

BEFORE THE OIL CONSERVATION DIVISION
NEW MEXICO ENERGY, MINERALS AND
NATURAL RESOURCES DEPARTMENT

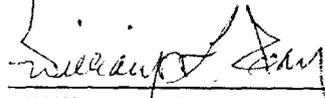
APPLICATION OF PEOPLES ENERGY PRODUCTION – TEXAS,
L.P., FOR AN UNORTHODOX WELL LOCATION AND AN
EXCEPTION TO THE WELL DENSITY REQUIREMENTS FOR
THE BLANCO-MESAVERDE GAS POOL, SAN JUAN COUNTY,
NEW MEXICO.

CASE NO. 13794

AFFIDAVIT

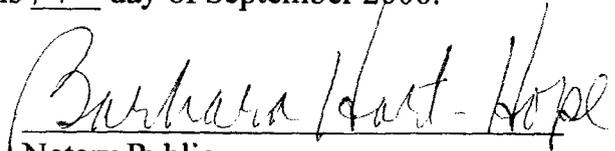
STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

William F. Carr, attorney in fact and authorized representative of Peoples Energy Production – Texas, L.P., the Applicant herein, states that notice of the above-referenced Application was mailed to the interested parties shown on Exhibit “A” attached hereto in accordance with Oil Conservation Division Rules, and that true and correct copies of the notice letter and proof of notice are attached hereto.



William F. Carr

SUBSCRIBED AND SWORN to before me this 17th day of September 2006.



Notary Public

My Commission Expires:

March 28, 2008

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only - No Insurance Coverage Provided)

7001 1140 0002 9558 8919

Article Number

Postage	\$ 1.87	Postmark Here
Peoples Energy Certified Fee	2.40	
Return Receipt Fee (Endorsement Required)	1.85	
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$ 5.12	

Sent To Conoco Phillips
 Street, Apt. No., or PO Box No. 3401 East 30th St.
 City, State, ZIP+4 Farmington NM 87402

PS Form 3800, January 2001 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
Conoco Phillips
3401 East 30th St.
Farmington NM 87402

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) _____ B. Date of Delivery _____
 C. Signature Lori Davis Agent Addressee
 Lori Davis
 D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below: _____

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

2. Article Number (Copy) 7001 1140 0002 9558 8919

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



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

Phone (505) 988-4421 Fax (505) 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. CO

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
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. _____

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 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.

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.

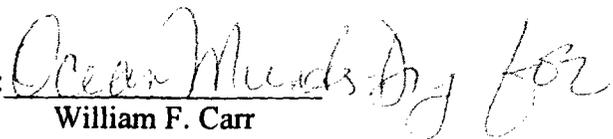
11. Approval of this application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

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.

CASE _____:

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:

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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.

AFFIDAVIT OF PUBLICATION

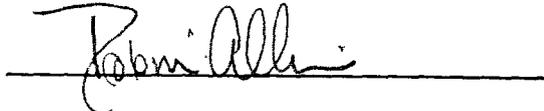
Ad No. 54029

STATE OF NEW MEXICO
County of San Juan:

ROBIN ALLISON, being duly sworn says:
That she is the CLASSIFIED MANAGER of
THE DAILY TIMES, a daily newspaper of
general circulation published in English at
Farmington, said county and state, and that
the hereto attached Legal Notice was
published in a regular and entire issue of the
said DAILY TIMES, a daily newspaper duly
qualified for the purpose within the meaning of
Chapter 167 of the 1937 Session Laws of the
State of New Mexico for publication and
appeared in the Internet at The Daily Times
web site on the following day(s):

Saturday, September 16, 2006.

And the cost of the publication is \$149.51.



ON 9/20/06 ROBIN ALLISON
appeared before me, whom I know personally
to be the person who signed the above
document.


My Commission Expires November 17, 2008.

COPY OF PUBLICATION

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NOTICE OF PUBLICATION

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

The State of New Mexico through its Oil Conservation Division hereby gives notice pursuant to law and the Rules and Regulations of the Division of the following public hearing to be held at 8:15 A.M. on October 12, 2006, in the Oil Conservation Division Hearing Room at 1220 South St. Francis, Santa Fe, New Mexico, before an examiner duly appointed for the hearing. If you are an individual with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing, please contact: Florene Davidson at 505-476-3458 or through the New Mexico Relay Network, 1-800-659-1779 by October 2, 2006. Public documents including the agenda and minutes, can be provided in various accessible forms. Please contact Florene Davidson if a summary or other type of accessible form is needed.

**STATE OF NEW MEXICO TO:
All named parties and persons
having any right, title, interest
or claim in the following cases
and notice to the public.**

(NOTE: All land descriptions herein refer to the New Mexico Principal Meridian whether or not so stated.)

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 1.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:

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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.

Given under the Seal of the State of New Mexico Oil Conservation Commission at Santa Fe, New Mexico on this 13th day of September 2006.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

Mark E. Fesmire, P.E., Director

Legal No. 54029 published in The Daily Times, Farmington, New Mexico on days, September 16, 2006.

AFFIDAVIT OF PUBLICATION

Ad No. 54029

**STATE OF NEW MEXICO
County of San Juan:**

ROBIN ALLISON, being duly sworn says:
That she is the CLASSIFIED MANAGER of THE DAILY TIMES, a daily newspaper of general circulation published in English at Farmington, said county and state, and that the hereto attached Legal Notice was published in a regular and entire issue of the said DAILY TIMES, a daily newspaper duly qualified for the purpose within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico for publication and appeared in the Internet at The Daily Times web site on the following day(s):

Saturday, September 16, 2006.

And the cost of the publication is \$149.51.

Robin Allison

ON 9/20/06 ROBIN ALLISON appeared before me, whom I know personally to be the person who signed the above document.

Wynell Corey
My Commission Expires November 17, 2008.

COPY OF PUBLICATION

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NOTICE OF PUBLICATION

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

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STATE OF NEW MEXICO TO:
All named parties and persons having any right, title, interest or claim in the following cases and notice to the public.

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Given under the Seal of the State of New Mexico Oil Conservation Commission at Santa Fe, New Mexico on this 13th day of September 2006.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

Mark E. Fesmire, P.E., Director

Legal No. 54029 published in The Daily Times, Farmington, New Mexico on Saturdays, September 16, 2006.