



October 10, 2006

HAND DELIVERED

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13816

2006 OCT 10 PM 2 43

Re: Application of Black Hills Exploration & Production, Inc. for the creation of the Jicarilla Apache Tribal Lands Production Area and the adoption of Special Pool Rules and Regulations therefore in the Pictured Cliffs formation, East-Blanco Pictured Cliffs Pool, and the Tertiary formation, Cabresto Canyon-Tertiary Pool, Rio Arriba County New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of Black Hills Exploration & Production, Inc. in the above-referenced case as well as a copy of the legal advertisement. Black Hills Exploration & Production, Inc. requests that this matter be placed on the docket for the November 9, 2006 Examiner hearings.

Very truly yours,

William F. Carr

Enclosures

cc: Ms. Brenda Mustain
Black Hills Exploration & Production, Inc.

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

IN THE MATTER OF THE APPLICATION OF BLACK HILLS EXPLORATION & PRODUCTION, INC. FOR THE CREATION OF THE JICARILLA APACHE TRIBAL LANDS-PRODUCTION AREA AND THE ADOPTION OF SPECIAL RULES AND REGULATIONS THEREFORE IN THE FOR THE PICTURED CLIFFS FORMATION, EAST BLANCO-PICTURED CLIFFS POOL, AND THE TERTIARY FORMATION, CABRESTO CANYON-TERTIARY POOL, RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. 138165

APPLICATION

BLACK HILLS EXPLORATION & PRODUCTION, INC. ("Black Hills") through its undersigned attorneys, hereby makes application to the Oil Conservation Division for an order creating the "Jicarilla Apache Tribal Lands Production Area" comprised of the following lands in Rio Arriba, County, New Mexico:

TOWNSHIP 30 NORTH, RANGE 3 WEST, NMPM

Sections 4 through 9:	All
Sections 15 through 22:	All
Sections 26 through 35:	All

TOWNSHIP 31 NORTH, RANGE 3 WEST, NMPM

Section 32:	S/2
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TOWNSHIP 29 NORTH, RANGE 3 WEST, NMPM

Sections 3 through 10:	All
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and the adoption of Special Rules and Regulations for this area which authorize the drilling of up to two wells on each 160-acre gas spacing unit (80-acre infill wells) and for special well location requirements in the Pictured Cliffs formation, East Blanco-Pictured Cliffs Pool (72400) and in the Tertiary formation, Cabresto Canyon-Tertiary Pool

(97037), created by Nomenclature Order No. R-11445, dated September 5, 2000, and in support of its application states.

1. Black Hills is the oil and gas operator and a working interest owner in Jicarilla Apache Tribal Lands Production Area. These lands were acquired from Mallon Oil Company in March of 2003.

2. Black Hills is the sole owner and operator the oil and gas minerals under certain tracts and the partial owner and operator of other tracts in this area pursuant to Indian Mineral Development Agreements (“IMDA”) and other contracts between the Jicarilla Apache Nation and Black Hills.

3. The gas bearing zones that are the subject of this application are currently governed by Oil Conservation Division General Rule 104.C(3) which provides for (i) 160-acre gas spacing and proration units, (ii) wells to be located no closer than 660 feet from the outer boundary of the dedicated quarter section nor 10 feet to any quarter-quarter section line or subdivision inner boundary, and (iii) precludes the drilling, recompletion, and production of a second well within a single 160-acre gas spacing unit.

4. Because of topographical, archeological, geological and cultural factors, it is difficult to comply with Division well location rules in the Jicarilla Apache Tribal Lands Production Area.

5. To address this difficulty, the Oil Conservation Division entered Administrative Order NSL-4355, dated September 7, 1999, as corrected by order dated October 29, 2002, which:

- A. identified 60,167.64 acres of Jicarilla Apache Lands in which Mallon [now Black Hills] is the operator of the oil and gas mineral rights (“Mallon/Jicarilla Consolidated Contract Area”);

- B. recognized that as exploration and development on these lands progressed unorthodox gas well locations would be necessary to (i) avoid archeological sites; (ii) minimize disturbance to forested and wildlife habitats; (iii) minimize construction of well pads by avoiding rugged terrain when practical; and (iv) position well bores within geologically more favorable locations in order to maximize the likelihood of obtaining commercial gas production; and
- C. authorized Mallon to recomplete existing wells and drill new wells on the Mallon/Jicarilla Consolidated Contract Area to any and all formations and/or pools developed on 160-acre spacing from the surface to the base of the Pictured Cliffs formation, which presently includes the East Blanco-Pictured Cliffs Pool and the Cabresto Canyon-Tertiary Pool..., at locations that are unorthodox based the location requirements of Division Rule 104.C (3), provided that any such unorthodox well location is no closer than the required minimum orthodox distance (660 feet) from the outer boundary of the Mallon/Jicarilla Consolidated Contract Area nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

6. By Order No. R-11858, entered on November 1, 2002 in Case 12892, the Oil Conservation Division granted the application of Mallon Oil Company for a pilot project comprised of four separate areas in Townships 29 and 30 West, Range 3 West, NMPM, Rio Arriba County, New Mexico, in the Jicarilla Apache Tribal Lands Project Area to gather information on the complex geology and reservoir characteristics of each of the producing intervals in the Pictured Cliffs and the Ojo Alamo, Nacimiento and San Jose formations of the Tertiary system. The well data was to be gathered to enable Mallon to determine proper well density requirements in the Pictured Cliffs and Tertiary system in this portion of the San Juan Basin.

7. Other operators in the San Juan Basin have conducted pilot projects to evaluate other portions of the Pictured Cliffs formation for the institution of infill programs but did not evaluate the "peripheral portions" of the reservoir to determine if increased density was required to prevent the waste of hydrocarbons. (See Case No. 12,857, May 2, 2002).

8. The Jicarilla Apache Tribal Lands Production Area is on the eastern edge of the Pictured Cliffs formation and in a “peripheral portion” of this reservoir.

9. Data obtained from wells drilled in the Pilot Project Area approved for Mallon, as well as data from other wells in the Jicarilla Apache Tribal Lands Production Area, demonstrates that infill development of this portion of East Blanco- Pictured Cliffs Pool and the Cabresto Canyon-Tertiary Pool will result in the recovery of incremental reserves from each pool that cannot be recovered with only one well on each 160-acre spacing unit thereby preventing waste.

10. Black Hills therefore seeks an order from the Division that:

A. creates the “Jicarilla Apache Tribal Lands Production Area” comprised of the following lands in Rio Arriba, County, New Mexico:

TOWNSHIP 30 NORTH, RANGE 3 WEST, NMPM

Sections 4 through 9:	All
Sections 15 through 22:	All
Sections 26 through 35:	All

TOWNSHIP 31 NORTH, RANGE 3 WEST, NMPM

Section 32:	S/2
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TOWNSHIP 29 NORTH, RANGE 3 WEST, NMPM

Sections 3 through 10:	All
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B. provides for wells to be drilled and recompleted at unorthodox well locations in the Jicarilla Apache Tribal Lands Production Area in the East Blanco-Pictured Cliffs Pool and the Cabresto Canyon-Tertiary Pool at locations that are unorthodox based the location requirements of Division Rule 104.C (3), provided that any such unorthodox well location is no

closer than the required minimum orthodox distance (660 feet) from the outer boundary of the Jicarilla Apache Tribal Lands Production Area nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary, and

C. authorizes an optional infill well on each 160-acre spacing and proration unit in the Jicarilla Apache Tribal Lands Production Area.

11. Approval of this application will result in the recovery of incremental hydrocarbons from the East Blanco-Pictured Cliffs Pool and the Cabresto Canyon-Tertiary Pool that otherwise would be wasted and will otherwise be in the best interest of conservation and the protection of correlative rights.

12. Notice of this application has been provided in accordance with the rules of the Oil Conservation Division by Certified Mail to the affected parties identified on Exhibit A to this application.

Wherefore, Black Hills Exploration & Production, Inc. request that this application be set for hearing before an examiner of the Oil Conservation Division on November 9, 2006, and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted,
Holland & Hart, LLP

By: 
William F. Carr

ATTORNEYS FOR BLACK HILLS
EXPLORATION & PRODUCTION, INC.

EXHIBIT A

NOTIFICATION LIST

**APPLICATION OF BLACK HILLS EXPLORATION & PRODUCTION, INC. FOR THE
CREATION OF THE
JICARILLA APACHE TRIBAL LANDS-PRODUCTION AREA AND
THE ADOPTION OF SPECIAL RULES AND REGULATIONS THEREFORE
IN THE FOR THE PICTURED CLIFFS FORMATION,
EAST BLANCO-PICTURED CLIFFS POOL, AND THE
TERTIARY FORMATION, CABRESTO CANYON-TERTIARY POOL,
RIO ARRIBA COUNTY, NEW MEXICO.**

Burlington Resources Oil and Gas Company
3401 East 30th Street
Farmington, New Mexico 87402
Attn: Alan Alexander

ConocoPhillips Company
3401 East 30th Street
Farmington, New Mexico 87402
Attn: Alan Alexander

Energen Resources Oil & Gas Company, Inc.
2198 Bloomfield Highway
Farmington, New Mexico 87402

Schalk Development Company
Post Office Box 25825
Albuquerque, New Mexico 87125

Williams Production Company
One Williams Center, Suite 2500
Tulsa, Oklahoma 74172

Williams Production Company
999 Godard Ave.
Ignascio, Colorado 81137

Bureau of Land Management
Farmington District Office
1235 La Plata Highway
Suite A
Farmington, New Mexico 87401-8731

Jicarilla Apache Nation
Oil & Gas Administrator
Dulce, New Mexico 87255

CASE 13816 **Application of Black Hills Exploration & Production, Inc. for the creation of the Jicarilla Apache Tribal Lands Production Area and the adoption of Special Pool Rules and Regulations therefore in the Pictured Cliffs formation, East-Blanco Pictured Cliffs Pool, and the Tertiary formation, Cabresto Canyon-Tertiary Pool, Rio Arriba County New Mexico.** Applicant seeks the creation of the Jicarilla Apache Tribal Lands Production Area to be comprised of the following lands located in Rio Arriba, County, New Mexico:

TOWNSHIP 30 NORTH, RANGE 3 WEST, NMPM

Sections 4 through 9:	All
Sections 15 through 22:	All
Sections 26 through 35:	All

TOWNSHIP 31 NORTH, RANGE 3 WEST, NMPM

Section 32:	S/2
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TOWNSHIP 29 NORTH, RANGE 3 WEST, NMPM

Sections 3 through 10:	All
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Applicant also seeks the adoption of Special Rules and Regulations for the Jicarilla Apache Tribal Lands Production Area that provide for increased well density within each standard 160-acre spacing and proration unit from the current maximum of one well as provided by Division General Rule 104.C, to a maximum of two wells (80-acre infill wells) per 160-acre gas spacing and proration unit and for special well location requirements. This area is located approximately 4 miles to 6 miles Southwest of Burns, New Mexico.

October 12, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

Re: Application of Black Hills Exploration & Production, Inc. for the creation of the Jicarilla Apache Tribal Lands Production Area and the adoption of Special Rules and Regulations therefore in the Pictured Cliffs formation, East Blanco-Pictured Cliffs Pool, and the Tertiary formation, Cabresto Canyon-Tertiary Pool, Rio Arriba County New Mexico.

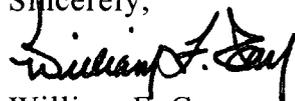
Ladies and Gentlemen:

This letter is to advise you that Black Hills Exploration & Production, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order creating the Jicarilla Apache Tribal Lands Production Area and the adoption of Special Rules and Regulations for this area in the Pictured Cliffs formation, East Blanco Pictured Cliffs Pool and the Tertiary formation, Cabresto Canyon-Tertiary Pool Rio Arriba County, New Mexico.

This application has been set for hearing before a Division Examiner on November 9, 2006. 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 with the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, four days in advance of a scheduled hearing, but at least on the Thursday preceding the hearing. 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.

Sincerely,



William F. Carr

ATTORNEY FOR BLACK HILLS EXPLORATION & PRODUCTION, INC.