

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 13279
ORDER NO. R-12201**

**APPLICATION OF COLEMAN OIL & GAS INC. FOR AN EXCEPTION TO
RULE 7(d) OF THE SPECIAL POOL RULES AND REGULATIONS FOR THE
BASIN-FRUITLAND COAL GAS POOL TO AUTHORIZE THE
SIMULTANEOUS DEDICATION OF THE W/2 OF SECTION 18, TOWNSHIP 26
NORTH, RANGE 11 WEST, NMPM, TO FOUR EXISTING COAL GAS WELLS,
SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 24, 2004, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 26th day of August, 2004, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Coleman Oil & Gas, Inc. ("Coleman"), seeks an exception to Rule 7(d) of the *"Special Pool Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as established by Division Order No. R-8768, as amended,"* to authorize the simultaneous dedication of the W/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico, to the following-described four existing coal gas wells:

<u>Well Name & Number</u>	<u>API Number</u>	<u>Well Location</u>
Ricky Well No. 1	30-045-25976	790' FNL & 875' FWL (Unit D)
Ricky Well No. 1R	30-045-31165	765' FNL & 830' FWL (Unit D)
Ricky Well No. 2	30-045-25977	1850' FSL & 790' FWL (Unit L)
Ricky Well No. 2R	30-045-31166	1845' FSL & 745' FWL (Unit L)

(3) The applicant further seeks authority to conduct a one-year production test by simultaneously producing the Ricky Wells No. 1, 2, 1R and 2R. The production test is designed to determine the economic viability of producing the upper coal interval in this portion of the Basin-Fruitland Coal Gas Pool, and to determine the feasibility of producing these intervals in existing coal gas wells without completing and commingling the production from all stringers in individual wellbores.

(4) During the one-year production test, Coleman proposes to:

- (a) produce two upper coal intervals only within the Ricky Wells No. 1 and 2, and produce the basal coal interval only within the Ricky Wells No. 1R and 2R;
- (b) obtain and monitor bottomhole pressure data to ensure that no communication between the upper coal intervals and the basal coal interval is occurring in any of the wellbores; and
- (c) monitor and obtain additional production data from the Ricky Wells No. 1 and 2.

(5) Mr. Gene Gallegos d/b/a Pro NM Energy, Inc. and Martin & Caroline Proyect appeared at the hearing through legal counsel to oppose the application. Pro NM Energy, Inc., according to its legal counsel, owns an interest in the E/2 of Section 18, Township 26 North, Range 11 West, NMPM.

(6) The subject wells are located within the "Low Productivity Area" of the Basin-Fruitland Coal Gas Pool, this area having been defined by Division Order No. R-8768-C dated October 15, 2002.

(7) Rule No. 7(d) (Well Density) of the "Special Pool Rules and Regulations for the Basin-Fruitland Coal Gas Pool" states:

"(1) Well density within the Low Productivity Area":
No more than two (2) wells per standard 320-acre gas spacing unit may be located in the "Low Productivity Area" of the pool as follows:

(i) the OPTIONAL INFILL WELL drilled on an existing spacing unit shall be located in the quarter section not containing the INITIAL Fruitland coal gas well;"

(8) The applicant presented evidence that demonstrates that:

(a) the W/2 of Section 18 is comprised of two separate Navajo-allotted leases;

(b) the Ricky Wells No. 1 and 2, the original wells within the W/2 of Section 18, were drilled in 1984 by Simmons Engineering Company and completed within the South Gallegos Fruitland Sand-Pictured Cliffs Gas Pool. Pursuant to the rules applicable for that pool, each of the wells was drilled on a standard 160-acre gas spacing and proration unit;

(c) the Ricky Wells No. 1 and 2 are both completed in two upper coal intervals in the Fruitland formation that appear to be continuous and correlatable within the W/2 of Section 18. Within the Ricky Well No. 1, these two upper coal intervals are located at depths of 1,194-1,198 feet and 1,220-1,224 feet. Within the Ricky Well No. 2, these two upper coal intervals are located at depths of 1,150-1,154 and 1,182-1,186 feet;

(d) the Ricky Wells No. 1 and 2 were placed within the Basin-Fruitland Coal Gas Pool in 1989. The spacing unit for these wells was amended at that time to comprise the W/2 of Section 18;

- (e) Coleman acquired the Ricky Wells No. 1 and 2 in March, 2002. Coleman's intent at that time was to drill two twin replacement wells to produce the basal coal interval within the Basin-Fruitland Coal Gas Pool, and to subsequently plug and abandon the Ricky Wells No. 1 and 2; and
 - (f) the Ricky Wells No. 1R and 2R were drilled as twin wells to the Ricky Wells No. 1 and 2 in January, 2003 and subsequently completed in the basal coal interval at depths, respectively, of 1,260-1,270 feet and 1,218-1,228 feet.
- (9) Production data submitted by Coleman demonstrates that:
- (a) from 1984 until May, 2002 (the date the wells were acquired by Coleman) the Ricky Wells No. 1 and 2 cumulatively produced approximately 121 MMCF and 78 MMCF of gas, respectively, from the two upper coal intervals within the Basin-Fruitland Coal Gas Pool;
 - (b) in May, 2002 the Ricky Wells No. 1 and 2 were producing at an uneconomic rate of approximately 8-10 MCF of gas per day;
 - (c) in May, 2002, Coleman installed compression equipment on the Ricky Wells No. 1 and 2 and as a result, the production from these wells increased to approximately 40-50 MCF of gas per day per well; and
 - (d) during January 2004, the Ricky Wells No. 1R and 2R produced at rates of approximately 197 MCF and 232 MCF of gas per day, respectively.

(10) The applicant testified that due to the marginal coal gas reserves associated with the upper coal intervals in this portion of the pool, it is a fairly common practice for operators to complete only the basal coal interval.

(11) The applicant further testified that the primary intent of the production test is to observe whether or not the Ricky Wells No. 1 and 2 can sustain their current production rate from the upper coal gas intervals. The applicant will then use this data to determine the ultimate recovery from these zones.

(12) The evidence presented by the applicant demonstrates that:

- (a) the Ricky Wells No. 1 and 2 are not producing from the same coal intervals that are being produced in the Ricky Wells No. 1R and 2R;
- (b) there is a 30-foot shale section present in the subject wells located between the upper coal intervals and the basal coal interval that serves as a barrier to communication between these zones;
- (c) although all four of the subject wells were fracture stimulated, Coleman testified that well testing has demonstrated that it did not establish communication between the upper coal intervals and the basal coal interval in these wells;
- (d) the current wellbore configuration within the W/2 of Section 18 provides the applicant a unique opportunity to determine the ultimate recovery of gas from the upper coal intervals;
- (e) the data obtained from the production test will provide the applicant, and other operators in this area of the pool, valuable information that can be utilized to determine whether or not gas reserves from the upper coal intervals can be economically recovered;
- (f) the production test, as proposed by the applicant, does not violate the intent of Division Order No. R-8768, as amended;

- (g) the production test, if conducted as proposed by the applicant, will not violate the correlative rights of other operators within the Basin-Fruitland Coal Gas Pool; and
 - (h) the proposed production test will allow the recovery of additional gas reserves from the upper coal intervals of the Basin-Fruitland Coal Gas Pool in this area that may otherwise not be recovered, thereby preventing waste.
- (13) The application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Coleman Oil & Gas, Inc., is hereby granted an exception to Rule 7(d) of the *"Special Pool Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as established by Division Order No. R-8768, as amended,"* and is hereby authorized to simultaneously dedicate the W/2 of Section 18, Township 26 North, Range 11 West, NMPM, San Juan County, New Mexico, to the following-described four existing coal gas wells:

<u>Well Name & Number</u>	<u>API Number</u>	<u>Well Location</u>
Ricky Well No. 1	30-045-25976	790' FNL & 875' FWL (Unit D)
Ricky Well No. 1R	30-045-31165	765' FNL & 830' FWL (Unit D)
Ricky Well No. 2	30-045-25977	1850' FSL & 790' FWL (Unit L)
Ricky Well No. 2R	30-045-31166	1845' FSL & 745' FWL (Unit L)

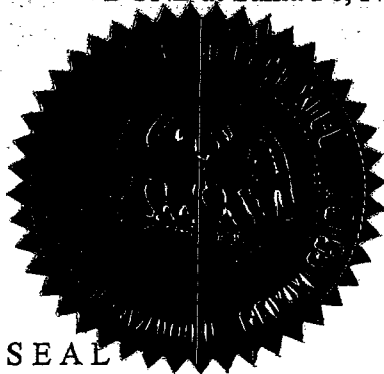
(2) The applicant is hereby further authorized to conduct a one-year production test to determine the economic viability of producing the upper coal interval in this portion of the Basin-Fruitland Coal Gas Pool, by simultaneously producing all four of the subject wells.

(3) The applicant shall conduct the production test in accordance with the parameters established as follows:

- (a) the Ricky Wells No. 1 and 2 shall be produced only from the upper coal intervals of the Basin-Fruitland Coal Gas Pool, and the Ricky Wells No. 1R and 2R shall be produced only from the basal coal interval of the Basin-Fruitland Coal Gas Pool;
- (b) bottomhole pressures within each of the subject wells shall be determined quarterly. In the event bottomhole pressure data indicates communication between the upper coal intervals and the basal coal interval, the production test shall immediately cease and the applicant shall consult with the supervisor of the Division's Aztec district office in order to determine a procedure to plug and abandon the Ricky Wells No. 1 and 2;
- (c) the production test shall commence on September 1, 2004, and shall end on August 31, 2005; Subsequent to August 31, 2005, the Ricky Wells No. 1 and 2 shall be shut-in until such time as the final disposition of these wells is determined; and
- (d) in order to obtain detailed data, the production from each of the wells shall be separately metered.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director