

2006 SEP 12 PM 3 35

September 12, 2006

HAND-DELIVERED

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

Case 13794

Re: Application of Peoples Energy Production -Texas. L.P. for an unorthodox well location and an exception to the well density requirements of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool, San Juan County, New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of Peoples Energy Production - Texas L.P. in the above-referenced case as well as a copy of a legal advertisement. Peoples Energy Production -Texas L.P. requests that this application be placed on the docket for the October 12, 2006 Examiner Hearings.

Very truly yours,

Dean Munk By for
William F. Carr

Enclosures

cc: Dianne Sumrall (w/ enclosures)
Peoples Energy Production - Texas L.P.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT 2006 SEP 12 PM 3 35
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF PEOPLES ENERGY PRODUCTION – TEXAS L.P., FOR AN UNORTHODOX WELL LOCATION AND AN EXCEPTION TO THE WELL DENSITY REQUIREMENTS FOR THE BLANCO-MESAVERDE GAS POOL, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 13794

APPLICATION

PEOPLES ENERGY PRODUCTION – TEXAS L.P. (“Peoples Energy”), through its undersigned attorneys, hereby makes application for an order approving an unorthodox well location and granting an exception to the well density requirements of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool to permit it to simultaneously produce three wells in a single quarter section, and in support of its application states:

1. Peoples Energy is the operator of a standard 322.24-acre spacing and proration unit in the Blanco-Mesaverde Gas Pool comprised of the E/2 of Section 26, Township 32 North, Range 9 West, NMPM, San Juan County, New Mexico.

2. The Blanco-Mesaverde Gas Pool is governed by Special Rules and Regulations which provide for 320-acre spacing and proration units on which as many as four wells may be drilled. (Order No. R-8170, as superseded by Order No. R-10987-A, effective February 1, 1999 and amended by Order No. R-10981-A(1), effective December 2, 2002). These Special Pool Rules and Regulations provide:

1. II. ACREAGE AND WELL LOCATION REQUIREMENTS

A. Standard GPU (Gas Proration Unit): A Standard GPU in the Blanco Mesaverde Pool shall be 320-acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U. S. Public Land Surveys.

B. Well density:

(1) Up to four (4) wells may be drilled on a standard GPU, as follows:

- (a) the FIRST OPTIONAL INFILL WELL drilled on a GPU shall be located in the quarter section not containing the INITIAL Mesaverde well;
- (b) the SECOND OPTIONAL INFILL WELL drilled on a GPU shall be located in the quarter-quarter not containing a Mesaverde Well and within a quarter section of the GPU not containing more than one (1) Mesaverde well;
- (c) the THIRD OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section of the GPU not containing a Mesaverde well and within a quarter section of the GPU not containing more than one (1) Mesaverde well;
- (d) at the discretion of the operator, the second or third optional infill well may be drilled prior to the drilling of the first optional infill well;
- (e) no more than two wells shall be located within either quarter section in a GPU, and
- (f) any deviation from the above-described well density requirements shall be authorized only after hearing....

C. Well locations:

(1) Except as provided in subparagraph I.C. (2) below, wells drilled on a GPU shall be located no closer than 660 feet to the boundary of the GPU and no closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

3. In the summer of 2006, Peoples Energy directionally drilled the Gardner Well No. 12 (API No. 30-045-33630) from a surface location 700 feet from the South line and 1665 feet from the East line (Unit O) of said Section 26. The projected bottomhole location for the well was 1920 feet from the South line and 2600 feet from the West line (Unit K) of said Section 26.

4. The primary objective in the Gardner Well No. 12 was the Blanco-Mesaverde Gas Pool and the well was permitted as a Mesaverde test. As permitted, the well fully complied with applicable Mesaverde well location and density requirements.

5. At the time the Gardner Well No. 12 was drilled, the coordinates sent to the drilling rig did not match the original drilling plan coordinates and, due to this miscommunication, the well was drilled to a bottomhole location 2024 feet from the South line and 2453 feet from the East line (Unit J) of said Section 26, Township 32 North, Range 19 West, NMPM, San Juan County, New Mexico. This location is unorthodox for it is 473 feet too close to the outer boundary of the dedicated spacing unit. The affected offsetting acreage is one

federal lease and operated by Peoples Energy so there are no offset owners affected by this unorthodox location.

6. At the time the Gardner Well No. 12 was drilled, the following Blanco-Mesaverde wells were completed in the SE/4 of this 322.24 spacing unit comprised of the S/2 of Section 26:

- A. The Gardner Well No. 5A (API No. 30-045-30280) that had been drilled in the summer of 2000 as a vertical well at a location 787 feet from the South line and 1625 feet from the East line (Unit O) of said Section 26, Township 32 North, Range 9 West, NMPM, San Juan County, New Mexico; and
- B. The Gardner Well No. 14 (API No. 30-045-33631) that had been directionally drilled by Peoples Energy in 2006 from a surface location ^{LOT 15} 795 feet from the South line and 1600 feet from the East line of Section 26 to a bottomhole location 2300 feet from the South line and ^{LOT 9} 774 feet from the East line (Unit I) of the section. ✓

7. The primary objective in the Gardner Well Nos. 5A, 12 and 14 is the Blanco-Mesaverde Gas Pool. While the total number of wells on this Mesaverde GPU is less than what is allowed by the Special Pool Rules and Regulations, and no more than one well is located in a quarter-quarter section, all three of the Gardner wells are located in the same quarter section in violation of the density requirements of the Special Pool Rules and Regulations for the Blanco-Mesaverde Gas Pool.

8. When Peoples Energy discovered this problem, it stopped completion operations of the Gardner Well No. 12, which remains unperforated.

9. Peoples Energy therefore requests that the Division enter its order granting an exception to the well density requirements of Rule I B. of the Special Pool Rules and Regulations for the Blanco-Mesaverde Gas Pool approving the unorthodox bottomhole location of the Gardner Well No. 12 in the Mesaverde formation and authorizing Peoples Energy to

simultaneously produce the Gardner Wells No. 5A, 12, and 14 located in the SE/4 of said Section 26. At full development of the GPU, People will operate only three Mesaverde wells in the SE/4 of said Section 26 and no more than four wells in this 322.24-acre GPU. Peoples Energy therefore does not seek to increase the number of wells in this GPU.

10. Approval of this application will not impair the correlative rights of any other interest owner in the Blanco-Mesaverde Gas Pool, and will afford Peoples Energy the opportunity to utilize the existing wells to produce the reserves from this GPU.

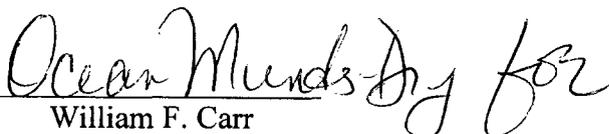
11. Approval of this application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

12. Notice of this application has been provided in accordance with Division Rule 1207 to all offsetting operators.

WHEREFORE, Peoples Energy Production – Texas L.P. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on October 12, 2006 and after notice and hearing as required by law, the Division enter its order granting an exception to the well density requirements of Rule I.B of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool approving unorthodox location of the Gardner Well No. 12 in the Mesaverde formation and authorizing Peoples Energy to simultaneously produce the Gardner Wells No. 5A, 12 and 14 located in the SE/4 of Section 26, Township 32 North, Range 9West, NMPM.

Respectfully submitted,

HOLLAND & HART LLP

By: 
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR PEOPLES ENERGY
PRODUCTION – TEXAS L.P.

EXHIBIT A

**APPLICATION OF
PEOPLES ENERGY PRODUCTION – TEXAS L.P.,
FOR AN UNORTHODOX WELL LOCATION
AND AN EXCEPTION TO THE WELL
DENSITY REQUIREMENTS FOR THE
BLANCO-MESAVERDE GAS POOL,
SAN JUAN COUNTY, NEW MEXICO.**

NOTIFICATION LIST

Conoco Phillips
3401 East 30th Street
Farmington, New Mexico 87402

CASE 13794.

Application of Peoples Energy Production – Texas L.P. for an unorthodox well location and an exception to the well density requirements for the Blanco-Mesaverde Gas Pool, San Juan County, New Mexico. Applicant in the above-styled cause seeks an exception to the well density requirements of Rule I.B of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool to permit it to simultaneously produce the following three Mesaverde wells located in the same quarter section (SE/4) on a standard 322.24 spacing and proration unit comprised of the E/2 of Section 26, Township 32 North, Range 9 West, NMPM:

A. The Gardner Well No. 5A (**API No. 30-045-30280**) drilled as a vertical well at a location 787 feet from the South line and 1625 feet from the East line (Unit O);

B. The Gardner Well No. 12 (**API No. 30-045-33630**) directionally drilled from a surface location 700 feet from the South line and 1665 feet from the East line of Section 26 to an unorthodox bottomhole location 2024 feet from the South line and 2453 feet from the East line (Unit J); and

C. The Gardner Well No. 14 (**API No. 30-045-33631**) directionally drilled from a surface location 795 feet from the South line and 1600 feet from the East line of Section 26 to a bottomhole location 2300 feet from the South line and 774 feet from the East line (Unit I) of the Section 26.

Applicant also seeks approval of the unorthodox bottomhole location of the Gardner Well No. 12

Said wells are located approximately 18 miles northeast of Aztec, New Mexico.



September 14, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO AFFECTED INTEREST OWNERS:

Re: Application of Peoples Energy Production – Texas L.P. for an unorthodox well location and exception to the well density requirements for the Blanco-Mesaverde Gas Pool, San Juan County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Peoples Energy Production – Texas L.P. has filed the enclosed application with the New Mexico Oil Conservation Division seeking approval of an unorthodox well locations and an exception to the well density requirements of Rule I.B of the Special Rules and Regulations of the Blanco-Mesaverde Gas Pool to permit it to produce the following three Mesaverde wells located in the SE/4 quarter of a standard spacing unit comprised of the E/2 of Section 26, Township 32 North, Range 9 West, NMPM, San Juan County, New Mexico:

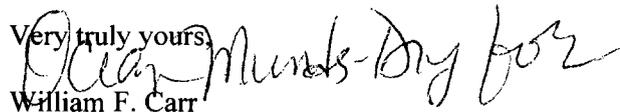
- A. The Gardner Well No. 5A (API No. 30-045-30280) drilled as a vertical well at a location 787 feet from the South line and 1625 feet from the East line (Unit O);
- B. The Gardner Well No. 12 (API No. 30-045-33630) directionally drilled from a surface location 700 feet from the South line and 1665 feet from the East line of Section 26 to an unorthodox bottomhole location 2024 feet from the South line and 2453 feet from the East line (Unit J); and
- C. The Gardner Well No. 14 (API No. 30-045-33631) directionally drilled from a surface location 795 feet from the South line and 1600 feet from the East line of Section 26 to a bottomhole location 1920 feet from the South line and 690 feet from the East line (Unit I) of the Section 26.

Applicant also seeks approval of the unorthodox bottomhole location of the Gardner Well No. 12.

This application has been set for hearing on October 12, 2006 at Porter Hall located in the Division's Santa Fe Offices. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement four days in advance of a scheduled hearing at the Oil Conservation Division's Santa Fe Office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,


William F. Carr

ATTORNEY FOR PEOPLES ENERGY PRODUCTION – TEXAS L.P.

Enc.

Holland & Hart LLP

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