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VIA HAND DELIVERY

Mr. William V. Jones
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13865: Application of Versado Gas Producers, LLC operated by Targa Resources, LLC for approval of an acid gas injection well, Lea County, New Mexico.

Dear Mr. Jones:

Pursuant to your request, enclosed is a proposed order in the above-referenced case. As we discussed, the well will actually be operated by Targa Midstream Services Limited Partnership and after the order is entered in this case, Targa will file appropriate change of operator forms.

If you need anything further from Targa in this matter, please advise.

Very truly yours,

William F. Carr

cc: Cary Loughman, Esq.
Targa Midstream Services Limited Partnership

Alberto Gutierrez
Geolex, Inc.

wvjj 3/7/07

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:

APPLICATION OF VERSADO GAS PROCESSORS, LLC OPERATED BY TARGA RESOURCES, LLC FOR APPROVAL OF AN ACID GAS INJECTION WELL, LEA COUNTY, NEW MEXICO.

CASE NO. 13865
ORDER NO. R-_____

PROPOSED ORDER OF THE DIVISION OF VERSADO GAS PROCESSORS, LLC AND TARGA RESOURCES, LLC

BY THE DIVISION:

THIS MATTER came before the Oil Conservation Division for hearing at 8:15 a. m. on February 1, 2007 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this ____ day of March, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Versado Gas Processors, LLC which is operated by Targa Resources, LLC (hereinafter collectively referred to as "Targa"), seeks authority to inject waste water and acid gas (hydrogen sulfide and carbon dioxide) into the San Andres formation, at a depth interval approximately 4500 feet to 5000 feet below the surface, through its Versado AGI Well No. 1 which it proposes to drill at a location 2580 feet from the South line and 1000 feet from the West line (Unit L) of Section 27, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. The purpose of the injection is to dispose of natural gas processing wastes from Versado's South Eunice Gas Plant. This well will replace the Eunice Gas Plant SWD Well No. 1 (API No. 30-025-21497) which is located 2580 feet from the South line and 1200 feet from the West line of said Section 27.

(3) Targa filed its application (Division Form C-108) on December 20, 2006, and although it qualified for administrative approval, at the direction of the Director of the Oil Conservation Division ("Division") the application was set for hearing before a Division

Examiner pursuant to the provisions of Division R 701.D.

(4) No operator or other party appeared in the case in opposition to the application.

Applicant's Evidence

(5) The Applicant produced one witness, Alberto Gutierrez, a hydrogeologist, from Geolex, Inc., who is a consultant to Applicant.

(6) Mr. Gutierrez testified that Targa had engaged Geolex Inc., to locate a suitable subsurface reservoir into which it could inject the waste water and acid gas from its Eunice Gas Plants. He reviewed the study conducted on behalf of Targa to find a suitable location for acid gas injection and concluded that the proposed injection site met the requisite reservoir criteria. Based on his strategraphic studies of the formations in this area, Mr. Gutierrez concluded that the San Andres formation has excellent porosity development to the south of the Plant and other reservoir development characteristics that will enable Targa to successfully inject waste water and acid gas into this reservoir.

(7) Mr. Gutierrez further testified:

A. The well will be constructed substantially in accordance with the description in the Injection Well Data Sheet attached to Form C-108 filed by the applicant in this case, including surface casing to a depth of 530 feet and a total of three casing strings, all with cement circulated to the surface and 2 7/8-inch internally plastic lined tubing set in a packer located no higher than 100 feet above the uppermost perforations.

B. The casing tubing annular space will be loaded with an inert fluid and equipped with a pressure gauge or approved leak-detection device to detect any leakage in the casing, tubing or packer.

C. Targa proposes to inject acid gas at an average rate of 2200 barrels per day with a maximum injection rate of 2500 barrels per day. Additional injection of produced water and non-hazardous wastewater will range from 250 to 1575 barrels per day for a total injection volume of 2450 to 4075 barrels per day.

D. Targa proposes to inject at an average injection pressure of 1200 psi and a maximum surface injection pressure of 2000 psi which prevents any potential for fracturing.

(8) Mr. Gutierrez also testified that fresh water wells in the vicinity produce water from the Ogalalla formation, which is locally 100 to 200 feet thick. The unconfined aquifer in this formation is encountered at 40 to 80 feet below the surface.

(9) The surface and minerals at the proposed injection site are owned in fee and Targa has obtained all necessary easements and other rights for its surface facilities.

(10) Mr. Gutierrez further testified that Targa has furnished notice to all surface owners and all "affected parties" in the San Andres formation within one-mile radius of the wellbore and from the surface to the top of the San Andres and below the base of the San Andres to all "affected parties" within one-half mile of the proposed location as required by the Division.

(11) Mr. Gutierrez testified that the Applicant would prepare a hydrogen sulfide contingency plan that would comply with OCD Rule 118 prior to activating the system.

The Division's Conclusions

(12) The Division concludes that the proposed injection operation can be conducted in a safe and responsible manner, as proposed, without causing waste, impairing correlative rights or endangering fresh water, public health or the environment.

(13) The proposed operation is an environmentally superior means of disposing of wastes generated at the South Eunice Gas Plant because it will provide for the sequestration of greenhouse gases, hydrogen sulfide and carbon dioxide.

IT IS THEREFORE ORDERED:

(1) Versado Gas Processors, LLC which is operated by Targa Resources, LLC is hereby authorized to drill and complete its Versado AGI Well No. 1 which it proposes to drill at a location 2580 feet from the South line and 1000 feet from the West line (Unit L) of Section 27, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico, in such manner as to permit the injection of waste water and acid gas, consisting principally of hydrogen sulfide and carbon dioxide from its South Eunice Gas Plant, for disposal into the San Andres formation at a depth of approximately 4500 feet to 5000 feet below the surface, through 2 7/8-inch tubing set in a packer located approximately 4000 feet below the surface. This well will replace the Eunice Gas Plant SWD Well No. 1 (API No. 30-025-21497) which is located 2580 feet from the South line and 1200 feet from the West line of said Section 27.

(2) The operator of the well (Applicant or any successor operator) shall take all steps necessary to insure that the injected gas enters on the proposed injection interval and does not escape to other formations or onto the surface.

(3) The well shall be constructed substantially in accordance with the description in the Injection Well Data Sheet attached to Form C-108 filed by the applicant in this case, including setting surface casing and a total of three casing strings, all with cement circulated to the surface.

(4) During drilling operations, the operator shall monitor the well for hydrocarbon shows. Any hydrocarbon shows within the San Andres shall be reported to the Division prior to commencement of injection.

(5) Copies of logs of the completed well, including a dipole sonic log or a formation microscanner log over the San Andres, and a letter setting forth the estimated static bottom-hole pressure of the injection formation shall be delivered to the Division's Hobbs District Office prior to commencement of injection.

(6) After installation of the injection tubing prior to commencing injection operations, and at least once every five years thereafter, the operator shall pressure test the casing from the surface to the packer-setting depth to assure casing integrity.

(7) Prior to injecting Acid Gas, the casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge or approved leak-detection device to detect any leakage in the Casing, tubing or packer.

(8) The operator shall insure that the injected gas is properly dehydrated prior to entering the injection zone.

(9) The operator shall record injection rates and pressures on a continuous basis and report the readings annually, or more often if requested, to the Engineering Bureau in the Division's Santa Fe Office and to the Division's Hobbs District Office. Each such report shall include the well name, location, API Number and the number of this order.

(10) The injection well or system shall be equipped with a pressure limiting device that will limit wellhead pressure on the injection well to no more than 2500 psi while injecting acid gas. The operator shall attempt to maintain the injection fluid in the non-corrosive phase with minimum pressure regulating devices as necessary.

(11) The Director of the Division may authorize an increase in the injection pressure upon a proper showing that such higher pressure will not result in the migration of the injected gases from the permitted injection formation. Such showing shall consist at least of a valid step-rate test run in accordance with procedures acceptable to the Division. Any step-rate test shall be run with an inert fluid such as produced water, and not with acid gas.

(12) The operator shall notify the Hobbs District Office of the Division of the time of the setting of the tubing and packer and of any mechanical integrity test so such operations can be witnessed or inspected.

(13) Without limitation on the duties of the operator as provided in Division Rules 19

and 116, the operator shall immediately notify the Hobbs District Office of the Division of any failure of the tubing, casing or packer in the well, or of any leakage or release of water, oil or gas from around any produced or plugged and abandoned well in the area, and shall take such measures as may be timely and necessary to correct such failure or leakage.

(14) Prior to commencing injection of acid gas, the operator shall prepare and secure approval by the Division's Environmental Bureau of a hydrogen sulfide contingency plan that complies with Division Rule 118.

(15) The operator may commence injection of produced water prior to injection of acid gas and may inject either or both fluids pursuant to the limitations of this order, depending on operational considerations. The operator shall submit monthly reports of injection volumes of waste water and acid gas on Form C-115, in accordance with Division Rules 706 and 1115.

(16) The injection authority herein granted shall terminate one year after the effective date of this order if the operator has not commenced injection operations pursuant hereto; provided however, the Division Director, upon written request of the operator, may extend this time for good cause shown.

(17) Compliance with this order does not relieve the operator of the obligation to comply with other applicable federal, state or local laws or rules, or to exercise due care for the protection of fresh water, public health and safety and the environment.

(18) the Division Director may amend this order by administrative order, after proper notice, and the absence of protest.

(19) Jurisdiction of this case is 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

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