Pro New Mexico Energy, Inc. We are an offset operator to the Coleman tract, and I have one witness to be sworn.

EXAMINER JONES: Any other appearances?

Will the witnesses please stand to be sworn?

(Thereupon, the witnesses were sworn.)

ALAN P. EMMENDORFER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your full name for the record, please?

A. Alan P. Emmendorfer.

Q. Mr. Emmendorfer, where do you reside?

A. Golden, Colorado.

Q. By whom are you employed?

A. Coleman Oil and Gas.

Q. And what is your position with Coleman Oil and Gas?

A. Geologist.

Q. Are you the only geologist for the company?

A. Yes.

Q. Have you previously testified before the New Mexico Oil Conservation Division?

A. Yes, I have.

Q. At the time of that testimony, were your credentials as an expert in petroleum geology accepted and made a matter of record?

A. Yes, they were.

Q. Are you familiar with the Application in this

case?

A. Yes, I am.

Q. Are you familiar with the status of the lands in the portion of the Basin-Fruitland Coal Pool that is the subject of this hearing?

A. Yes.

Q. Have you made a study of the area that is the subject of the Application?

A. Yes, I have.

Q. And are you prepared to share the results of that work with the Examiner?

A. Yes.

MR. CARR: We tender Mr. Emmendorfer as an expert in petroleum geology.

MR. KELLAHIN: No objection, Mr. Examiner.

EXAMINER JONES: Mr. Emmendorfer is an expert in petroleum geology.

Q. (By Mr. Carr) Could you explain to the Examiner what it is that Coleman is seeking with this Application?

A. Mr. Examiner, Coleman Oil and Gas with this Application seeks an order granting exception to Rule 7.(d).(1) of the special rules and regulations of the Basin-Fruitland Coal Gas Pool by simultaneously dedicating the west half of Section 18, 26 North, Range 11 West, San Juan County, New Mexico, for four existing coal gas wells,

the Ricky Number 1 and the Ricky Number 1R in the northwest of Section 18, and the Ricky Number 2 and the Ricky Number 2R in the southwest of Section 18.

Q. Has Coleman been producing these wells for the last two years, pursuant to orders from the Oil Conservation Division?

A. Yes, a little over two years ago I came before the Examiner with Division Order R-12,201, granted on August 24th, 2004. We were allowed to simultaneously produce the Ricky 1 and 1R and the Ricky 2 and 2R as a test to see the commerciability of the upper coal stringers as a Fruitland Coal well.

The test authorized -- was extended for an additional year when I came before you, Order -12,201-A, where you granted another year's production test. At that time one of the questions you asked me was, Well, why don't you make this permanent? And we felt we had good data, but we needed -- we thought another year's data would be helpful, and now we're back to ask for simultaneous dedication of the four wells.

Q. Do you have sufficient data to enable you to reach conclusions about the wells on this tract and how they are draining the reservoir?

A. Yes.

Q. Are you continuing your study in this general

area to determine how to effectively produce the various portions of the Basin-Fruitland Coal?

A. Yes.

Q. Could you identify what has been marked as Coleman Exhibit Number 1 and review this for the Examiner?

A. Okay, I don't know how good your memory is, Mr. Examiner, but they're very similar to the ones we had a little over a year ago. Exhibit Number 1 is an activity map called the Ricky area. Predominantly it's the western portion of 26 North, 11 West, and the eastern portion of 26 North, 12 West, with a little bit of 27 North, 11 and 12 West, located.

Shown here are all the wells that are currently producing out of the Basin-Fruitland Coal. With the exception of two wells which I'll identify later, they've been drilled but have not been completed at this time.

Also, in yellow, are the lands and the subsequent wells that are operated by Coleman Oil and Gas in this area.

There's a red outline around the west half of Section 18 that is the subject 320-acre proration unit for the Ricky wells.

In blue are the operators' names and the well names for each of the different wells. And likewise, if the operator's name is at the top of the section, then it's

a standup 320; and if they're divided such as in Section 7, where those are dedicated as laydowns, where the Western Federal Number 7 would be a south-half dedication, so that's the key to that.

As I mentioned earlier, all the wells that are currently producing out of the Basin Fruitland Coal on this map are located -- with the exception of two wells, they are located in the east half of Section 18. They were drilled by Pro New Mexico in March of 2007. I don't know if they've been completed or not. It was Tuesday afternoon before I left my office to drive down here. I checked the New Mexico Oil and Gas website, and there had not been a completion report filed on either well at that time, so if they've been completed and haven't had the completion in, I don't know. But my records show that they have not been completed at this time.

Q. Let's go to Exhibit Number 2. Would you identify this and review it for Mr. Jones?

A. Exhibit Number 2 is a type log for the Ricky area. As a matter of fact, it's utilizing the Ricky Number 1 well in the northwest of Section 18, 26 North, 11 West. It shows the three principal formations in this portion of the Basin, where the Pictured Cliff formation -- Pictured Cliff sandstone is the lowest portion of the well log. Typically these Basin-Fruitland Coals, we drill about 100,

150 feet into the Pictured Cliff for rathole purposes. The Fruitland formation, and then above the Fruitland formation it's the Kirtland shale. It's standard lithologic sequence in this portion of the Basin.

Also within the Fruitland formation, it's further broken down into what I'm referring to as the basal coal zone, which lies directly above the Pictured Cliff sandstone. And then there are series of upper stringers of coal. We just call them upper coal zones.

And then this particular log -- and I will show another log in detail later -- shows where the perforations are in this well, where they're perforated and completed in these upper coal zones.

Q. Let's go now to Exhibit Number 3. This is your completion map. And review the information you have placed on this map for the Examiner.

A. Exhibit Number 3 is the same area as Exhibit Number 1. However, the addition of some red alphabet letters that indicate the type -- what zones within the Fruitland Coal have been completed.

There has been a -- several things tried. Coleman -- when we have developed our acreage, initially we've gone in and just completed the basal coal only. Therefore you'll find a B for basal coal next to almost every single well that Coleman operates in this area.

Some of the operators have only completed in the upper coal, such as the two wells in Section 7, and the Ricky Well Number 1 and Number 2 also were only completed in the upper coals before we purchased the wells.

Some of the operators have completed in all -- or both the basal and the upper coals. Those are designated as C for a combination of both coals being produced, or several coals being produced.

And then there is also, down in Section 16 and in 17 of 26 North, 11 West, there are two wells that have been drilled horizontally in the basal coal. Again, there's -- every well that's been completed is on here.

And I've also added the two wells in the east half of 18 that are operated by Pro New Mexico. I do not show them as being completed yet. I would imagine that they will probably complete both the upper and lower coals. Based on their well logs that they submitted to the State, they look very similar to the Ricky wells. And from the fact that in Section 8 they have drilled two coal wells in there and completed them in both the upper and the basal coals, I would imagine that they would probably be similar completions.

I'd also like to point out that this is an exhibit similar to my last hearing, but since then there's been a change to that, and that's the well in the northeast

of Section 13, operated by Redwolf Production. They originally drilled that well in 2004, and completed it only in the basal coal. And since our last hearing, they've come back in October of 2005 and completed the upper coals in that well, so now there is both the upper and the basal coal completed in that well, and therefore I've changed that designation to C to indicate the combination of those coals.

Q. Mr. Emmendorfer, if we look at this exhibit, with the exception of your wells that are the subject of today's hearing in Section 18, all of your wells are produced in the basal --

A. That's correct.

Q. -- portion of the Fruitland Coal?

A. Yes.

Q. And is it fair to say what you've been trying to do is determine how you can add the upper perf- -- or how you can access the upper coal sands in this area?

A. The Fruitland Coals, yes, coal --

Q. Yes, coals, I'm sorry.

A. Yes.

Q. Okay. Let's go to Exhibit Number 4, the north-south cross-section, and I'd ask you to explain what this shows and then review the information on that well by well for Mr. Jones.

A. Exhibit Number 4 is north-south cross-section showing the four Ricky wells in the west half of 18. I'd like to start by reviewing kind of a little bit of history of why there's four wells within the west half of Section 32 -- or excuse me, Section 18.

Originally the Ricky 1 and the Ricky Number 2 were drilled in 1983. Yes, 1983. They were dedicated on 160-acre spacing, and they were dedicated as South Gallegos-Fruitland-Pictured Cliff Gas Pool. They were completed -- both of the wells were -- two sets of perforations were frac'd and completed in each of the wells, just in these upper coals.

When the Fruitland -- Basin-Fruitland Coal Pool was established, there were a number of these wells that were considered problem wells because they were actually coal wells, but they were completed in the Fruitland-Pictured Cliff Pools at 160-acre location. And those were grandfathered in as 160-acre location Fruitland Coal wells.

These wells were drilled as slimhole completions, they're the 2-7/8-inch casing, which makes it very hard to do any kind of remedial work on them.

With Coleman we tried unsuccessfully in the late 1990s to buy those two wells, but in 2002 we were approached by the operator to see if we still wanted to buy those wells, which we did.

Our goal was to complete the basal coal zone similar to all the other wells that are adjacent that we operate in there. We're figuring that was the best way to produce the wells, the Fruitland Coal.

Because they were slimholes, we knew we couldn't frac down below those existing perfs, so our idea was to drill replacement wells and once those wells were on production, then plug the existing wells.

In anticipation of that, we set up compression for the -- which were going to be for the replacement wells, but we had put the -- the compressor became available, we purchased the compressor and installed it on our gathering system for the initial two original wells. And notice that production went from 10 to 20 MCF a day to 40 to 60 MCF a day. So we thought that was kind of a nice surprise.

After we drilled the replacement wells, which we drilled as twins on the original locations -- they're approximately 50 feet apart -- we completed the basal coals in those two replacement wells and shut in the original wells.

And before we plugged them, we realized that there was probably -- well, one, that there was a lot of gas left in those coals and, two, that there was a lot of data that we could -- would benefit from by producing those

coals separately from the basal coals. Either -- Most of the wells were either completed in just the basal coal like ours, all our other wells, or they're all commingled in one, so you never can get a good production test of individual coals at that -- you know, because of that. So we then came back to the Commission and asked for a production test.

So with that long explanation, I'd like to first go to the Ricky Number 1 and the 1R, which are the wells on the right-hand side of the exhibit. Being as they were twins, approximately 50 feet apart, there really wasn't much surprises in the stratigraphy. We have the upper coals and the basal coal, and we completed within the Ricky Number 1, the basal coal, showing the perforations at approximately 1260 to 1268 feet. You'll note that there's about a 50-foot shale interval between the basal coal and these upper coals.

Likewise on the Ricky Number 2R, being a twin, the logs look very similar, and we again completed the basal coal at a depth of approximately, oh, 1268 to -78. And like I said again, there's about 50 feet between the basal coal and the upper coals of the Ricky Number 2.

When we frac'd both of these wells, we had shut in the original wells on the location, the Ricky 1 when we did the 1R, and the Number 2 when we did the 2R, and we

carefully monitored surface pressures on those shut-in wells. Our goal was to try to not -- if our frac from the basal coal was going to intersect and get into that other wellbore, we had to shut the fracs down. One is that that small casing wasn't going to be very good with a modern frac like that, but also the fact that we'd be done frac'ing at that time, we didn't need to pump any more sand or fluid into the other coals.

And what we noticed was -- we were thankful, and we noticed that there was no increase in pressure, which at that time told us that we hadn't communicated by fracturing process the basal coal with the upper coals in either well, even though they're only 50 feet apart vertically and horizontally.

Q. Let's go now to Exhibit Number 5, the summary of production information.

A. Exhibit Number 5, I have production decline curves and production data for all four wells, the Ricky 1 and the 1R, the 2 and the 2R, both separately and together as the Ricky 1 and the 1R are grouped together on a production curve to show the differences, and on the Number 2 well.

What I'd like to point out in the Ricky 1 and 1R is that on the Number 1 well, which actually has the longest history, it's in an orange color dating back from

1983, the last two or so years that it's been producing, it's actually been inclining in production slightly, whereas the Number 1R, which is producing out of the basal coal, is on a decline. And like I said, I've got the -- attached behind the decline curves is the actual data that we reported to the State on both of those.

Likewise, on the Number 2 and the 2R, you see the same kind of relationship where the Number 2 has been on an incline for the last year or so, and the 2R has been on a decline, showing that both the replacement well and the original well are producing separate characteristics, and it does not appear that there's communication between those two zones.

Q. What is Exhibit Number 6?

A. Exhibit Number 6 is bottomhole shut-in pressure data. With our production tests, we were required to gather shut-in pressure data on a quarterly basis for all four wells. What I have done is, on the top page is a compilation of all four wells from the very top, and then a side-by-side comparison of the original well and the replacement well for both the Ricky 1, 1R, and the 2 and the 2R.

And in subsequent pages we have, both in linear graph form and in bar graph form, the pressure data, shut-in pressure data, for -- quarterly for the last two years.

I'd like to point out on the third page of this exhibit a graph of the shut-in pressure data for the four wells, and that the original wells, the 1 and the 2, are very similar, and they're higher shut-in pressures than the replacement wells that are 50 feet apart from them. They're at a lower pressure, although they're similar to each other and the upper coals are similar. Again, this tells us that the wells -- the coals are not in communication with each other, despite the fact that the two wellbores are 50 feet apart on the surface, and there's about 50 feet vertical distance in the subsurface between them.

Q. If we look at your earlier exhibits, there are a number of wells that are operated by Coleman in the basal coal. Does this information tell you whether or not they're actually able to access and produce the shallower coals in these wellbores?

A. Based on the data from these Ricky wells, I would say that it's very difficult or impossible to produce the gas out of these upper coal stringers without actually completing them, perf'ing and frac'ing them separately or at the same time as with the basal coals. But without an actual completion attempt within these upper coals, I don't think that you're going to access that gas.

Q. Mr. Emmendorfer, have you reviewed this

information with the Bureau of Land Management?

A. Yes, I have. The west-half dedication is also two Indian-allotted leases. They're each -- approximately 160 each. And although they're not federal leases, the Farmington office of the BLM is in charge of making sure that the -- lots of leases are taken care of. They asked for the data before the hearing. I talked with both Joe Hewitt and --

MR. KELLAHIN: Objection, hearsay, Mr. Examiner.

MR. CARR: May it please the Examiner all we have done is -- all Mr. Emmendorfer has testified to is that he reviewed the information with the BLM.

MR. BROOKS: Yeah, well, but we don't know for what purpose -- what he's going to say or for what purpose it's going to be offered, so I would recommend that the Examiner wait to rule on the hearing till -- wait to rule on the objection till we hear what the rest of the testimony is.

Q. (By Mr. Carr) Mr. Emmendorfer, is the BLM aware that this matter is going to hearing here today?

A. Yes, they are.

Q. They have not appeared?

A. That's correct.

Q. If you're unsuccessful in this Application, what will Coleman have to do on this acreage?

A. Well, we will have to shut in the Ricky 1 and the Ricky 2 wells and eventually plug them. I would imagine we'd probably have to plug them within a year of being shut in. There are no uphole zones to complete in those wells. They're obviously producing natural gas.

If we want, and as a prudent operator we would need to capture that gas and produce it, what we would have to do would be complete the 1R and the 2R in the upper coals so that all four -- all coal zones currently producing would be producing out of one or two wells, one in the northwest and one in the southwest.

Q. If we look back at Exhibit 3, a number of wells have combined production from the upper and basal coals inside the wellbore?

A. I'm sorry?

Q. There are a number of wells in which the upper and basal coals -- the production from those zones is combined in a single wellbore?

A. That's correct.

Q. If you are required to plug and abandon two of the wells on this acreage, would you be able to combine the production from these two zones in the existing well?

A. Yes.

Q. And what would you have to do, to do that?

A. We would have to shut the wells in, pull the

tubing and the pump -- they're on rod pump because they make water -- put a frac plug in each of the wells, perforate, frac the coal zones, go back in, drill out the frac plug, clean the wells up, run the pump -- tubing and pump back in the holes and complete them.

Q. Do you know what the approximate cost of this would be?

A. Well, we're looking at doing that in another well in the area, and it's between $50,000 and $70,000 per well.

Q. So to access the reserves you're now producing, you would plug a well and incur this kind of cost to reperforate in the existing wellbore, and then have a perforation in the same zone that you have today; is that right?

A. Yes.

Q. In terms of your experience in the area, are there any risks associated with this procedure?

A. Well, yes. The one is, I wish every frac job we've ever done has gone off smoothly. It's always a risk that the frac would not be as good a frac as you would like. Beyond that -- I mean, that's a business risk you take every time you frac a well.

But beyond that, we run the risk of frac'ing into the old fracture of those original wells and screening out and not getting a good frac off. Traditionally whenever

I've been asked to, you know, propose or pick a location for a replacement well, the rule of thumb that I've always used and the industry, I think, is pretty used to is, try to be at least 200 feet away from that original wellbore, to get away from areas of depletion, to hopefully get a good frac off and to access the reservoir.

So there's always a risk that that frac would go in -- that new frac would go into the old fracs in those upper coals, that -- The wells are only 50 feet apart, and I think that's a very big risk.

Q. If you did all of that and your frac went into the basal coal frac system, is it possible that you would not be able to access the reserves from the shallower horizons as effectively as you were today?

A. Yes, even experience in our other wells that are on this map, several of the wells that we've completed only in the basal coal, they look exactly the same as the offsets. They -- I mean, the fracs went as good as you could hope for, and yet they're not commercial wells. Whereas offsetting wells are commercial wells.

A case in point for the upper coals would be the Redwolf well that I had mentioned earlier. That well was producing, based on State records, of approximately 15, 20 MCF per day. When they went back in and completed the upper coal zones, from the records after several months of

poor, erratic production, it looks like the well is producing about 15 to 20 MCF a day. To me it doesn't look like they helped production from that well, even though they stimulated the upper coals.

Q. If you're required to go in and plug these two wells, you'll incur expense, correct?

A. Yes.

Q. And the net result is that you very possibly will not be able to access reserves under your acreage as effectively as you can today?

A. Yes.

Q. In the offsetting acreage where wells are completed or combined -- there are Fruitland Coal wells combining upper and -- upper coal and basal coal, in each of those 320-acre units, how many points are the upper coals perforated?

A. Could you explain that again?

Q. You have one well per 160 acres, is the effective density when these tracts are fully developed; is that correct?

A. Yes.

Q. If we go to Section 8, the Pro New Mexico wells, in the northwest of Section 8, how many perforated intervals are there in the upper coal?

A. In the upper coal I believe there's two.

Q. The point I'm having is, how many wells there are intersecting and producing the upper coal?

A. One.

Q. And how many wells are intersecting and producing the basal coal when they're commingled?

A. One.

Q. And if your wells are left as they are in the northwest of 18, how many wells are intersecting and producing the upper coal in the northwest quarter?

A. One.

Q. How many wells are producing and intersecting the lower coal?

A. One.

Q. You just have them in two wellbores 50 feet apart instead of one wellbore, correct?

A. That's correct.

Q. Is Exhibit Number 7 a copy of an affidavit confirming that notice of today's hearing has been provided?

A. Yes.

Q. And to whom was notice provided?

A. All of the offset operators.

Q. In the Fruitland Coal?

A. That's correct.

Q. Does this exhibit also contain a copy of the

legal advertisement for this case published in San Juan County?

A. Yes.

Q. Were Coleman Exhibits 1 through 7 either prepared by you or compiled at your direction?

A. Yes.

MR. CARR: May it please the Examiner, at this time we'd move the admission into evidence of Coleman Exhibits 1 through 7.

MR. KELLAHIN: No objection.

EXAMINER JONES: Coleman Exhibits 1 through 7 will be admitted.

MR. CARR: That concludes my direct.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Emmendorfer, back in February of '03 Coleman made -- Sir?

A. Could I ask you to talk up a little bit? Sinuses have -- Sinuses and old age keep me from -- preclude me from hearing real well.

Q. Mr. Emmendorfer, back in February of '03 Coleman made the choice to replace the Ricky 1 and the Ricky 2, correct?

A. Yes.

Q. You obtained permits to plug and abandon the

original Ricky 1 and the original Ricky 2, right?

A. Correct.

Q. And each of those was to be replaced with another wellbore?

A. Correct.

Q. Coleman made the conscious choice to assume the risk of placing each replacement well approximately 50 feet from the parent well, true?

A. True.

Q. After the permits were issued, Coleman drilled the replacement wells, did it not?

A. Yes.

Q. And as part of producing the replacement wells, you then put the parent well on compression, true?

A. The parent wells were on compression before we drilled the original wells --

Q. Okay.

A. -- in anticipation of having compression on the lease.

Q. The replacement wells were both drilled before you decided to subject the parent well as a test of the upper coal. True?

A. Subject the parent well --

Q. Huh?

A. I'm trying to understand what subject the parent

well means, but yes, I --

Q. The parent well would be the original Ricky 1 and --

A. That's correct.

Q. -- the Ricky 2?

A. Yes.

Q. So after you had drilled the replacement wells, Coleman made the choice to try to get additional production information out of the upper coal in the original two wells, correct?

A. Correct.

Q. And as a result of that effort you came to the Division and obtained a permit to test the Ricky 1 and Ricky 2 for a period of time to gather the data from the upper coal?

A. Yes.

Q. The point was that if you could satisfy your concerns about the productivity of the upper coals in those two wells, it would then justify spending the dollars in the other wells that you had in the area that were only producing out of the basal coal, true?

A. Yes.

Q. So the plan, then, is to gather the data and see if it's economic to go back into your other wells and add the upper coal at whatever time you chose to do that?

A. Correct.

Q. When you look at the logs of the Ricky 1 and compare it to the Ricky 1R, the replacement well, and look at the upper coal interval, they are substantially the same geologically, are they not?

A. Correct.

Q. Is there any material difference between the upper coal in either the original well or the infill well that we should know about?

A. No.

Q. When you look at the Ricky 2 and compare the Ricky 2 to the replacement Ricky 2, is there any difference in the log characteristics in the upper coal between those two wellbores?

A. Nothing dramatic, no.

Q. Do you see any material geologic difference to cause you to believe that they're any way different?

A. No.

Q. What would be the cost of plugging the Ricky 1?

A. I'm just throwing out a guess, but probably about $10,000, I would imagine.

Q. Are you aware of any other operator in the Basin that's been allowed to maintain four producing gas wells in the Basin-Fruitland Coal Pool on a single spacing unit?

A. Not that I'm aware of.

Q. This is the only one, isn't it?

A. Apparently.

Q. Have you calculated what is the remaining recoverable gas in the upper coal out of the Ricky Number 1?

A. No, I have not.

Q. Have you calculated what you think is the remaining recoverable gas out of the Ricky Number 2?

A. No, I have not. Well, I'll take that back. We had a reserve estimate done for other purposes, and for private purposes of the --

Q. That would not have been your work, though; that's an engineering discussion, right?

A. Well, it was an outside reserve auditor. I'm in charge of helping gather that data. Yes, I have not did a remaining reserve calculation.

Q. Back in March of '04, Coleman requested the Division to grant administrative approval to allow you to produce all four wells on the same spacing unit, did you not?

A. Yes.

Q. That was done by a letter dated March 30th of '04; do you remember that?

A. I don't have it in front of me, I don't --

Q. Let me put one in front of you, sir.

A. Okay. Thank you.
Q. Do you recall this letter, Mr. Emmendorfer?
A. Yes, I do.
Q. Who is the author of the letter, Michael Hanson?
A. Michael Hanson is an engineer in our Farmington office.
Q. Does he still work for you?
A. Yes, he does.
MR. KELLAHIN: Mr. Examiner, we would move the introduction at this time of what we've marked as Coleman -- I'm sorry, as Pro New Mexico's Exhibit Number A --
MR. CARR: No objection.
MR. KELLAHIN: -- Letter A.
EXAMINER JONES: Pro New Mexico Exhibit --
MR. KELLAHIN: -- A.
EXAMINER JONES: -- A will be admitted to evidence.
Q. (By Mr. Kellahin) On the bottom of that letter, on the last paragraph, Mr. Emmendorfer, I've outlined in yellow the last sentence. Would you read that for us?
A. "Information can then be used to determine if it would be economically viable to complete other wells in this area in the upper intervals."
Q. Based upon that request, then, Mr. Stogner

required a hearing of that request?

A. Yes.

Q. And as a result of the hearing, then, Coleman was granted the opportunity for a one-year period after that order to conduct the test and gather the data?

A. That's correct.

Q. What was the purpose of the data?

A. To see how the upper coals would respond to being produced with compression and to gather additional production data to help determine the economic viability of these upper coals.

Q. And with that data, then, the objective would be to then go back into the basal coal wells and add the upper coals as producing intervals in those wells, right?

A. If the upper coal -- if the wells had a good upper coal interval, yes.

Q. And with the Ricky 1 and Ricky 2, have you now received the data that justifies adding the upper coal in your basal coal wellbores?

A. Honestly, I don't know if the remaining economics would support that or not.

Q. Is there anything contained in this letter that suggests to the Division that it was Coleman's intent to always keep the original wells in a producing status?

A. No.

Q. The cost associated with taking the Ricky 1 replacement well and recompleting it so it could then produce the upper coal was what, was your estimate?

A. $50,000 to $70,000.

Q. Is that a similar cost associated if you have to recomplete the Ricky Number 2 well and produce the upper coal through that wellbore?

A. Yes.

Q. If you do that, then the two original wells could in fact be plugged, could they not?

A. That's correct.

MR. KELLAHIN: No further questions, Mr. Examiner.

MR. CARR: May I follow up with a little redirect?

EXAMINER JONES: Go ahead.

REDIRECT EXAMINATION

BY MR. CARR:

Q. Coleman Oil and Gas wrote the Oil Conservation Division back in 2004 the letter that's been marked Pro New Mexico Exhibit A and stated that you were attempting to determine whether or not it would be economically viable to complete other wells in this area, in the upper coal intervals; is that -- That's what it says?

A. Yes.

Q. Have you obtained that information?

A. Yes.

Q. Are you still attempting to determine how to effectively develop the upper coals in this area?

A. No, I think with the data that we've got we can complete other wells in there.

Q. It shows no communication, does it not?

A. That's correct.

Q. And it establishes volumes --

A. That's correct.

Q. -- that can be produced?

Now, when you go out and determine how you're going to try to produce these reserves, are you still studying the area?

A. Yes, we are.

Q. Are you not trying now to determine whether or not you can effectively come back and complete in the upper coals without just tying into the basal coal?

A. Yes.

Q. And aren't you planning to attempt that now?

A. Yes.

Q. And isn't that partially because the well immediately west of you was an attempt to do that, and it was unsuccessful?

A. Yes, that's correct.

Q. Now if you go in and plug and abandon the original wells and perforate the upper zones, I mean, that can be done? That's what you've testified?

A. Yes.

Q. And if you do that, to do two wells with the plugging cost, it would cost you $150,000?

A. Yes.

Q. And you'd gain what?

A. Nothing.

Q. Would you be accessing a different interval than is currently open?

A. No.

Q. Would you be accessing more interval than is currently open?

A. No.

Q. Are the wells at standard locations from all the offsets?

A. Yes.

MR. CARR: That's all I have.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Emmendorfer, the history of the Number 1 and Number 2 wells, you say it was originally a Fruitland Sand-PC pool?

A. Well, we didn't drill them, but yes, at the time

there were no ways of producing -- or permitting as a coal well that I'm aware of. Again, it wasn't the operator, but they were dedicated as South Gallegos-Fruitland Sand-Pictured Cliff Gas Pool, which is still -- I believe that's still a viable field, and traditionally the sands are perforated and completed in those wells. The coal intervals are now separated and produce only as the Basin-Fruitland Coal.

Originally, even though both intervals were Fruitland Sand, some operators completed coal zones in there. That happened several different portions of the Basin, and that was a problem that had to be resolved when they formed the Basin-Fruitland Coal Pool.

Q. These wells could be -- You could initiate your perforations and your frac job in the sands; is that right? Or would you be violating pool rules?

A. I think you'd be violating pool rules.

Q. But you're saying that little pool is still there, and it overlaps this Fruitland pool?

A. Well, they're kind of intertwined.

Q. Oh, boy. What about the original frac jobs that were done on these two wells, the Number 1 and the Number 2? Did you only perforate -- I mean, did they only perforate those two coal intervals and not that -- there's a --

A. Based off of the records, the completion reports, and you plot them on those logs, it's in those coal intervals.

Q. They didn't try that -- There's another interval above that that's almost a coal. They didn't ever try that? But you --

A. No, they didn't.

Q. Did you have the mudlogs available?

A. I doubt if there were mudlogs. That's not very standard for -- This is in the southern portion of the Basin, where they're under pressure, and you're going to run wireline logs. Typically, we don't use a mudlogger. I doubt if most of the other operators do. Traditionally, you just drill, log, case and perf.

Q. What about on these new ones, these replacement wells? Did you run a mudlog?

A. No.

Q. What about the gas -- you measured the gas, didn't you? Total gas?

A. No.

Q. Were they drilled with fluid that would have damaged the upper coals, the new replacement wells?

A. No.

Q. What kind of fluid -- I notice the -- it looks like a real freshwater base.

A. Yes, it's what every -- I mean, these are all turnkey, and so the drilling contractor provides a mud system, and it's just the standard freshwater mud that they're able to deliver us, a log of the hole.

Q. Yeah. It's amazing how fast they can do it, when you do it on a turnkey basis.

What about the Pictured Cliffs down here? Is it any good?

A. Right in this -- on this lease, I don't see evidence of commercial production out of the Pictured Cliffs.

Q. How about any production at all? Do you think it would make any? That basal coal was fractured. Do you think any of that is coming from the Pictured Cliffs?

A. Probably not. The tracer surveys we've done in other areas in the southern portion of the Basin show that fracs have not grown down into the Pictured Cliff, and frac gurus tell us that when you initiate a frac in the coal it traditionally stays within that coal, that that sand-coal interface is a very good boundary.

Q. What kind of rate did you use on your frac job?

A. I wasn't there, and I don't recall. I would have to go back to the files.

Q. You probably have in your files the treatment report though?

A. Yes.

Q. And the Nolte plot or the net pressure plot?

A. Probably we have that too, yes.

Q. And that would be real indicative of whether the frac grew -- Do you know what kind of sand they put in there?

A. I think they're about 50,000-pound -- Well, actually I have the completion reports that we filed.

10,000 gallons of gel, more or less, and 60,000 pounds of 20-40, and 22,000 gallons of crosslink gel.

Q. Does it say what the average -- the rate was?

A. No, not on the completion report.

Q. Oh, that's a state report -- or the federal report.

So would it be fair to say that there's about a 10- or 15-foot separation between your basal coal and your Pictured Cliffs?

A. Yeah, between the basal coal and the porous sands in the Pictured Cliff, yes.

Q. And about what would it be, 25 feet between the basal coal and the first of those upper --

A. 25, 30, somewhere in there, yes.

Q. Okay, I guess one pertinent thing is the compression that you got on -- Are all four of these wells tied to the same system?

A. Yes, they're metered separately at the wellhead and then at a central delivery point, and we have the compressor upstream from that central delivery point.

Q. One compressor --

A. That's correct.

Q. -- for all these wells?

So your -- Let's see, your surface pressures on each of these wells are real similar.

A. Yes.

Q. So that -- It looks like your upper coals are for some reason responding after all these years?

A. Well, we've lowered the suction pressure recently at the compressor, and the upper coals in the original wells have responded favorably to that, but the original wells, it hasn't seemed to have done any difference. Probably kept them from declining more, but they're on a steady decline.

Q. From the basal coal?

A. Yes, that's correct.

Q. Are they more water in the basal coal?

A. Yes, we have to -- we produce water, we have to haul water, if the upper coals are water-free.

Q. So that water is hampering those lower coals then?

A. Probably.

Q. Those pressure charts that you have, does it show that the pressures are -- I know we could dig into it ourselves, but your pressures are real predictive between the upper coals and lower coals. In other words, they're not exactly the same, they're a little bit higher in the lower coals? The upper coals have been producing for many more years?

A. Yes, and they're still higher pressure than the basal coal is, that's correct.

Q. Okay.

A. Twenty years or more.

Q. Okay. Twenty years. The coal reserves in each of these -- this was kind of done as a pilot, as I understand it, so -- You say someone in your company has done the volumetrics and the decline analysis of the coal?

A. Well, we had a -- outside reserve auditors do all the reserves for all the wells for the company, and yes, we have that data.

Q. What about permeabilities in the upper coal versus the lower coals, the basal coal versus that upper coal? It's real thin, the upper coal is, but is the permeability higher on that?

A. I don't have any direct measurements of permeability.

Q. What's your -- what's your opinion?

A. With that -- with no water production, I would say that they're higher permeability than the basal coal.

Q. So there's no drainage calculations that you're -- that you guys have done so that you're affecting any of the offset wells or -- Of course, it looks like there was no offset wells, except Pro -- Redwolf has an offset well, and that's a pretty new well; is that correct?

A. Yes, that's 2004.

Q. And is it West Gas, right straight north?

A. Western -- That's Dugan Production.

Q. That's a Fruitland well, isn't it?

A. Yes, they're producing out of the upper coal only.

Q. Upper coal only?

A. Uh-huh.

Q. Have you noticed any effect on their wells, or your wells from their wells going on line, or vice versa?

A. Knowing Tom Dugan, if we had adversely affected his production we'd hear about it. And we haven't gotten a call that I know of.

Q. Okay.

A. And I'm sure he'd be here screaming.

Q. This business about the frac screening out on the recompletion on that replacement well, isn't it true also that as the pressure has declined over the years in that

formation that the frac might go in a different direction because of the change in stress, and it might actually help you?

A. I think there's several schools of thought on that. I've looked at that in the past, and in stuff that I've read fracs tend to curve toward a pressure sink, which would be an area where it's been productive for 20-some-odd years. Being 50 feet apart, I doubt if they would have a different pressure regime -- I mean a different stress regime that would cause the frac to grow in a different direction.

Q. Okay. You may have to pressure up on that old well while you're frac'ing the new one, then, it sounds like, or do some kind of innovative way to keep from screening out, like you said.

A. Uh-huh.

Q. Mike Hanson is pretty experienced at this. But you still don't want to do it?

A. Well, my question would be why? We've got four wells existing right now. They're producing the gas that's within 160-acre spacing effectively, two wells versus four. If we were required to plug those wells -- we're going to have to plug those wells eventually at the end of their life anyway, so that cost is going to be occurring sometime down the road anyways.

We would have to spend $50,000 to $70,000 per well, what I would consider -- and I know my boss would consider -- needlessly, just to get the wells back to producing the way they are. To me, that constitutes waste. You're wasting dollars for no real benefit.

Q. I can see that argument, but when these were granted for one year and then extended for another year, I think it was kind of with the understanding there was going to be some deliverables from the pilot that maybe, you know, because the other operators in the Fruitland Coal didn't -- I think the first time they objected, the second time they didn't, and -- but it might be helpful to have something deliverable besides just what they can read from this record at the hearing about, you know, the reason for that, because I can kind of see that your lower coal is more wet and you have to pump it probably --

A. Uh-huh.

Q. -- and so you have to -- it's a different producing mechanism, or it's a different producing method, at least, and your upper coals, you can maybe flow them, but if you can't afford to drill the wells separately for the upper coals anyway, is that true?

A. Well, we wouldn't be drilling separate wells. You would -- at the time of drilling, you would -- the cheapest method would be to complete both zones before you

ran the tubing. Obviously if you wanted to -- chose, like we have done, to complete the basal coal, you have to incur a little bit more expense shutting the well in and pulling the tubing and pipe and stuff like that.

Q. And the pressure data that you got was from echometers?

A. Yes.

Q. Did you ever zero that in with any kind of dip in pressure readings?

A. I don't know what Mike Hanson has done. He's done those personally himself.

Q. Mike did all this?

A. Yes. But you're right, there's a lot of data that's been available, and there's more data that can be every year gained from having these wells producing.

Q. What would you --

A. It would be a good master's study --

Q. Yeah.

A. -- very similar.

Q. Is there any difference in the coal -- did you get -- when you drilled that second replacement well, did you do canisters on the coal or get any kind of ~~disruption~~ desorption?

A. No, we did not.

Q. What kind of gas content numbers is the coal at?

A. I can't speak for the upper coals. The few that

we've done on the basal coal and the stuff that I've read from other people, I think approximately 120 standard cubic feet per ton. That's --

Q. That low?

A. Yes. That's another reason why having production data on these upper coals would give a lot more data to any operator in the Basin.

Q. What about the upper sands around those upper coals? How much contribution does that make to the production from that upper interval?

A. Well, it would depend on if the frac grew out of the coal or not.

Q. But you probably did because it was considered a sand pool, and those coals are so thin that surely the frac grew out of them?

A. I couldn't say.

Q. That was 20 years ago, I guess, they were frac'd, right, those wells?

A. 1983.

EXAMINER JONES: '83.

David, do you have questions?

MR. BROOKS: No questions.

EXAMINER JONES: I have no more questions.

MR. CARR: No further questions.

MR. KELLAHIN: No, sir.

EXAMINER JONES: Is that your case, Mr. Carr?

MR. CARR: Yes, sir, that concludes our presentation.

MR. KELLAHIN: We have a witness, Mr. Examiner.

Mr. Examiner, at this time we'll call Dana Delventhal.

DANA DELVENTHAL,

the witness herein, after having been first duly sworn upon her oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mrs. Delventhal, would you please state your name and your occupation?

A. My name is Dana Delventhal, and I'm a petroleum engineer.

Q. And where do you reside, ma'am?

A. Farmington, New Mexico.

Q. When and where did you obtain your degree in petroleum engineering?

A. I graduated in 1984 with a bachelor's in petroleum engineering from the New Mexico Institute of Mining and Technology.

Q. Subsequent to obtaining your degree, have you been a practicing petroleum engineer?

A. I have for 23 years, yes.

Q. And generally where has been your area of practice?

A. San Juan Basin.

Q. Practicing in San Juan Basin, are you familiar with the engineering aspects of the coal gas production in the San Juan Basin?

A. Yes, sir.

Q. Do you for your own account operate coal gas wells?

A. I do.

Q. And what is the name of the company that you operate?

A. I own Redwolf Production.

Q. When Mr. Emmendorfer testified a while ago, he was referring to a Redwolf Production in Section 13 to the west of the west half of the Ricky wells in Section 18. Are those your wells?

A. It's one well, but yes, sir, it is.

Q. In addition to -- Let me hand you the locator map so I don't lose track of --

A. Thank you.

Q. Ms. Delventhal, I've handed you a copy of the locator map that Mr. Emmendorfer was talking about a while ago. It was the second color display, the foldout that identifies the wells and shows a B for basal and a U for

the upper coals. Do you have that before you'?

A. Yes, sir.

Q. In addition to operating your own wells adjacent to the subject tract, are you also involved as a consultant for other operators in the area?

A. Yes, sir.

Q. And who do you represent?

A. Today I'm representing Pro New Mexico Energy.

Q. As part of your duties as a petroleum engineer, do you have access to the Division's database with regards to coal gas production?

A. Yes, I do.

Q. Have you made an examination of the data available to you through the Oil Conservation Division for the Ricky 1 and Ricky 2 and the replacement Ricky 1 and Ricky 2?

A. I have.

Q. In addition, have you examined the documents that Mr. Carr had provided Mr. Gallegos as part of the prehearing process?

A. I have.

Q. Based upon all that information and study, do you now have opinions and expert decisions with regards to this case?

A. I do.

MR. KELLAHIN: We tender Ms. Delventhal as an expert petroleum engineer.

MR. CARR: No objection.

EXAMINER JONES: Ms. Delventhal is qualified as an expert petroleum engineer.

Q. (By Mr. Kellahin) Let me go back and have you give us some background. Mr. Emmendorfer talked about the two original Ricky wells as being slimhole wells. Describe for us what that means.

A. At times in the Basin when gas prices were poor, there were marginal horizons, marginal production that would not justify normal drilling cost. As an attempt by the operators to access these reserves, they would drill a slimhole, by that to reduce the drilling cost as much as they physically could. And in this case they sacrificed running normal casing sizes and instead ran tubing as casing, to lower the cost. It's wells that wouldn't have been drilled otherwise.

But the downside of it is, they're unforgiving. There's not much work you can do on the well after it's done. It completes its life and it's pretty well over.

Q. What type of wellbore did Mr. Gallegos drill in the east half of the section?

A. A standard wellbore.

Q. And the well that you have in the western spacing

unit, is that a standard --

A. Yes, sir.

Q. -- coal gas well?

Are there any further limitations about the slimhole completion with regards to how to re-enter that wellbore and now try to add the deeper basal coals?

A. It really can't be done. It wouldn't be feasible. Normally, to complete a horizon under an existing horizon, you would need to isolate that during the completion, to frac under a packer so that what work you were doing wasn't interfering with what was already frac'd and open. And in a slimhole, 2-7/8, you don't have room to do that.

Q. Have you been involved with drilling replacement wells for other wells like this?

A. I have.

Q. And what did you have to do with the original well?

A. According to regulations, you're required to plug them.

Q. Were those wells capable of producing additional gas from the upper coals?

A. Painfully so, yes.

Q. Does Coleman enjoy a competitive advantage by having a difference in the ability to produce their gas

from the upper and basal coals by using four wellbores instead of two?

A. Generally to set aside existing spacing regulations, there would need to be a compelling reason. The two reasons that would come to mind would be that for some reason to combine them would impact the correlative rights. Testimony has shown that they're able to go ahead and complete those coals in the replacement wells.

The second would be whether because of economic feasibility, the cost to do so, if Coleman would be dissuaded from that completion and therefore he would lose his recoverable reserves.

And I have prepared decline curves, and the economics would show that completing those coals in the replacement wellbores is a highly economic project.

Q. Have you utilized the test data that's been furnished to you by Coleman?

A. I've looked through it and have no arguments with it.

Q. At this point, then, are you able to conclude as an expert witness that it's economically viable to produce both the upper coal and the basal coal with replacement wellbores?

A. Yes, sir.

Q. What is the approximate cost, in your opinion, of

plugging the slimhole original wellbores?

A. I would estimate $12,000 to $14,000.

Q. If Coleman is required to plug the two original wellbores, in your opinion will there be any reduction in the ultimate recovery of gas from the upper coal?

A. In theory, no. There's no reason to assume that when you move to the replacement wellbore you're basically in the same coal seams. If you complete it, you may benefit from modern completion techniques.

Another advantage might be that in the slimhole wellbores you're not able to artificially lift them, the question being, do upper coals not produce water because they don't have water, or do they not produce water because you can't pump it out of the hole? With that horizon being completed in the replacement wellbore they're on beam lift, and they would benefit from that.

Q. If the two original wells are plugged and the upper coal then has to be produced by the two replacement wellbores, can the replacement wellbores still achieve the same ultimate recovery of gas from the upper coal?

A. You would assume so, yes.

Q. Do you believe that the two original wellbores are necessary in order for Coleman to achieve the recovery of gas from the upper coal?

A. No.

Q. Are you aware of any other situation where any other operator in the Basin has been allowed to produce four wellbores like this in the same Fruitland Coal pool?

A. To my knowledge, all of the redrills that I've been involved with, we were forced to plug the original well.

Q. Let's go through your exhibits.

A. Okay.

Q. If you'll start with what is marked as Exhibit Number 1, take a moment before we talk about the details and describe for us what it is we're looking at?

A. As I mentioned, Pro New Mexico's concern was whether there was a justification for changing the pool rules, the correlative rights issue not being a problem, but the second would be whether it's economically feasible to transfer those reserves into the redrilled wellbore. If it was uneconomic, then if they had to plug the original wells those reserves would be lost.

So what I did is, using decline curve analysis, determine remaining reserves for the two parent wells. I estimate --

Q. Give us the conclusion, then, before we talk about the details. What do you show to be the remaining EUR for the Ricky Number 1 well, in the upper coal?

A. The Ricky Number 1 well has remaining reserves of

347 million cubic feet.

Q. To get to that point, then, you take the production curve and you plot the data?

A. Correct. You plot the data, and based on decline curve estimates, you project future production. You project gas prices, you project operating costs, and boil it back down to determine if the cost to recomplete those reserves in the replacement wellbores would be a viable project.

Q. All right, looking at Exhibit Number 1 for the Ricky 1, starting over, you first started plotting production data back in 1984?

A. Correct, that's the original production.

Q. Describe for us what happens.

A. You can see from the original production curve that production is fairly sporadic. It hit a hard decline in the mid 1990s. After -- Between 2002, 2003, you can see the increase in production when that was placed on compression.

Q. Start then at the plot where we have the red line just before 2005, and it goes up to just under 100 MCF a day?

A. Correct.

Q. What happens then?

A. From the data that was gathered with the well

under compression during that time period, you can see it hasn't established a strong decline at this point; it's fairly steady production.

For purposes of determining the economics of completing it in the original wellbore, I assumed that today it would start declining. That would be the most conservative estimate; it would yield the lowest amount of reserves. In this area a typical decline rate of 10 percent would be expected, and that was the mathematical decline rate that was applied to the well.

Q. And then when you run through the calculation based upon your assumed decline, the additional gas recovered is displayed somewhere over on the far right?

A. Right, if you look at Exhibit Number 2, basically the nuts and bolts are in the top part --

Q. Well, you've moved to another exhibit. Stay with 1 for me, for a moment.

A. Oh, I'm sorry.

Q. Over on the far right of Exhibit 1, you have a bunch of numbers shown here?

A. Right. It shows, based on the decline rate, if you skip through down to the gas section --

Q. Uh-huh.

A. -- it will give effective dates and rates, ultimate and remaining gas by decline rate, shows the

247,000 MCF remaining on that well. It's right in the center with all the little type on the right.

Q. On the Number 1 exhibit?

A. Yes, on the decline curve.

Q. You'll have to -- Let me approach --

A. I'm sorry, they're small numbers.

Q. I can't see it. Show it to me on this.

A. Okay.

Q. It says, *Remaining* gas (decline), and you get 346 plus?

A. Correct.

Q. Okay. And that's using a presumed decline rate of 10 percent?

A. Yes, sir.

Q. When you go back before the assumption, the gas rate continues to climb. We don't have a break over on the curve yet?

A. That's correct. As I -- By assuming that it declines today or tomorrow, that would be the most conservative estimate. If it's an economic project at that point any additional time that it stays steady or inclines will be just additional reserves for them.

Q. Now take Exhibit 1 and take me to Exhibit Number 2 --

A. Exhibit Number 2 is the economic projection based

on the decline curve, and this is for the Ricky Number 1 well. The top two-thirds of it is basically a year-by-year breakdown of all the variables, and the nuts and bolts is in the bottom third of the printout.

If you look under the Economics Summary section, you'll see that it shows that the remaining gross reserves are at the 347,000 MCF, and that correlates with the decline curve information.

Q. Let me ask you this. When you look at the spreadsheet, find me the point of the spreadsheet that you introduce the cost associated with recompletion into the upper coal.

A. The second section of the data is expenses, and in the middle of that column you'll see a column labeled Other Costs. I assumed that Coleman would need to spend $60,000 to recomplete those Fruitland Coals in the replacement wellbores, and so that cost is figured into this economics. The question being, is that a viable project? If it is, then moving from one wellbore to the other would not affect waste. And if you go down to the economic information, the rate of return exceeds 100 percent.

Q. So when I look at Exhibit Number 2 and I'm looking down in the lower left corner, there's a bold caption that says Discount Present Worth?

A. Yes. That is the value of the future revenues. And the different percentage discounts would be discounting those future revenues at those given percents, what the present value --

Q. Can you give us a general range of what companies utilize for a discounted rate so they can see what the present worth of doing the work is?

A. Most production that I see sell, sells in the range of a 5-percent discount. So if you were selling this well you would assume at 5 percent you're probably at $800,000 in value.

Q. And if you assume it's at 10 percent?

A. At 10 percent, we're at $612,000.

Q. The $612,000 would be after you had paid for the cost of the recompletion?

A. It includes the cost of the work.

Q. Making this cash-flow analysis, what assumptions are you making?

A. One, you assume that the decline curve is accurate. Secondly would be on a gas price. In the top section under Average Prices, I have a gas price at $5.26, which is last year's average less the cost of gathering and compression.

Q. Is this the kind of analysis that you would run for your own account if you were acquiring or selling gas

production out of your wells?

A. Yes.

Q. Is it going to be economically viable, then, in your opinion for Coleman to plug the Ricky 1 and use the Ricky 2 as a recompleted well to add the upper coal and produce that gas?

A. Yes, sir.

Q. Let's turn, then, to the Ricky 2 and look at Exhibit Number 3. Would you identify --

MR. BROOKS: I think you may have misspoken --

MR. KELLAHIN: Did I?

MR. BROOKS: -- Mr. Kellahin. Did you -- you mean to use the Ricky 1R --

MR. KELLAHIN: I'm sorry.

MR. BROOKS: -- rather than the Ricky 2 --

MR. KELLAHIN: Yeah, and I'm good at doing that, misspeaking. Thank you.

MR. BROOKS: Go ahead.

Q. (By Mr. Kellahin) So we're talking about the replacement well in each instance?

A. Yes, sir.

Q. So let's turn now to the Ricky 2 and look at the parent well --

A. Okay.

Q. -- and see what happens with those reserve

numbers and whether you can justify plugging the Ricky 2 and producing those gas reserves out of the Ricky 2 replacement well.

A. Okay, basically the procedure was the same, is to generate a decline curve. You can see that the Ricky 2, the parent well, is less productive than the Ricky Number 1, and it still has not reached a decline at this point. But if you take their highest rates and decline it at 10 percent, again, you'll get the lowest calculation of remaining reserves, which is what I did, declined it at 10 percent. The remaining gas from that decline is 142,000 MCF.

Q. When you look at Exhibit 3, there's a period before 205 [*sic*] where the production information is zero. What's happening there?

A. On both wells, when Coleman drilled the replacement wells and before they had gotten approval for a production test on the original parents, they're not allowed to produce both. So there was a period of time while that was transpiring that the wells were shut in.

Q. So Exhibit 3 reflects the shut-in period for the parent well on the Number 2?

A. You can see that on the curve, yes.

Q. And then after it goes back on production --

A. So everything after that space is gas produced on

this temporary test.

Q. Take us through the test information then. What happens to the production of the Ricky 2 when it's put on compression and tested?

A. It looks like the compression obviously increased the production from about 15 to, you know, 40, somewhere in that range, a bump in production.

Q. And with your assumptions, then, you get recoverable remaining gas out of the upper coal of --

A. -- 142,000 MCF.

Q. Now take that over and run it through the economic analysis.

A. Running it through the economic analysis in a similar manner, you can see --

Q. On Exhibit 4?

A. -- correct, Exhibit 4 -- that the remaining gross reserves are shown at 142,000 MCF. The gas price is unchanged. Again, I assumed a $60,000 cost to recomplete them, and again the rate of return exceeds $100,000 -- or, excuse me, 100 percent.

Q. If the company buying or selling the property is looking at a 10-percent discounted present worth, what is the after-cost value of the project?

A. $201,000.

Q. Is it profitable to have Coleman as the operator

plug and abandon the Ricky 2 and to replace that production by accessing it with the Ricky Number 2 replacement well?

A. It's a good economic project.

Q. What would you recommend to the Examiner?

A. I would recommend that the original wellbores be plugged, that Coleman as an operator has the right to decide whether to produce the upper coals in the replacement wellbores, and that the current spacing regulations be adhered to.

MR. KELLAHIN: That concludes my examination of Ms. Delventhal, and we move the introduction of her Exhibits 1 through 4.

EXAMINER JONES: Objection?

MR. CARR: No objection.

EXAMINER JONES: Exhibits 1 through 4 will be admitted, from Pro New Mexico.

CROSS-EXAMINATION

BY MR. CARR:

Q. Ms. Delventhal, you testified that you consult for various operators in the San Juan Basin.

A. Yes.

Q. Do you consult for Dugan?

A. No.

Q. Or Running Horse Production Company?

A. No.

Q. My question really is, who are you appearing here for today, just Pro New Mexico?

A. Pro New Mexico, yes.

Q. And your relationship with them is as a consultant?

A. Correct.

Q. If I understand your testimony, what Pro New Mexico is seeking is an order that would require Coleman to plug the old wells in the west half of Section 18 that are now producing from the upper coal; is that right?

A. Yes.

Q. And my question for you is, why?

A. It would be twofold. If you take a snapshot of the production at this moment, by producing the upper and the basal in twin wells, that there's really no harm or foul. The problem being that life is dynamic, wells sell, engineers come and go. There's no rule on the books that would disallow them from opening the upper coals in the replacement wells while the upper coals are producing in the original wellbores. You simply file a sundry with the BLM for adding pay. Our correlative rights at this instant may not be affected, but we have no way to determine that they wouldn't in the future.

The second part would be that the offset operators, Pro New Mexico, to develop those reserves will

have to drill a well, complete the basal coal, set a plug, complete the upper coals, and assume all of those risks that are associated with that. By requiring one operator to assume risk and one to be sheltered from risk is inherently an effect of correlative rights.

Q. If you're concerned about in the future someone, either Coleman or a successor operator, opening the upper coal in the other wellbore, the order entered in this case could prohibit that, could it not?

A. It could, but it would be difficult to police. Who's going to keep watch?

Q. Isn't any rule difficult to police?

A. Yes.

Q. Are you suggesting that they're going to try and do something in violation of --

A. No, I don't believe anybody would, and again rules are there to limit the problems.

Q. When you talk about a risk that Pro New Mexico is going to have to take because of this, I didn't understand your answer.

A. My answer was that all the offset operators around this section, or in the Basin for that matter, if they want to produce the upper coals and the lower coals in a single wellbore, they take inherent risks because they're working within a single wellbore to do that.

If you had a concern that by completing the upper coals in the replacement wells that there is a risk in that completion process, it's certainly a risk that's borne by everyone else.

Q. And so what you're recommending is that Coleman, with wells that are currently able to produce upper coals, plug those and now take the risk of trying to make a well in the upper coal that they're now producing?

A. Yes, that's the pool rules.

Q. All right. Now I think you have testified that there isn't a correlative rights issue here; is that right?

A. My testimony is that from Coleman's aspect, no, there is not a correlative rights issue. And from Pro New Mexico's aspect, I don't feel that they have a correlative rights issue unless there's not a protection that those upper coals aren't completed.

Q. Pro New Mexico has drilled two wells in the east half of 18; is that correct?

A. Yes.

Q. Have they completed those wells?

A. No.

Q. Do you consult with them on those wells?

A. I do.

Q. Are they intending to complete them in the upper and the basal coals?

A. Yes.

Q. Just as they did in Section 8?

A. Yes.

Q. And as it stands, once those wells are completed Pro New Mexico would be -- would have two wellbores in the east half of 18 accessing the upper coal; isn't that right?

A. Correct.

Q. And they would have two wells in the east half of 18 accessing the lower coal, correct?

A. Correct.

Q. At the present time, Coleman is proposing to have two wells in the west half accessing the upper coal, correct?

A. Correct.

Q. And two wells in the lower coal accessing -- or in the basal coal, accessing --

A. Yes.

Q. Mr. Kellahin asked you if this present situation resulted in an advantage to Coleman. My question is, how?

A. Again, it applies to risk in one aspect. Operators under existing pool rules have to make an economic decision if they want to redrill a well. They're burdened with that decision, and part of that decision is the understanding that the original wells have to be plugged. It's a decision you have to make.

I'm sympathetic. Nobody likes to plug a producing well, and certainly nobody likes to plug a producing economic well, especially a petroleum engineer. But if you required of everybody in the Basin to make one exception, that is unfair.

Q. Is your testimony is, the rules are the rules and they should be enforced?

A. Largely, yes.

Q. You understand the rules are designed to prevent waste of oil and gas?

A. Correct.

Q. They're designed to protect correlative rights?

A. Correct.

Q. And the rules allow for exceptions, you understand that?

A. Yes.

Q. And those exceptions are viewed on a case-by-case, fact-by-fact basis, isn't that -- you understand that?

A. Yes.

Q. And in this circumstance what you're recommending is that an offset operator who has access to the upper coal be required to plug that off and then assume the risk that you're concerned about, trying to re-access that same coal?

A. Yes.

Q. And you testified that you did not believe in theory, is how you qualified it, that this could result in a reduction -- or reduce the ultimate recovery from the acreage?

A. Correct.

Q. But that's in theory?

A. Correct.

Q. And when you take these risks, you run the risk that you won't be able to get as good a well as you -- access to the upper coal as you now have?

A. That's possible, and you could get a better well as well.

Q. But if you don't get as good a well, then you could leave reserves in the ground?

A. True, but it's the risk that Pro New Mexico has to assume next door.

Q. In drilling the initial well?

A. Uh-huh.

Q. And when you say everyone has a standard coal gas well, you mean a single wellbore that has perforations in one wellbore in the upper --

A. Standard-size casing, yes.

Q. That's what you meant by that?

A. Correct.

Q. You're not objecting for Redwolf?

A. No.

Q. Redwolf is the direct west offset with a well about 1600 feet away?

A. Correct.

Q. Pro New Mexico's well, closest well, is approximately 3000 feet away to the east; is that correct?

A. Correct.

Q. You're not testifying that anything happening in this Coleman well at these rates is going to drain reserves from the Pro New Mexico well, are you?

A. Again, if you look at a snapshot, there's nothing producing in the Coleman acreage that isn't legally able to produce, and the question being, is it legally able to produce from four wells?

The reason Redwolf Production didn't come and speak against the original proceedings was, they were originally -- the application was to gain production data. I love production data. It's important for other operators to take a look and see whether the upper coals are individually productive and whether their completion is economic. That's why we didn't object to the case.

Since then, it has mutated into a request to produce on, basically, double spacing.

Q. When you say four wells, you mean four wellbores?

A. Uh-huh.

Q. And we're still, though, talking about only four access points to the Fruitland Coal. You understand that? Two in the upper and two in the basal?

A. Correct.

Q. Now there is no correlative-rights issue for Pro New Mexico; is that correct? Is that what you've said?

A. There's a risk to them, that risk being that there is no --

Q. The well is almost 3000 feet away; isn't that correct?

A. Uh-huh.

Q. What is standard setback on spacing units?

A. 660 feet.

Q. So they could be 1320 feet, but more than twice that; isn't that right?

A. Sounds right.

Q. Okay. Now as to the waste issue. I believe you've testified that you're suggesting Coleman go take a risk that now isn't there; isn't that right? You're suggesting they plug wells and then go and attempt a recompletion in the upper well?

A. Yes, I do.

Q. And it is your opinion that in theory they would be able to -- once they plug the old well, they'd be able to increase the production, get it back up by going in and

perforating in the upper zones; isn't that right?

A. Yes.

Q. Now you're the owner of Redwolf Production Company, are you not?

A. Yes.

Q. And since the original Coleman case you, in fact, in the west offset in Section 13 decided to do just that, go back into the well and attempt to perforate the upper --

A. We assumed that risk.

Q. And how much did it cost?

A. About $60,000.

Q. And it wasn't successful, was it?

A. Yes, we have seen an increase in production.

Q. But not what you were hoping?

A. No, there's sign in our well that there's depletion.

Q. And so basically what you're recommending is that this Commission [*sic*] tell Coleman to do what you've done with marginal success?

A. If I had 340,000 MCF in estimated reserves, it would be a different figure. I don't.

Q. And you would agree with me that what you're in the bottom line recommending is this to access the same reserves to significantly increase the costs of recovering those?

A. Rate of return in excess of 100 percent is not marginal economics.

Q. But that wasn't my question. My question was, no matter what the economics are, you're asking that they tack, even if they are successful, $150,000 onto this effort?

A. Yes.

MR. CARR: That's all I have.

EXAMINER JONES: I have a few questions. Richard is not here, so I'll take up the slack.

MR. BROOKS: Okay.

EXAMINER JONES: I'll drag things out.

EXAMINATION

BY EXAMINER JONES:

Q. Okay, those upper coals, did you look at those, how thick those are?

A. They're real thin.

Q. They're pretty thin. Can you pack that much gas in those upper coals?

A. If you calculate drainage radiuses, they're large, yeah, they are. But obviously the gas is coming from those perforations.

Q. It's coming through those perfs, but can it be from those coals?

A. There's been a lot of study done in that area as

far as where the gas comes from that's in the PC and that's in the Fruitland Coals. And then keep in mind that the sands of the Fruitland are horrible, they're very dirty, very shaly. And a lot of the chemical analysis indicates that what gas comes out of these nasty little sands is basically generated from coals.

Q. So it's stored in the sands, but --

A. Yes.

Q. -- it's generated in the coals?

A. And then it gets ugly, because there's some areas where the Fruitland sands are a pool.

Q. Are -- Pardon?

A. Are a pool, in and of their own. It's complicated.

Q. Isn't it true that this -- Well, let's look at the decline analysis here. I'm -- and on this Ricky Number 1, which apparently is the best well, right, compared to the Number 2?

A. Of the parent, yes.

Q. Okay, because it's already getting surrounded by three more. Back in '95 or so it had been kind of rocking along, and then all of a sudden it starts on this -- Let's see what this is here. Wow, this is about a 47-percent decline or so.

A. Yes.

Q. So what happened there, and why?

A. During that time period a lot of production was being brought on line in the Basin. There was a large switch to wellhead compression. Wellhead compression caused gathering line pressures to increase. The wells that were terribly hurt by this higher line pressure are the low-pressure, marginal producers, slimhole PCs, slimhole coal wells.

You can see from the reservoir pressure that there's nothing there. If you have any increase in line pressure, if you only have a hundred pounds of bottomhole pressure, ten pounds at surface, you've lost ten percent of your reserves. All of the Basin suffered during that period, until everybody else got wellhead compression, and then it all evens out.

Q. Okay, the pipelines were built and they were finally able to afford compression or --

A. You had to --

Q. -- regional compression --

A. -- keep up.

Q. -- or -- keep up.

Now this shut-in period -- Well, first of all, let's march forward in time here. The water reported obviously not very much. This is a daily rate. And then -- but it -- and it wasn't reported after that. So what do

you suspect on water?

A. I suspect they're reporting zero on the C-115s, where it would show up in the data. Again, it's not beam-lifted. If it produced any water, it would be through an emitter to atmosphere. There's really no way to determine amount.

Q. Okay, during the shut-in period, which Coleman shut it in the way they're supposed to, it didn't kill the well, did it? I mean, when they put it back on, it even did better than it did before?

A. Uh-huh.

Q. So why was that?

A. It's hard to say. There's a lot of variables that determine the production. As Alan said, if they lower their suction pressure on the compressor, you'll get a bump in production. Until all of that settles out and forms some sort of continuation, there's little bumps. But basically the well did respond well to compression.

Q. Yeah, and -- but you slapped a 10-percent decline on this where -- Do you really think it can produce for another -- What have we got here? Twenty-two years or -- or no, it's actually 30 years. And --

A. It's produced 25 now and gotten better.

Q. And gotten better.

A. Yeah, it's -- the way the numbers shake out. If

in fact -- if it stayed at a horizontal rate for a longer period of time, the reserves would be higher.

Q. But if you actually look at that -- those pressures -- What do you think about those pressures anyway, that they took from echo-meters? Especially in the -- in that slimhole --

A. They're -- The fluid level echo-meter is a rough guess. Again, its accuracy is going to be determined by how much reservoir pressure you have to work with. If you're in a well with 500 pounds' reservoir pressure, you could be accurate within -- you know, 50 pounds is not a big deal. If you have a hundred pounds' reservoir pressure, the amount of error increases.

It's low pressure. I don't doubt that the numbers that they received are reasonably close to the reservoir pressure.

Q. The lift -- If it's making water at all, what kind of rate would it finally load up and not be able to produce anymore? I mean, you've got it going out to like -- What is it, 5 MCF a day or something like that? Your economic limit is -- your economic limit. But is it a practical -- in your opinion is it -- At that rate can if lift any water at all?

A. It's not lifting any water now.

Q. Not --

A. Yeah --

Q. Okay.

A. -- you know. The way --

Q. Okay.

A. Yeah, it's -- Keep in mind that on running economics, that the lion's share of your present value is in your early years. It's why operators will take a marginal slimhole completion and redrill.

Q. Yeah.

A. You can get those reserves, but it isn't going to be in my lifetime, maybe not my child's. Instead, they take an economic decision to go ahead and use modern completion techniques, artificial lift, separation and that sort of thing, to speed up the recovery of those reserves. So in 40 years if it's still producing 5, who cares? It's not going to affect it.

Q. Okay, so you're sticking with this long life and -- which means that it wouldn't be a -- just four wells producing in one spacing unit, you think, would go on for a long time to come if -- if it's not cure itself by loading up here in a few years?

A. There's no reason to think so, no.

Q. Okay. Okay. $60,000 to recomplete. And what kind of frac job would you put on it if you had that well sitting there for several years with no completion, but the

well right next door is -- Now how would you keep your well from frac'ing -- from screening out --

A. The standard -- the standard frac, probably, in that area would be to use -- perforate those upper coals and use a foam frac, probably 70,000 pounds with 20-40 sand.

Granted, they drilled them within 50 wells [*sic*] of each other, and that was their choice. Keep in mind, if you had a frac that -- and 360 degrees actually lines up with each other, because there's only 50 feet of separation, then basically you've doubled your effective frac length, because not only have you frac'd your well, you've tied into their fracture.

Q. As long as you don't screen out?

A. Even if you do, you wouldn't screen out unless you got there. Once you've gotten there you've tied into the existing frac and it's a freebie.

Q. Have you seen wells that, you drill them and you hit a big fracture while you're drilling them and it produces really good for a while, and you go -- well, they go -- something happens, they cement it or something, and you try to get back into that fracture with a frac job. Have you seen -- have you been successful doing that before? Haven't you seen where that has failed to happen?

A. If you go to a Mancos shale, if you go to a type

of reservoir that is naturally fractured or that sort of thing happens, it's all rock mechanics as far as where your frac is going to go. It's a shot in the dark.

When you're drilling in the sands in the San Juan Basin, the PCs and the Fruitland Coals and that sort of thing, there aren't natural fractures. You don't really have to contend with that. I would love to drill through something and actually have it come to surface, but generally when you perforate them they go on vacuum.

Q. Did you look at the surrounding wells compared to this well as far as their -- even equality of the Fruitland Sands or the thickness of the coals, the upper coals, to see if -- why this well is so much better than the others?

A. It's difficult to tell from well logs. If you look at well logs in, say, a two-township section around here, they may vary in thickness by 10 percent or 15 percent. Sometimes the thinner horizons are better producers. There are a lot of variables, and very few of it can you determine through a well log. A lot of it is trial and error.

Q. These economics, are those Aries? No, it's Power Tools?

A. Correct.

EXAMINER JONES: That's the second person today to use Power Tools.

Help me out here. I'm running out of questions.

MR. BROOKS: Are you through?

EXAMINER JONES: I'm through.

MR. BROOKS: Well, I just have a few, just to kind of summarize what seems significant here.

EXAMINATION

BY MR. BROOKS:

Q. You are not disagreeing with the testimony that there is no communication between the upper coals and the basal coals; is that correct?

A. That's correct.

Q. And you are not testifying that there is anything about this -- granting of this order, that you know of, that will reduce the amount of gas that Pro New Mexico would be able to recover through the wells they're drilling on the offsetting acreage?

A. Their concern would be that the way the rulings have been written regarding those wells in the past, there has been no verbiage that states that additional pay can't be opened in the replacement wells. If they're allowed to simultaneously dedicate, then basically a sundry is required to open up that pay, and then you would have 80-acre infills for whatever zone that they open --

Q. So if they were --

A. -- instead of 160.

Q. So if, but -- in your opinion, if, but only if, the replacement wells were allowed to produce simultaneously with the original wells from the upper columns, then it would affect the ability to recover from the offset?

A. Correct.

Q. But if the replacement wells are not perforated in the upper coals, then that would not happen? I mean, for you -- you don't know of any reason to believe it would?

A. No.

Q. That was my understanding. I wanted to make that clear -- I wanted to get that clear in mind.

Now when -- I don't know anything about working on wells in the San Juan Basin, so -- I'm a lawyer, and I'm not a petroleum engineer, so if my questions sound ignorant they probably are.

But when you do a re-work, such as a re-entry to recomplete an upper zone, which would be what would have to be done, according to both your testimony and Mr. Emmendorfer's, to produce from the upper coals in these other wells, is there not some risk that in that recompletion process there will be damage to the well so that it will not be as productive from where it's now producing from as it otherwise would have been?

A. There's always risk. It's possible that you would have completion problems. It's an operator's call. Certainly Pro New Mexico is going to be forced to bear that risk when they do their completions, and they'll have to complete the lower coal and make that choice and assume that risk if they complete the upper coals.

It's also possible with new completion techniques -- It's 25 years old; there's a lot of improvements in frac design and quality, also with artificial lift, that you could get a bump in ultimate recovery. Again, there's always those variables.

MR. BROOKS: Thank you, I think that's all I have.

MR. CARR: Nothing further.

MR. KELLAHIN: Nothing further.

MR. CARR: I have a brief closing.

EXAMINER JONES: Okay, who wants to go first?

MR. CARR: Tom --

MR. KELLAHIN: Opponents usually go first.

Curious problem. It's apparently unique in the pool to have four wells in competition with -- in a pool where two are allowed.

This is a problem that Coleman created for themselves, and for some reason it's been deflected and put on you to decide and for us to somehow be the bad guys, to

ask you to plug a well that's commercial and still producing gas. But they made those decisions for themselves, or we wouldn't be here at all.

The replacement wells were permitted by them and were -- obtained approval only because they were intended to be replacement wells. Their intention was to plug the parent wells and replace them. They were slimhole completions that couldn't access the basal coal, and that's where they wanted to go.

And then after they did that work, they changed their mind and decided that they would protract the production of the upper coal with the original well and ask you for approval to postpone plugging it by creating a science project. That was the perception we had when we came before Mr. Catanach back in '04, that it was intended to be a science project to gather data so that Coleman and others in the area might learn if it's going to be economic to take the basal coal wells in these larger wellbores, and add the upper coal to it. That was Coleman's intention as part of their science project.

And they continued it in '06 after another hearing before you, Mr. Jones, and got an additional year's extension. For the last four years, almost, they've been running a science project. Our engineer has studied the data they've provided and demonstrated it's economic to

recomplete the basal wells and add the upper coal, and it can be done for -- profitably, and the costs can be paid for out of that production.

Having demonstrated that, we're now in the position of being the bad guys, to ask you to do -- to require what Coleman said they were going to do back in February of '03, which was to plug the original wells and replace them.

While it's hard to quantify, and Mrs. Delventhal could not articulate precisely the correlative-rights issue at hand, it seems inherently unfair to me to somehow change the rules and allow Coleman to do something that they now say that they want to do, when three years ago they said they didn't need to do this. And Mr. Carr's about to tell you the rule's the rule, and that's all I'm arguing is the rule, and there's no damage, no harm, no foul, don't make us plug our well.

It's like undrilling the well at the unorthodox location. Once it's done, you can't get rid of it. And what do you construct? Some kind of penalty? They never work. And the stake here is, Coleman has changed their mind and wants to be absolved from the consequence of doing that.

Mrs. Delventhal suggested that one way that might provide an element of protection is to make it abundantly

clear in the order, if you decide to approve this at all, that they cannot add perforations to the wellbore. I don't know how you police all that. It's hard to do. As you can see, you can file a sundry notice and add perforations without notice to anybody. I don't know how we're going to know if that happens by Coleman or the successor-in-interests.

So I share with you the frustration about what to do. But I'm annoyed that somehow this turned to be your fault and my responsibility for complaining about plugging a producing well. It's what they asked for. They now need to do what they said they were going to do, and they can do so profitably without unusual expense and put them back in compliance and not grant them the exception that no one else has ever had.

MR. CARR: I don't think anybody's talked about bad guys here but Tom. And I would suggest he should take his sackcloth off, because Coleman has not suggested that Mr. Kellahin has caused anything, that it's his fault, or that it's your responsibility. This is -- You know, I guess a good offense is a great defense, but the facts being portrayed by Mr. Kellahin are not true.

If you look at Exhibit Number 3, this is the exhibit that shows the wells that are completed in the area. You can see that Coleman has acquired a number of

wells that are completed only in the Basin Coal.

In 1983 -- I'm sorry, in -- when we came for our original hearing, we were telling you we wanted to go out and test wells to try and gain information to determine how we could economically and effectively produce these upper coals. And we had a unique situation, and it was of our creation. We drilled replacement wells close to the original wells, planning to plug the original wells. And then we put compression on the original wells and we were surprised, because there was a significant jump that showed there was significant coal. And we are -- or gas in this coal.

And we came to you with a geological interpretation that suggested that this was separate from the basal coal being produced in the lower zone. And we asked because of this unique fact to be able to go out and gather information, and we have. And the information we have and we've presented shows these 50 feet apart, vertically and horizontally, they're not in communication with one another. And that is important information.

And it's important to Coleman as they go forward, trying to develop the gas in the area shaded in yellow, and it's probably important to Merrion who offsets us to the east, it may be important to Dominion off to the northeast. But we have acquired the data, and we have done what we

told you what we were going to do.

And we have also told you today that we are now going out to try and -- in a well completed only in the basal coal, to complete in the upper coal, to see if it can be done. Because in this intervening period Redwolf, Ms. Delventhal, went out and tried to do that as our immediate west offset, and the results were very disappointing.

And you can call it a science project, or you can call it prudent operations, but that's what we have been about from the beginning here. And we don't really don't appreciate being characterized as someone who's trying to lob things at Pro New Mexico.

Because, you know, I asked Ms. Delventhal one question which I think is the overall question here: Why are they objecting?

Well, you know, I guess -- I'm going to tell you what Mr. Kellahin said. I think they're just saying the rules are the rules. That's what I hear. But you know, there's no correlative-rights issue for them. Pro New Mexico is 3000 feet away. And they say, Well, maybe in the future there could be a problem if there were extra perfs 3000 feet away, in the same interval, in violation of the rules, that's now being produced.

I would suggest to you, it would take quite a well, and a new set of perforations in 50 feet of the

existing perfs to impact Mr. Gallegos 3000 feet away, now or ever, and to get there you have to assume a violation of the rules. And I think that's, again, close to fabricating a situation here that is not before you.

You have a unique situation, you have wells in close proximity, and they gave us a chance to get data, and that's what we did. There's no correlative-rights issue for them. There is no waste issue for them whatsoever. This is not going to impact one MCF of gas they recover, either in Redwolf 1600 feet away or Pro New Mexico 3000 feet away.

But if you grant what they seek, there is a correlative-rights issue, there is a waste issue. Correlative rights is the opportunity to produce without waste your fair share of the reserves under your property. We're 840 feet away from the boundary of our acreage, and our --

MR. EMMENDORFER: Six hundred.

MR. CARR: And -- no, we're -- I'm going to get this right.

MR. EMMENDORFER: Okay.

MR. CARR: We are 830 feet -- I'm just an attorney, but I get them right once in a while.

We're 830 feet from them, and what we're being told to do is to get back to where we are, incur $150,000

of wasted money, to take a risk where we might not be able to get back to the same position to access reserves under our property, and I will tell you, that's waste. And that impairs our correlative rights.

And when you have a unique situation, we have a right to come before you and present it to you. And you look at the rules, and the rules allow for exceptions. And when you consider exceptions, you look at correlative rights and waste, and that's what you base your decision on. They have raised no issue, and we have a potential issue on both of the fundamental bases upon which your jurisdiction rests.

All we want is on the east half of this section, in the northwest quarter, one wellbore that is accessing the upper coal and one wellbore that's accessing the lower, the basal coal. And the same thing in the southwest, one in the upper coal, one in the basal coal.

And when Mr. Gallegos finishes his wells, if he does, in 18, what he did in 8, he will have in his northeast quarter one well in the upper, one well in the basal. In the southeast, one well in the upper, one well in the basal.

And so the question we have is why? Where is the real reason to deny this Application? And when you look for that and compare it to your statutory duty, you will

find, Mr. Jones, it does not exist.

EXAMINER JONES: Okay, thank you both. And thank you, the witnesses today.

And with that we'll take Case 13,894 under advisement.

(Thereupon, these proceedings were concluded at 3:34 p.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ _____.

_____, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 30th, 2007.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010