

VPR "B" 219

30-007-20718

February 14, 2006

Roy Johnson  
New Mexico Oil Conservation Commission  
1200 S. St. Francis Ave.  
Santa Fe, New Mexico 87740

**SUBJECT: Request for Non-Standard Locations**

Dear Roy,

El Paso E & P Company has submitted twenty-one (21) *Applications for Permit to Drill* (APD's) for named CBM wells VPRB 201 through VPRB 221. These proposed wells share acreage of the individual 160 acre drilling units with Carson National Forest under individual *Compensatory Royalty Agreements* which are attached to the referenced APD's.

There exists an *Administrative Order NSL-4251* which addresses unorthodox drilling locations on the remainder of the New Mexico portion of the Vermejo Park Ranch which was issued by the NMOCD on April 5, 1999. Eight of the referenced 21 APD's, namely VPRB-201, 203, 209, 211, 215, 217, 218, 219, are within 660 feet of the lease line. The BLM is aware of the proximity of these location and approval the agreements.

Please consider this correspondence as a request for Non-Standard Locations for these eight exceptional wells.

2006 FEB 15 PM 1 25

Respectfully,



Donald R Lankford

Operations Manager

NSL

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Avenue, Artesia, NM 88210  
District III  
1000 Rio Brazos Road, Aztec, NM 87410  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy Minerals and Natural Resources

Form C-101  
May 27, 2004

Oil Conservation Division  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Submit to appropriate District Office

AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

2006 FEB 14 PM 1:15

|   |   |  |
|---|---|--|
| <sup>1</sup> Operator Name and Address<br><b>El Paso E &amp; P Company, L.P.<br/>PO Box 190<br/>Raton, NM 87740</b> |   | <sup>2</sup> OGRID Number<br><b>180514</b>     |
|   |   | <sup>3</sup> API Number<br><b>30-007-20718</b> |
| <sup>4</sup> Property Code<br><b>25180</b>  | <sup>5</sup> Property Name<br><b>Vermejo Park Ranch</b> | <sup>6</sup> Well No.<br><b>VPR B 219</b>      |
| <sup>9</sup> Proposed Pool 1<br><b>Van Bremmer - Vermejo</b>  |   | <sup>10</sup> Proposed Pool 2                  |

| <sup>7</sup> Surface Location |                      |                        |                     |                     |                             |                                  |                              |                               |                         |
|-------------------------------|----------------------|------------------------|---------------------|---------------------|-----------------------------|----------------------------------|------------------------------|-------------------------------|-------------------------|
| UL or lot no.<br><b>D</b>     | Section<br><b>22</b> | Township<br><b>30N</b> | Range<br><b>17E</b> | Lot Idn<br><b>D</b> | Feet from the<br><b>778</b> | North/South line<br><b>North</b> | Feet from the<br><b>1063</b> | East/West line<br><b>West</b> | County<br><b>Colfax</b> |

| <sup>8</sup> Proposed Bottom Hole Location If Different From Surface |         |          |       |         |               |                  |               |                |        |
|--|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| UL or lot no.  | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |

| <sup>11</sup> Work Type Code<br><b>N</b>   |  |  |   |  | <sup>12</sup> Well Type Code<br><b>G</b> |   | <sup>13</sup> Cable/Rotary<br><b>Rotary/Air</b> |                                     | <sup>14</sup> Lease Type Code<br><b>P</b> |  | <sup>15</sup> Ground Level Elevation<br><b>8,945'</b> |  |
|--|--|--|---|--|--|---|---|-------------------------------------|---|--|---|--|
| <sup>16</sup> Multiple<br><b>Yes</b>   |  |  | <sup>17</sup> Proposed Depth<br><b>3,025'</b> |  |  | <sup>18</sup> Formation<br><b>Vermejo</b> |   |                                     | <sup>19</sup> Contractor<br><b>Pense</b>  |  | <sup>20</sup> Spud Date<br><b>March 1, 2006</b>       |  |
| Depth to Groundwater   |  |  |   | Distance from nearest fresh water well |  |   |   | Distance from nearest surface water |   |  |   |  |
| Pit: <input type="checkbox"/> Liner: Synthetic <input type="checkbox"/> _____ mils thick Clay <input type="checkbox"/> Pit Volume: _____ bbls<br>Closed-Loop System <input type="checkbox"/> Drilling Method: _____<br>Fresh Water <input type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input checked="" type="checkbox"/> |  |  |   |  |  |   |   |                                     |   |  |   |  |

| <sup>21</sup> Proposed Casing and Cement Program |               |                    |               |                 |                |
|--|---------------|--------------------|---------------|-----------------|----------------|
| Hole Size  | Casing Size   | Casing weight/foot | Setting Depth | Sacks of Cement | Estimated TOC  |
| <b>11"</b>                                       | <b>8 5/8"</b> | <b>23#</b>         | <b>330'</b>   | <b>100 sks</b>  | <b>Surface</b> |
| <b>7 7/8"</b>                                    | <b>5 1/2"</b> | <b>15.5#</b>       | <b>3,025'</b> | <b>400 sks</b>  | <b>Surface</b> |

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

1. Drill 11" hole to +/- 330' with air.
2. Set 8 5/8" surface casing and cement to surface with 100 sks of cement.
3. Drill 7 7/8" hole to 3,025' with air. Run open hole logs.
4. Set 5 1/2" production casing to TD and cement to surface. Cement volumes calculated from open hole logs.
5. Perforate and stimulate the Vermejo and/or Raton Coals. Clean out well bore and run production equipment.

|   |  |  |
|---|--|--|
| <sup>23</sup> I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines <input type="checkbox"/> , a general permit <input type="checkbox"/> , or an (attached) alternative OCD-approved plan <input type="checkbox"/> . | <b>OIL CONSERVATION DIVISION</b>               |  |
|   | Approved by:                                   |  |
|   | Title:   |  |
|   | Approval Date:                                 | Expiration Date:   |
|   | E-mail Address: <b>don.lankford@elpaso.com</b> |  |
| Date: <b>02/10/06</b>   | Phone:   | Conditions of Approval Attached <input type="checkbox"/> |

Printed name: **Donald R. Lankford** *DR Lankford*  
 Title: **Production Manager**  
 E-mail Address: **don.lankford@elpaso.com**  
 Date: **02/10/06**

District I  
1625 N. French Dr., Hobbs, NM 88240  
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1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department  
**OIL CONSERVATION DIVISION**  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies  
 AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

|                                     |  |  |  |  |  |
|-------------------------------------|--|--|--|--|--|
| <sup>1</sup> API Number             |  | <sup>2</sup> Pool Code<br>97047                            |  | <sup>3</sup> Pool Name<br>Van Bremmer Canyon - Vermejo Gas |  |
| <sup>4</sup> Property Code<br>25180 |  | <sup>5</sup> Property Name<br>VERMEJO PARK RANCH           |  |  | <sup>6</sup> Well Number<br>VPR'B'-219 |
| <sup>7</sup> OGRID No.<br>180514    |  | <sup>8</sup> Operator Name<br>EL PASO ENERGY RATON, L.L.C. |  |  | <sup>9</sup> Elevation<br>8945'        |

<sup>10</sup> Surface Location

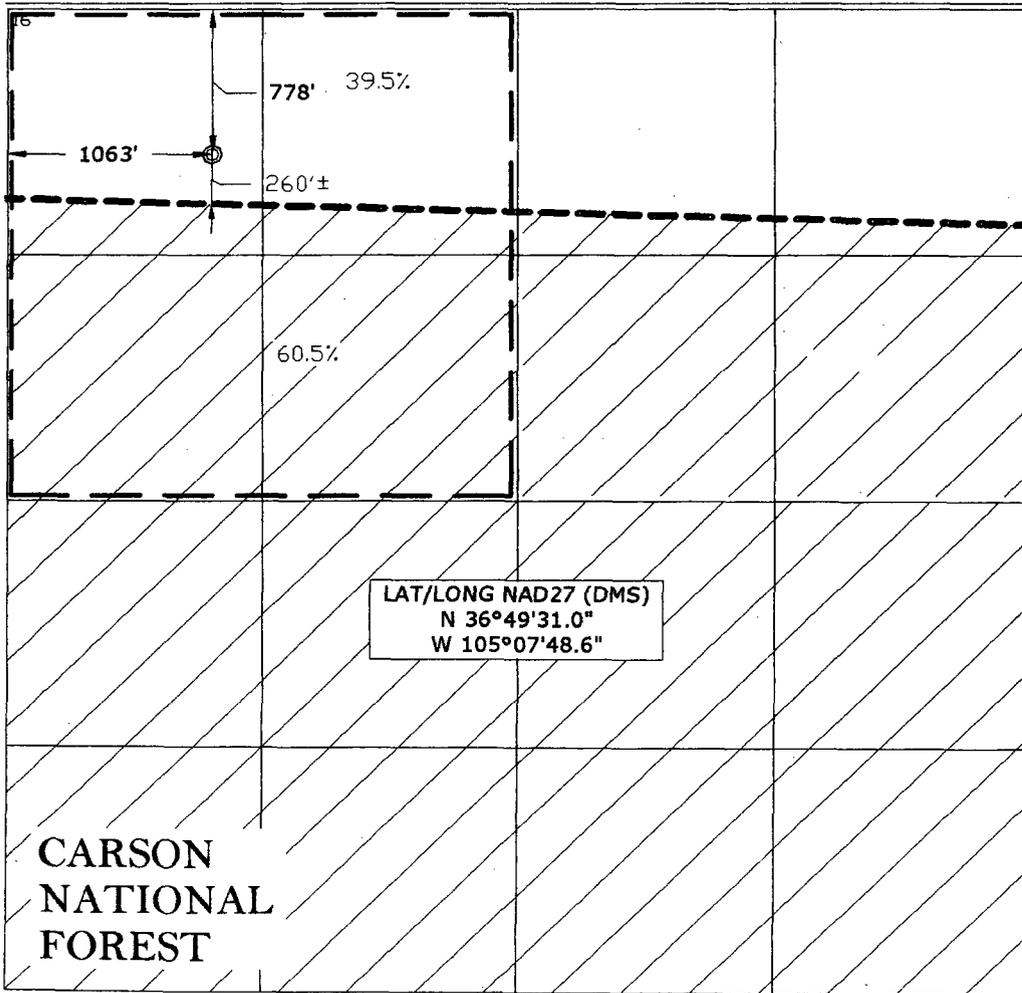
| UL or lot no. | Section | Township | Range  | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|--------|---------|---------------|------------------|---------------|----------------|--------|
| D             | 22      | T 30 N   | R 17 E | D       | 778           | NORTH            | 1063          | WEST           | COLFAX |

<sup>11</sup> Bottom Hole Location If Different From Surface

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
|               |         |          |       |         |               |                  |               |                |        |

|                               |                               |                                  |                         |
|-------------------------------|-------------------------------|----------------------------------|-------------------------|
| <sup>12</sup> Dedicated Acres | <sup>13</sup> Joint or Infill | <sup>14</sup> Consolidation Code | <sup>15</sup> Order No. |
|                               |                               |                                  |                         |

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**



<sup>17</sup> OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature: *DR Lankford* Date: 2/13/06  
Printed Name: Don Lankford  
Production Manager

<sup>18</sup> SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

November 7, 2005  
Date of Survey  
Signature and Seal of Professional Surveyor:

*John Shields*  
Certificate Number: NM LSNO. 5103

CARSON  
NATIONAL  
FOREST

DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
CASE RECORDATION  
(LIVE) Serial Register Page

Page 9 of 25

Run Date/Time: 02/01/06 11:00 AM

01 02-25-1920;041STAT0437;30USC226(G)

Total Acres

Serial Number

Case Type 318120: O&amp;G CMPNS RLTY AGRMT-DRN

160.000

NMNM-- - 115537

Commodity 459: OIL &amp; GAS L

Case Disposition: AUTHORIZED

Serial Number: NMNM-- - 115537

| Name & Address     |                   |                     | Int Rel          | %Interest    |
|--------------------|-------------------|---------------------|------------------|--------------|
| BLM FARMINGTON FO  | 1235 LA PLATA HWY | FARMINGTON NM 87401 | OFFICE OF RECORD | 100.00000000 |
| EL PASO PRODUCTION | PO BOX 2511       | HOUSTON TX 77252    | OPERATING RIGHTS | 0.00000000   |

| Mer Twp Rng | Sec   | SType | SNr | Suff | Subdivision | District/Resource Area | County | Mgmt Agency         |
|-------------|-------|-------|-----|------|-------------|------------------------|--------|---------------------|
| 23          | 0300N | 0170E | 022 | ALIQ | NW;         | TAOS FO                | COLFAX | BUREAU OF LAND MGMT |

Serial Number: NMNM-- - 115537

Serial Number: NMNM-- - 115537

| Act Date   | Code | Action              | Action Remarks | Pending Office |
|------------|------|---------------------|----------------|----------------|
| 01/01/2006 | 387  | CASE ESTABLISHED    |                |                |
| 01/01/2006 | 530  | RLTY RATE - 12 1/2% |                |                |
| 01/01/2006 | 868  | EFFECTIVE DATE      |                |                |
| 12/31/2008 | 763  | EXPIRES             |                |                |

Line Nr Remarks

Serial Number: NMNM-- - 115537

NM 115537

## COMPENSATORY ROYALTY AGREEMENT

This agreement is entered into in triplicate effective January 1, 2006, by and between the United States of America, through the Department of the Interior, Bureau of Land Management (BLM), referred to as the "USA", and El Paso E&P Company, L.P. ("El Paso"), witnesseth:

Whereas, The USA and El Paso are each the owner of mineral rights being located within a 160-acre governmental spacing unit being described as the NW/4, Section 22-30N-17E, and;

Whereas, The USA through the Bureau of Land Management is the administrator of the unleased mineral rights which are more particularly described on the plat attached hereto and marked as Exhibit "A", and;

Whereas, El Paso desires to form a spacing unit and drill a well in accordance with the rules and regulations of the New Mexico Oil Conservation Division (NMOCD), and;

Whereas, The USA desires to receive royalty compensation from offset drainage of its unleased minerals, and;

Now, therefore, in consideration of the foregoing and the premises described above, El Paso and the USA hereby agree as follows:

1. El Paso agrees to tender to the USA a royalty on the amount or value of all oil and gas produced and taken from the above-described lands, payments to be made to the Minerals Management Service. The royalty paid to the USA shall be calculated by multiplying the royalty rate of 12.5% by a fraction equal to the number of net mineral acres owned by the USA in the governmental spacing unit described above divided by the number of acres in the spacing unit described above.
2. Royalty payments are due at the end of the month following the month during which the oil and gas is produced and sold except when the last day of the month falls on a weekend or holiday. In such cases, payments are due on the first business day of the succeeding month (30 CFR 218.50(a)), and when paid in kind to be delivered in the field where produced at such time and in such manner as may be required by the duly authorized officer of the Department of the Interior.
3. For the purpose of computing the compensation payable to the United States pursuant to the terms of this agreement, the market value shall be computed in accordance with the departmental regulations. Each payment shall be accompanied by the Statement of oil and gas runs showing the quantity and the market value of oil and gas produced, saved and marketed during the period for which payment is made. All payments shall be made by check drawn to the order of the

Minerals Management Service and transmitted to the Royalty Management Program, P. O. Box 5810, Denver, Colorado 80217.

4. El Paso will file with the Minerals Management Service copies (in triplicate) of all sales contracts for the disposition of oil and gas produced from said lands, excluding any hydrocarbons used for production purposes thereon.

5. The said premises and all wells, improvements, machinery, and fixtures thereon or connected therewith, and all books and accounts of the party of the second part shall be open at all times for the inspection of any duly authorized officer of the Department of the Interior for the purposes of production verification. El Paso will furnish annually and at such times as the USA may require, in the manner and form prescribed, a plat showing all development and improvements on said lands, and other related information, together with a statement as to the amount and grade of oil and gas produced and sold, and the amount received therefore.

6. The USA agrees to waive any right to the working interest portion allocable to the unleased minerals of the USA in the governmental spacing unit described above from the surface of the earth to the top of the Trinidad formation, and agrees that no third party shall be granted rights to extract oil and gas from the unleased minerals of the USA in the governmental spacing unit described above from a well or wells drilled in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation during the term of this agreement. El Paso's sole obligation to the USA with respect to the unleased minerals of the USA in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation shall be the payment of royalties as provided in this Compensatory Royalty Agreement.

7. El Paso shall have no right to occupy the surface owned by the USA and administered by the Carson National Forest as to the lands described herein. The well drilled in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation shall be drilled at the location described on Exhibit A, or, at the election of El Paso, at a legal location in the governmental spacing unit described above that is no closer to the boundary of the Carson National Forest than the location described on Exhibit A; provided, the well is permitted, drilled and produced in accordance with the rules and regulations of the NMOCD.

8. The United States agrees that during the term of this agreement it shall not offer for sale or lease any portion of its oil and gas rights located in the spacing unit described above being limited to those depths from the surface of the Earth to the Top of the Trinidad Formation. Moreover, any lease granted by the USA for depths below the Top of the Trinidad Formation shall specifically exclude all formations and horizons above the Top of the Trinidad formation.

9. El Paso shall provide the USA with a full suite of logs, in both paper and digital format, for all wells drilled on the governmental spacing unit, showing the strata and the character of the ground passed through by the drill.

10. El Paso agrees it shall not seek approval of an Application from the New Mexico Oil Conservation Division for irregular or non-standard spacing units covering any portion of the governmental spacing unit described above during the term of this agreement.

11. This Compensatory Royalty Agreement shall become effective on the date set forth below, and shall remain in effect for a period of two years and so long thereafter oil or gas is produced from the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation. If a well is not drilled within two years from the effective date of this Compensatory Royalty Agreement, this Compensatory Royalty Agreement shall terminate and be void and of no effect. This Compensatory Royalty Agreement shall not terminate upon the cessation of production if, within 60 days thereafter, reworking or drilling operations are commenced in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation and are thereafter conducted with reasonable diligence.

12. This Compensatory Royalty Agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective successors and assigns.

If the foregoing agreement meets with your approval, please so indicate by signing and returning one copy of this agreement to the undersigned.

IN WITNESS WHEREOF this agreement is signed and effective this 1st day of January 2006.

THE UNITED STATES OF AMERICA  
Bureau of Land Management

EL PASO E&P COMPANY, L.P.

Linda S. C. Rundell Dennis R. Stecker

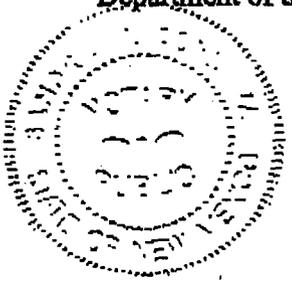
Acting State director  
Date: 1/31/06

Chad R. Shaw  
Attorney-in-Fact  
Date:



STATE OF NM §  
COUNTY OF SANTA FE §

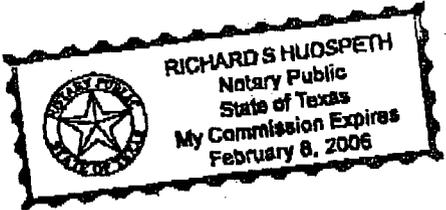
~~Dennis R. Steiner~~ This instrument was acknowledged before me on this 3<sup>rd</sup> day of January, 2006 by Linda S. C. Rundell, as <sup>Acting</sup> State Director of Bureau of Land Management, on behalf of the Department of the Interior, Bureau of Land Management.



Sandra M. Cordova  
Notary Public, State of NEW MEXICO  
Printed Name: STANDRA M. CORDOVA  
Commission Expires: 11/4/2006

STATE OF TEXAS §  
COUNTY OF HARRIS §

This instrument was acknowledged before me on this 1<sup>st</sup> day of January, 2006 by Chad R. Shaw, as Attorney-in-Fact of El Paso E&P Company, L.P., a Delaware corporation, on behalf of said corporation.



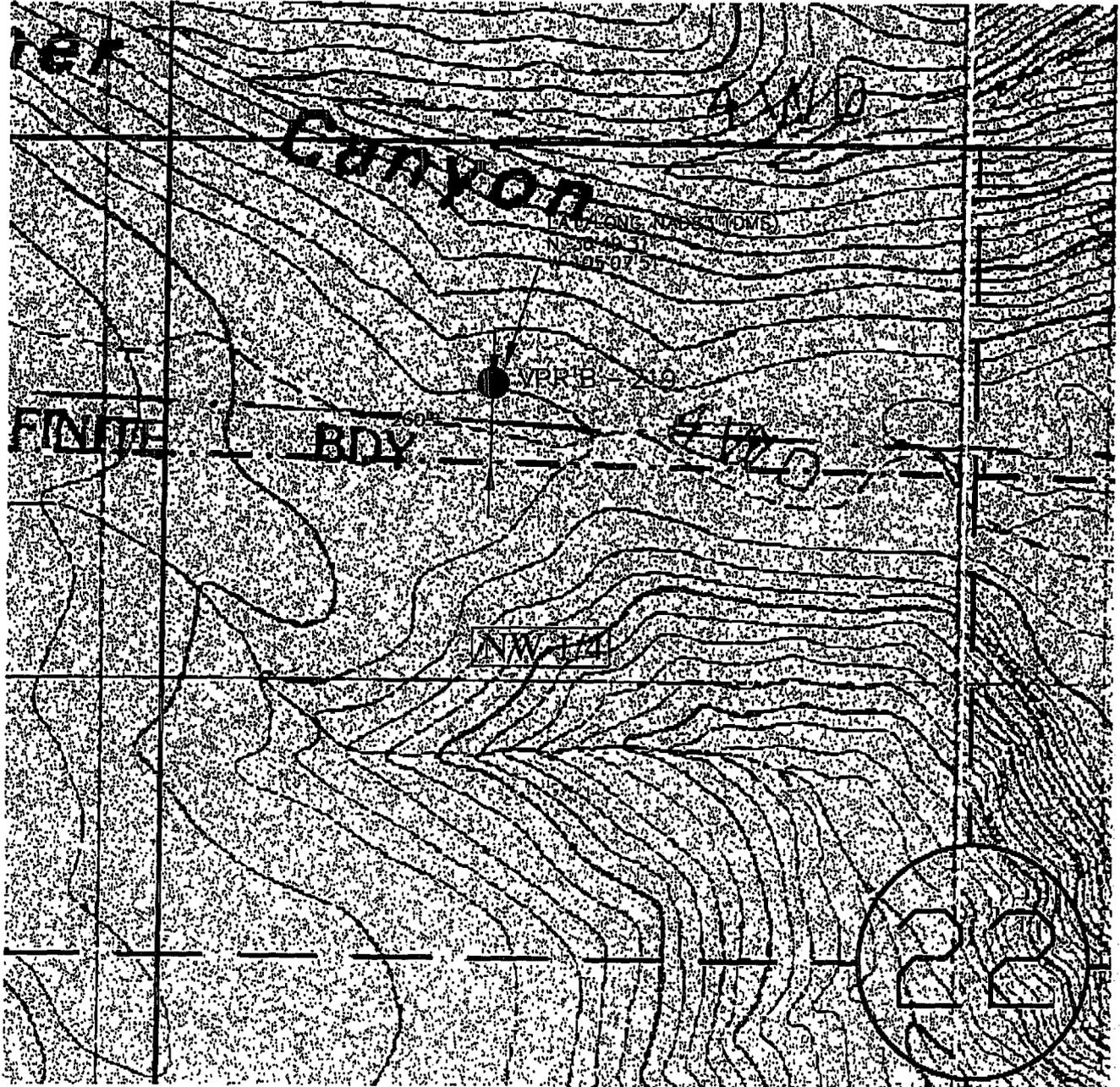
Richard S. Hudspeth  
Notary Public, State of Texas  
Printed Name: Richard S. Hudspeth  
Commission Expires: 2-8-06

# EXHIBIT "A"

ATTACHED TO AND MADE APART OF THAT CERTAIN COMPENSATORY ROYALTY AGREEMENT DATED EFFECTIVE JANUARY 1, 2006

## NW1/4 SECTION 22 T 30 N R 17 E

|                   |       |
|-------------------|-------|
| VPR ACRES         | 63.2  |
| VALLE VIDAL ACRES | 96.8  |
| TOTAL ACRES       | 160.0 |



22 = CENTER OF SECTION

--- = BOUNDARY BETWEEN VERMEJO PARK RANCH AND CARSON NATIONAL FOREST

GRAPHIC SCALE  
 125 0 125 250 500  
 ( IN FEET )  
 1 inch = 500 ft.

**SHIELDS SURVEY Ltd. Co.**  
 518 South 2nd Street  
 P.O. Box 639  
 Reton, New Mexico 87740  
 Phone: 445-1232 Fax: 445-3646