

Fruitland Coal Infill De Novo Hearing

Summary and Regulatory

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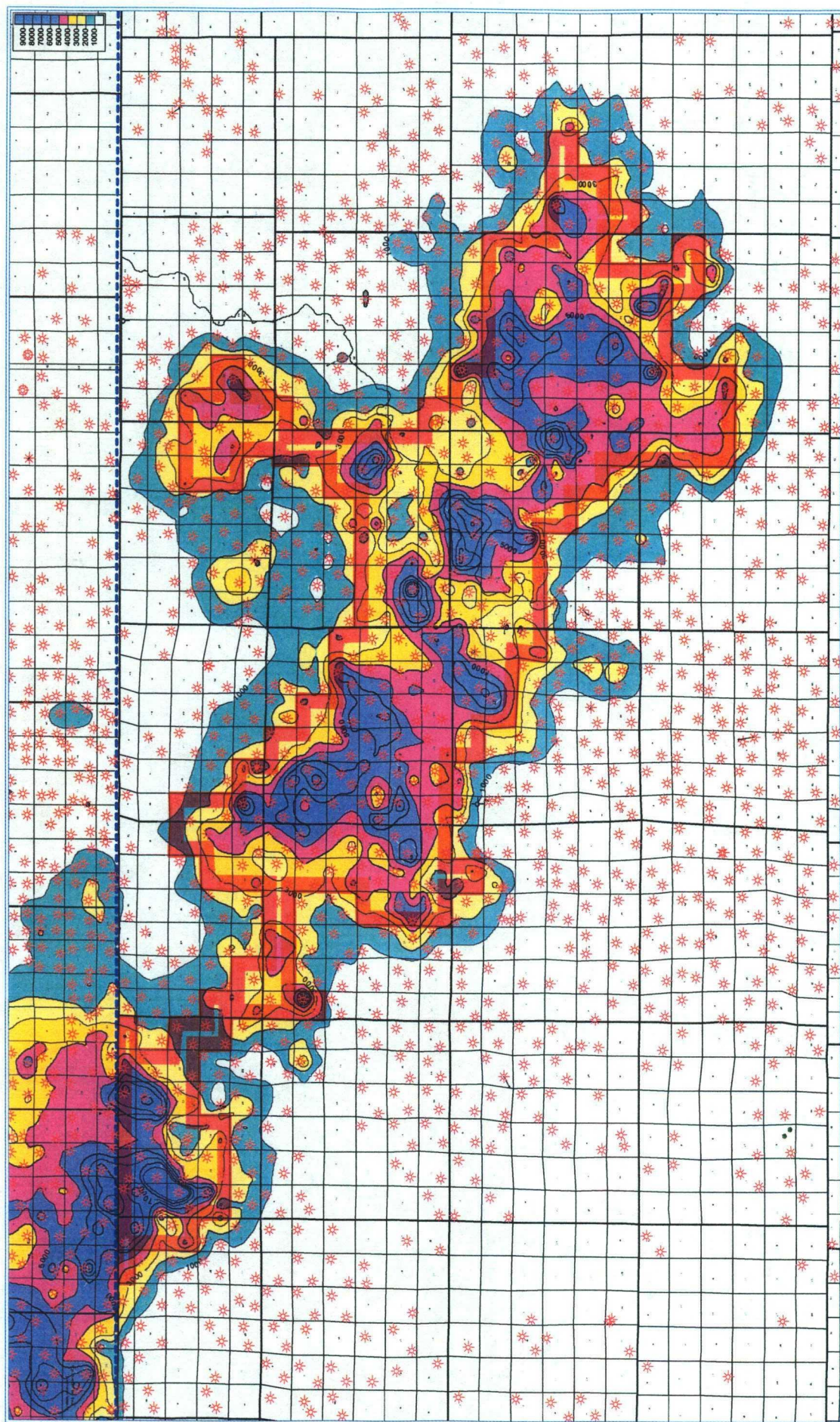
BP

Fruitland Coal HPA Infill

HPA Boundary

- The boundary is designed to encompass a portion of the Fruitland Coal pool where wells have very prolific rate for the purpose of notification of infill to offset operators.
- However, the boundary does NOT separate the pool into areas where infill wells are needed from areas where infill wells are not needed.
- There are approximately 75 wells inside the boundary with highest rates less than 2 mmcf/d and 100 wells outside the boundary with highest rates greater than 2 mmcf/d.
- The majority of spacing units in HPA will benefit from infill development.

Fruitland – Highest Avg Daily Rates -mcf/d

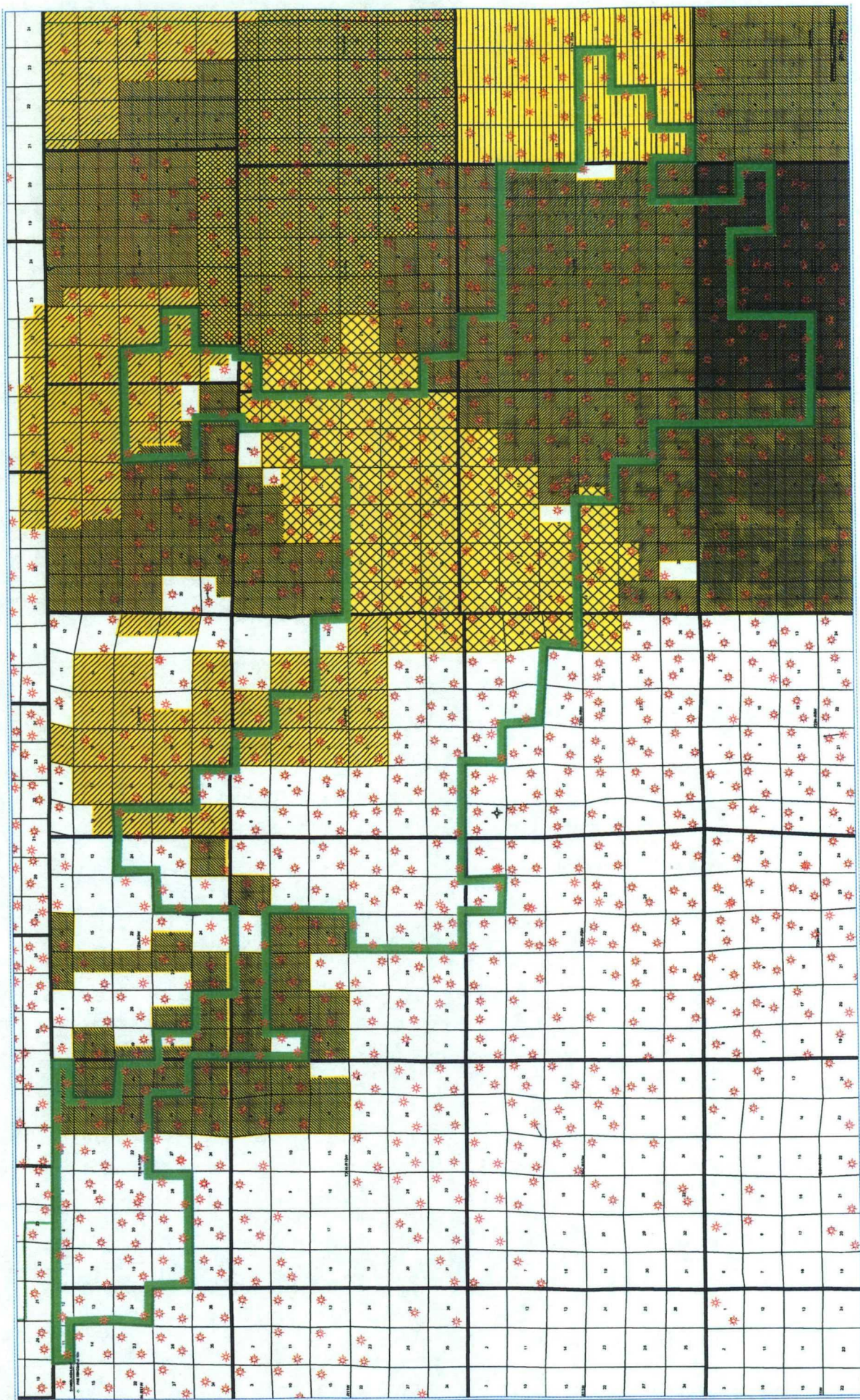


Fruitland Coal HPA Infill

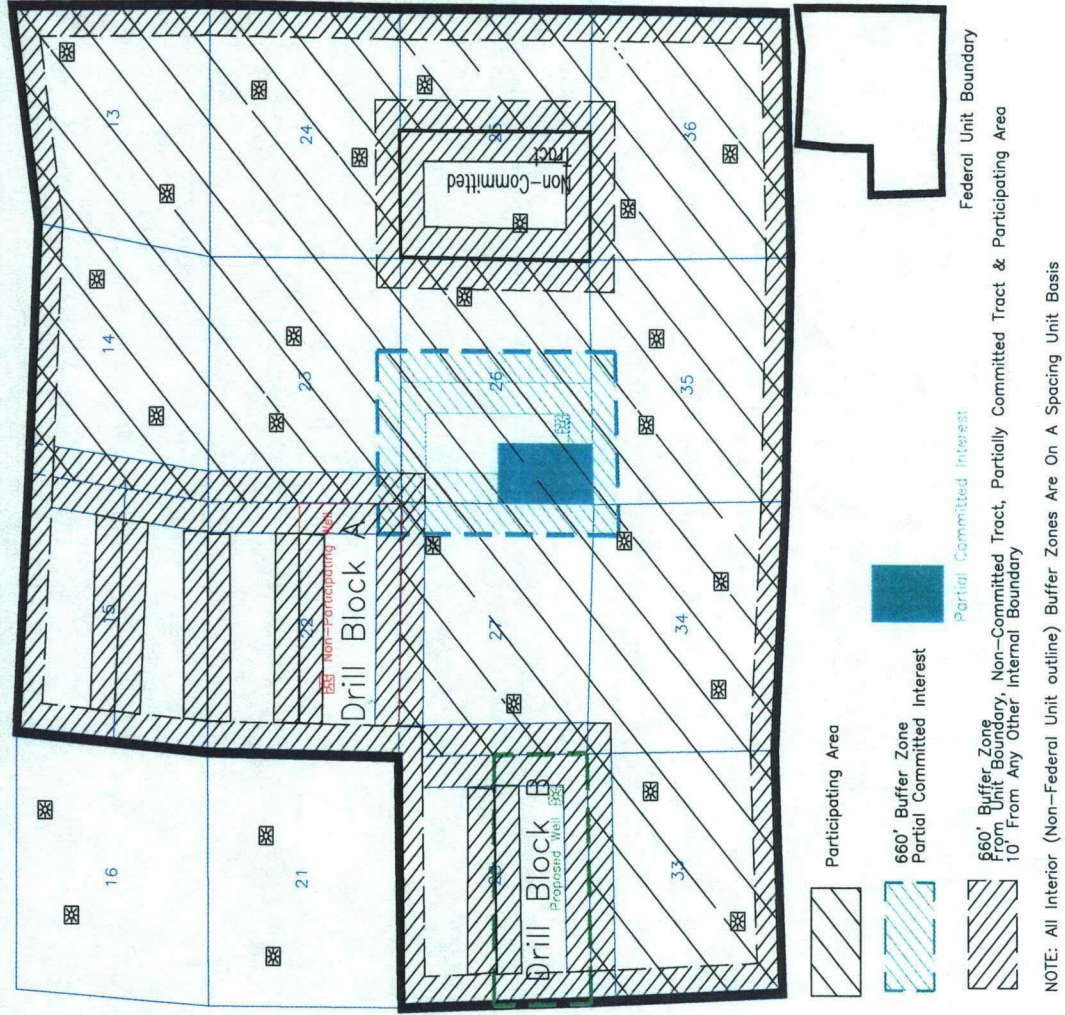
Prevention of Waste

- NMOCD approval of infill development in the HPA will prevent waste and allow significant incremental reserves to be recovered.
- Industry estimates of incremental reserve recovery for infill range from 244 BCF to 640 BCF in the HPA.
- USGS study indicates 4 TCF of undiscovered resources in the Fruitland Coal Fairway (CO and NM).
- BLM Resource Management Plan provides for Fruitland Coal development on 160 acre density in New Mexico.

HPA Boundary & Units



Basin-Fruitland Coal Pool Proposed Well Location Setbacks



Fruitland Coal HPA Infill

Protection of Correlative Rights

- Notice of infill will protect correlative rights of affected parties similar to Non-Standard Location procedure.
- This process will allow operators to efficiently permit and drill infill wells where there is no objection from offset operators.
- Where offset operators are concerned about correlative rights, their protest will initiate an NMOCD hearing to determine justification for the infill well.

Fruitland Coal HPA Infill

Notice to Offset Spacing Units

									
6		6		5		4		4	
									
7		Operator A 100% WI		8		No Operator 9		Operator A 50% WI	
									
18		Operator C 100% WI		17		Operator B 50% WI		16	
									
		Operator C 50% WI		Operator A 100% WI		Operator B 50% WI		Operator A 50% WI	



Proposed Infill Well



Quartersection with proposed infill well



Offset spacing units receiving notice

Notice Affected Parties as follows:

1) Division designated operator

2) If no operator is designated, then notice lessee of record or mineral owner if no lessee

3) If operator is same as proposed infill and ownership is not identical, notice goes to working interest owners

4) If operator is same as proposed infill and ownership is identical, no notice is required

Fruitland Coal HPA Infill

Regulatory Impacts

- District administrative APD process will provide operators a cost and time efficient way to carry out drilling programs for infill wells.
- Current order requiring NMOCD hearing for each well (\$10M per well) could add up to \$4MM in additional regulatory costs.
- Requiring hearings on each infill well would add years of additional time for NMOCD and industry to process approval of development programs.
- Requiring hearings on each infill well imposes inefficient use of time and money for both industry and NMOCD.

Fruitland Coal HPA Infill

Regulatory Summary

- NMOCD approval of infill development in the HPA will prevent waste and will allow significant incremental reserves to be recovered.
- Notice procedure will protect the correlative rights of affected parties similar to Non-Standard Location process.
- District administrative APD approach will provide operators and NMOCD an efficient procedure to implement the infill development.
- Well location rules similar to other pools in the San Juan Basin will provide operators many opportunities to use existing well bores, well pads, and facilities to minimize potential surface disturbance.

Supplemental Introduction Exhibits

BASIN FRUITLAND COALBED METHANE COMMITTEE

- August 4th, 1999. Organizational meeting to reconvene Coalbed Methane Committee, E. Busch, NMOCD, Chairperson. Additional preliminary meetings.
- September 22nd
- October 18th, 1999
- May 4th, 2000 Steve Hayden assumes chair of committee for NMOCD.
- August 17th, 2000 Burlington Resources presents pressure data for SJ 28-6 Unit. BR stated that coal in this area appears to behave like multi-layer reservoir.
- December 7th, 2000 SH presented proposal to set up a pilot study group coordinated by Ralph Hawks of Williams.

BASIN FRUITLAND AND COALBED METHANE COMMITTEE

- | | |
|---------------------------------|--|
| January 11 th , 2001 | Organizational meeting of pilot study group led by Ralph Hawks at offices of BR Farmington. Discussed separation of low and high rate areas. |
| January 18 th , 2001 | Line map presented by BR along with plan for separate layer pilot test wells. |
| April 12 th , 2001 | Presentation of reservoir simulations by:
John Mansoori, BP-Bohannon Canyon.
Vu Dinh, BP-Carracas Canyon Unit.
Robin Tracy, XTO-T28N,R11W area.
BR presented plan for 5 well pilot in low rate area. |

BASIN FRUITLAND COALBED METHANE COMMITTEE

May 17th, 2001

BR presented Case 12646 to NM OCD, application to drill five infill pilot test wells in the Fruitland Coal.

August 15th, 2001

Fairway line discussion continued. Plan introduced to change administrative procedure to infill in Fairway.

August 22nd, 2001

NM OCD issued R-11639, authorizing the pilot test wells.

March 14th, 2002

BR presented preliminary pilot results to the committee. BP presented engineering model showing the variability of drainage areas within the Fairway.

BASIN FRUITLAND AND COALBED METHANE COMMITTEE

March 14 th , 2002	Committee approved including the Cedar Hill Fruitland Basal Coal Pool in the Basin Fruitland Coal Pool. Application subcommittee (ASC) formed.
April 11 th , 2002	ASC met and set line to define High Productivity Area (HPA) as continuous area above 2MMCF/D production. Inside the High Productivity Area are some areas w/<2MMCF/D production.
May 7 th , 2002	ASC meeting general agreement reached on application.
May 30 th , 2002	Application presented to full committee.
June 18 th , 2002	Public meeting announcing the infill application.

BASIN FRUITLAND COALBED METHANE COMMITTEE

- July 9th, 2002** NMOCD hearing Committee application for infill in the Basin Fruitland Coal Pool.
- October 15th, 2002** NMOCD Case 12888 Order R-8768-C approving infill in the LPA and denying infill in the HPA of the Basin Fruitland Coal Pool.
- November 21st, 2002** Burlington and Devon present layer pressures taken from 9 wells in the HPA showing individual coal beds not being drained or partially drained.
- February 6th, 2003** Committee reviewed layer pressure study and alternatives for infill in the HPA. Majority vote on keeping the HPA boundary with administrative procedure for infill inside the HPA.