

30-039-20648

HOLLAND & HART LLP



William F. Carr
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July 24, 2006

VIA FACSIMILE AND U. S. MAIL
FAX NO. (505) 334-6178

Mr. Steve Hayden, District Geologist
Oil Conservation Division, District III
New Mexico Department of Energy,
Minerals and Natural Resources
1000 Rio Brazos Road
Aztec, New Mexico 87410

SH
**Re: Black Hills Gas Resources, Inc.
Carson 29-4-24 Well No. 4
Section 24, Township 29 North, Range 4 West, NMPM
Rio Arriba County, New Mexico**



Dear Mr. Hayden:

This letter confirms our telephone conversation of July 19, 2006 concerning the above-referenced well.

Black Hills Gas Resources, Inc. ("Black Hills") re-entered the Carson 29-4-24 Well No. 4 ("Carson Well") and drilled it as a horizontal wellbore in the Undesignated Chosa Mesa-Pictured Cliffs Pool on a dedicated Horizontal Well Project Area comprised of the S/2 of the section. Due to problems that were incurred while drilling, Black Hills was unable to drill the horizontal portion of the wellbore as planned into the SE/4 of the section. Black Hills is concerned the well could be damaged by any attempt to conduct remedial work on the well at this time.

Pursuant to your verbal authorization Black Hills put this well on production on July 20, 2006. When a sufficient production history has been established for the well, Black Hills will determine if this information justifies either (1) an attempt to re-enter and drill a new horizontal wellbore extending from the SW/4 into the SE/4 of said Section 24 as originally planned (while plugging back and abandoning the existing horizontal wellbore) or, (2) drilling an additional well within the SE/4 of Section 24 within this Project Area. If the production information does not support additional development efforts on the Project Area, Black Hills will file an application with the Division seeking an order contracting the acreage dedicated to the well to a standard spacing unit

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comprised of the SW/4 of this section and also seek administrative approval of an unorthodox location for the well.

We have confirmed that Section 24 is comprised of one federal lease and that the ownership of all tracts affected by this well is identical. Accordingly, there will be no correlative rights issue if the acreage dedicated to the well is reduced after sufficient data has been obtained to determine the most prudent way to develop the minerals under the S/2 of this section.

Very truly yours,

A handwritten signature in black ink, appearing to read 'William F. Carr'.

William F. Carr

cc: Mr. Mark Fesmire, P. E.
Carlton Ekberg, Esq.
Jim Bob Byrd