

March 29, 2011

**VIA HAND DELIVERY**

Daniel Sanchez, Acting Director  
Oil Conservation Division  
New Mexico Energy, Minerals and  
Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 14642*

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**Re: Application of Black Hills Gas Resources, Inc. for the creation of the Jicarilla (Mancos Formation) Project Area, an exception to the special rules and regulations for the Basin-Mancos Gas Pool and Rule 19.15.16 NMAC, Rio Arriba County, New Mexico.**

Dear Mr. Sanchez:

Enclosed is the application of Black Hills Gas Resources, Inc. in the above-referenced case as well as a copy of a legal advertisement. Black Hills requests that this matter be placed on the docket for the April 28, 2011 Examiner hearings.

Sincerely,

*Ocean Munds-Dry*

Ocean Munds-Dry  
for Holland & Hart LLP

cc: Mr. Carleton Ekberg

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

**APPLICATION OF BLACK HILLS GAS RESOURCES, INC. FOR THE CREATION  
OF THE JICARILLA (MANCOS FORMATION) PROJECT AREA, AN EXCEPTION  
TO THE SPECIAL RULES AND REGULATIONS FOR THE BASIN-MANCOS GAS  
POOL AND TO RULE 19.15.16 NMAC, RIO ARRIBA COUNTY, NEW MEXICO.**

CASE NO. 14642

**APPLICATION**

Black Hills Gas Resources, Inc. ("Black Hills"), through its undersigned attorneys, hereby makes application for an order (1) establishing the Jicarilla (Mancos Formation) Project Area; (2) an exception to the special rules and regulations for the Basin-Mancos Gas Pool; (3) and an exception to Rule 19.15.16 NMAC, Rio Arriba County, New Mexico and states as follows:

1. Black Hills is the designated operator and working interest owner of certain lands located within Jicarilla tribal boundaries and has the right to drill thereon.

2. Black Hills plans to develop the Mancos formation in the following described lands:

**Township 30 North, Range 3 West, NMPM**

Sections 3 through 10:	All
Sections 13 through 24:	All
Section 26:	All
Section 29 through 32:	All

**Township 29 North, Range 3 West, NMPM**

Sections 3 through 10:	All
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3. Division Order No. R-12984, dated September 3, 2008, established the Basin-Mancos Gas Pool and special rules and regulations for the pool. The rules allow up to 4 wells on a spacing unit, require a well to be located no closer than 660 feet to the outer boundary of the spacing unit and no closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

4. Division Rule 19.15.16 NMAC governs the drilling of directional wells and defines the “producing interval” as “that portion of a directional well drilled inside a pool’s vertical limits between its penetration point and its terminus.” The “penetration point” is “the point where a directional well penetrates the top of the pool from which it is intended to produce.” 19.15.16.7.F NMAC.

5. Compliance with these existing rules will impair Black Hills ability to efficiently and effectively produce the reserves in Jicarilla (Mancos Formation) Project Area.

6. Black Hills has a number of complicating issues in the Jicarilla (Mancos Formation) Project Area that force non-standard locations including topographical, archaeological, geological and cultural factors.

7. In the Jicarilla (Mancos Formation) Project Area, the defined top of the pool from which Black Hills will produce hydrocarbons is significantly above the top of the zone or interval which Black Hills expects to perforate and produce within the pool.

8. Black Hills seeks an exception to the Special Rules and Regulations for the Basin Mancos Gas Pool to be authorized to drill, complete and recomplete wells at unorthodox well locations in the Jicarilla (Mancos Formation) Project Area provided that any such unorthodox

well location is no closer than 660 feet from the outer boundary of the Jicarilla (Mancos Formation) Project Area.

9. Black Hills also seeks an exception to 19.15.16 NMAC to authorize as the penetration point for directional wells to be the point where a directional wellbore penetrates the top of the producing interval within a formation from which it is intended to produce. Black Hills proposes to use the casing shoe of the cemented intermediate string within a pool as the "penetration point" or, if the production string is cemented, at the occurrence of the first perforation, for directional wells drilled in the Jicarilla (Mancos Formation) Project Area.

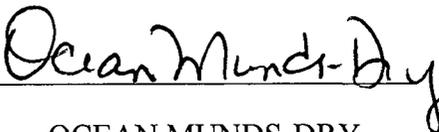
10. Approval of this application is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

11. Black Hills has provided notice to those parties identified on Exhibit A in accordance with Division Rules.

WHEREFORE, Black Hills Gas Resources, Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on April 28, 2011, that notice be given as required by law and the rules of the Division, and that the application be approved.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

OCEAN MUNDS-DRY  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

Attorneys for Black Hills Gas Resources, Inc.

Exhibit A

Jicarilla Apache Nation  
P.O. Box 507  
Dulce, NM 87528

Jicarilla Apache Nation Oil and Gas Association  
P.O. Box 146  
Dulce, NM 87528

Energen Resources Corp.  
2198 Bloomfield Hwy.  
Farmington, NM 87401

QEP Energy Company (Formerly Questar Exploration and Production Company)  
1050 17<sup>th</sup> St., Suite 500  
Denver, CO 80265

Schalk Development Co.  
P.O. Box 2078  
Farmington, NM 87499-2078

Robert L. Bayless Producer, LLC  
368 Hwy 170  
Farmington, NM 87401

ConocoPhillips  
600 N. Dairy Ashford  
Houston, TX 77079

J.E. Rouse  
Box 18, Star Route  
Saratoga, WY 82331

CASE 14642:

**Application of Black Hills Gas Resources, Inc. For The Creation Of The Jicarilla (Mancos Formation) Project Area, An Exception To The Special Rules And Regulations For The Basin-Mancos Gas Pool And To Rule 19.15.16 NMAC, Rio Arriba County, New Mexico.** Applicant, in the above-styled cause seeks the creation of the Jicarilla (Mancos Formation) Project Area, an exception to the special rules and regulations for the Basin-Mancos Gas Pool and to Rule 19.15.16 NMAC. The proposed Jicarilla (Mancos Formation) Project Area is located in Township 30 North, Range 3 West and Township 29 North, Range 3 West, NMPM, Rio Arriba County, New Mexico. Said area is located approximately 9 miles northeast of Dulce, New Mexico.