

**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 THE:**

APPLICATION OF COLEMAN OIL & GAS INC. TO AMEND ORDER NO. R-12201 TO EXTEND FOR ONE YEAR THE PRODUCTION TEST AUTHORIZED THEREIN TO DETERMINE THE ECONOMIC VIABILITY OF SIMULTANEOUSLY PRODUCING FOUR EXISTING GAS WELLS ON A STANDARD 320-ACRE SPACING UNIT IN THE BASIN-FRUITLAND COAL GAS POOL, SAN JUAN COUNTY, NEW MEXICO.

**CASE NO. 13558
ORDER NO. R-12201-A**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 22, 2005 and on November 17, 2005, at Santa Fe, New Mexico, before Examiners William V. Jones and David R. Catanach respectively.

NOW, on this 3rd day of February, 2006, the Division Director, having considered 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 the subject matter.

2. On August 26, 2004 the Division in Order No. R-12201, Case No. 13279, allowed Coleman Oil & Gas, Inc. ("Coleman") 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, authorizing 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:

Well Name & Number	API Number	Well Location
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. Division Order No. R-12201 also limits the production of all four wells to a one-year time period, requires Ricky wells No. 1 and 2 to produce only from the upper coal intervals and requires these two wells to be shut-in after August 31, 2005.

4. On September 1, 2005, the Division granted Coleman temporary approval to continue producing its Ricky Wells No. 1 and 2 until such time as Coleman's application to extend the production test is heard by the Division.

5. In this case, Coleman seeks authority to continue producing these four wells on the same spacing unit for an additional year in order to determine the economic viability of producing the upper coal intervals of the Fruitland Coal Gas Pool and the feasibility of producing these intervals without completing and commingling the production from all stringers in individual wellbores.

6. This case was presented to the Division by Coleman with testimony from a geologist on September 22, 2005 then was re-advertised and heard on November 17, 2005.

7. No other party has entered an appearance in this case or has opposed this application.

8. 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.

9. 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;"

10. Coleman presented testimony and evidence as follows:

(a) The W/2 of Section 18 is comprised of two separate Navajo allotted leases. Coleman is the 100 percent working interest owner of both leases and all overrides are common between leases.

(b) The Ricky Wells No. 1 and 1R are "twinned wells" located on the

same pad in Unit D. The Ricky Wells No. 2 and 2R are also twins located on the same pad in Unit L.

(c) The Ricky Wells No. 1 and 2 were originally drilled, completed, and fracture stimulated in the Gallegos Sand Gas Pool, which is spaced on 160 acres, with 2-7/8 inch casing strings. This Pool consisted only of the upper Fruitland sands and coals. The basal coal was not originally exploited. Coleman bought the property and decided to drill new wells to complete the basal coal. The addition of compression on the two older wells resulted in significantly increased production.

(d) With the existence of the two older and two newer wells on the same 320 acres, Coleman saw this opportunity to further test the production capability of the upper coals separately from the lower coals.

(e) Since the entry of Division Order No. R-12201, Coleman has been producing all four wells from the Basin-Fruitland Coal Gas Pool. The Ricky Wells No. 1 and 2 are producing only from the upper coals and the Ricky Wells No. 1R and 2R are producing only from the basal coal. Coleman has monitored the production data and taken quarterly bottom hole pressures in order to determine gas reserves and look for interference between wells and vertically between reservoirs.

(f) The data so far is judged to be preliminary and not conclusive and additional time is needed to gather additional production and pressure data. Pressure data gathered to date indicate that vertically the upper and lower intervals are not communicated. Production data gathered to date has not shown conclusive trends.

(g) The upper coals typically have been fracture treated with 25,000 lb of sand while the basal coals are typically treated with 100,000 lbs of sand. The ultimate recovery from the upper perforations is expected to be approximately 0.2 bcf of gas with coal thicknesses around 5 feet. The upper interval produces very little water. The basal coals are approximately 14 feet thick, have initially produced water, and gas production peaks within 6 months of the beginning of production, then production begins to decline. Gas content numbers have not been obtained for these coals but are assumed to be approximately 120 scf per ton.

(h) Within the upper perforations, Coleman is attributing most of the production to the coals and little from associated channel sands.

(i) 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 evidence presented by the applicant demonstrates that:

(a) Coleman has 4 gas wells within one standard 320 acre Basin-Fruitland Coal Gas spacing unit, but only two of these wells are simultaneously producing from identical coal intervals. Within the past year, vertical communication between the upper and lower coals did not occur. However, if communication does occur, the effect would be that Coleman has 4 wells producing from all coal intervals within this standard 320 acre spacing unit.

(b) If the test is to continue, pressure data should be further monitored to see evidence of vertical communication, and the Ricky Wells No. 1 and 2 immediately shut in if vertical communication is seen in the bottom hole pressure data trends.

(c) Production data is still inconclusive and additional production data from all four wells is needed to more accurately determine the ultimate reserves within both the upper and lower coals.

(d) Data obtained from the production test is valuable to Coleman and to other operators within this pool. The production test does not violate the intent of Division Order No. R-8768, as amended, and will not violate the correlative rights of other operators within the Basin-Fruitland Coal Gas Pool.

(h) The extension of this 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.

12. The application to amend Division Order No. R-12201 and thereby extend the production test for one additional year should be approved.

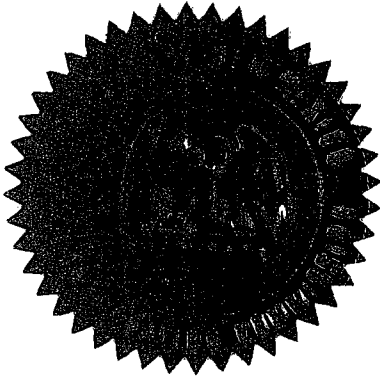
IT IS THEREFORE ORDERED THAT:

1. The application of Coleman Oil & Gas, Inc. to amend Division Order No. R-12201 by extending the production test approved therein for an additional year is hereby approved. The production test shall run no longer than one year from the date of this order at which time the Ricky Wells No. 1 and 2 shall be shut-in.

2. All other parts of Division Order No. R-12201 shall remain in full force and effect including the parameters governing the production test.

3. 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE P.E.
Director