

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



May 22, 2008

Ms. Ocean Munds-Dry
Holland & Hart
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSL-5827

**Re: Black Hills Gas Resources, Inc.
Many Canyons 29-04-28 Well No. 121
API No. 30-039-30231
Unit E, Section 28-29N-4W
Rio Arriba County**

Dear Ms Munds-Dry:

Reference is made to the following:

(a) your application (**administrative application reference No. pKVR08-12147200**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Black Hills Gas Resources, Inc. (Black Hills) on April 29, 2008, and

(b) the Division's records pertinent to this request.

Black Hills has requested to drill the above-referenced well as a horizontal well in the Pictured Cliffs formation, at a location that will be unorthodox under Division Rule 111. The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 1895 feet from the North line and 670 feet from the West line (Unit E) of Section 28, Township 29-N, Range 4-W, NMPMRio Arriba County, New Mexico

Point of Penetration: This well will be drilled with two lateral shafts. The point of penetration of the upper lateral will be 2567 feet from the South line and 1057 feet from the West line (Unit L) of Section 28. The point of penetration of the lower lateral will be 2095 feet from the



South line and 1277 feet from the West line (Unit L) of said section.

Terminus 700 feet from the South line and 700 feet from the East line (Unit P) of Section 28.

The S/2 of Section 28 will be dedicated to the proposed well to form a project area comprising two adjacent, standard 160-acre spacing units in the undesignated Gobernador-Pictured Cliffs Gas Pool (77440). This pool is governed by statewide Rule 104.C(3), which provides for 160-acre units, with wells located at least 660 feet from a unit outer boundary. This location is unorthodox because a portion of the producing interval will be less than 660 feet from the northern boundary of the project area, and therefore outside the producing area, and the well will be completed open-hole beginning at a point 10 feet from the northern boundary of the project area.

Your application has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that you are seeking this location in order to prevent waste by achieving maximum penetration of the target formation in the horizontal wellbore.

It is also understood no notice of this application to offsetting operators or owners is required due to common ownership.

Pursuant to the authority conferred by Division Rule 104.F(2), the above-described unorthodox location is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Aztec
United States Bureau of Land Management - Farmington