

Black Hills Gas Resources, Inc.

A Black Hills Corporation Enterprise

1515 Wynkoop Street, Suite 500, Denver, Colorado 80202

David C. Thornquist
Landman

Bus: (303) 566-9436

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E-mail: david.thornquist@blackhillscorp.com

February 11, 2010

Mr. William V. Jones PE
New Mexico Oil Conservation Division
1200 South St. Francis
Santa Fe, New Mexico 87505

Re: Consent to Commingle Production
Jic 464-29 10
Rio Arriba County, New Mexico

Dear Mr. Jones,

It is the wish of Black Hills Gas Resources, Inc. to commingle production from several potential gas producing formations. The correlative rights within these commingled formations remain the same. The formations being commingled under this well are:

Pictured Cliffs Formation
San Jose - Nacimiento - Ojo Alamo

Black Hills appreciates your consideration of this request and looks forward to a favorable approval. Should you have any questions or comments with this request, please do not hesitate to contact me.

Sincerely,

David C. Thornquist
Landman



Black Hills Gas Resources
1515 Wynkoop St.
Suite 500
Denver, CO 80202

February 25, 2010

Richard Ezeanyim
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Surface commingle of wells.

Dear Mr. Ezeanyim:

The purpose of this letter is to clarify a conversation between Will Jones and myself on January 12, 2010, regarding commingling production of individual wells at the surface.

Black Hills has a *Total Flow* meter at each well bore and this meter is calibrated regularly, depending on how much the well is capable of producing i.e. if the volume exceeds 100 MCF per day the calibration is quarterly. All royalties are calculated and paid at that point. Up till now the well had the ability to produce from different pools that were completed within the well bore. The correlative rights in the well bore are identical. However surface commingling had not taken place. The well has been produced either up the casing annulus or the tubing string, but not both. Therefore Black Hills has begun surface commingling (see attachment) as directed by Mr. Jones in an e-mail received January 12, 2010, and is submitting documentation required by Mr. Jones.

I would like to thank the staff at the Oil Conservation Division for their prompt and professional manner in dealing with this issue.

Please do not hesitate to call me in the event of any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alan Vrooman', written over a horizontal line.

Alan Vrooman
Senior Permitting Coordinator
Black Hills Exploration & Production
1515 Wynkoop St.
Suite 500
Denver, CO 80202
303-566-3356

Submit 3 Copies To Appropriate District Office
District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources

Form C-103
June 19, 2008

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

WELL API NO. 30-039-25761
5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No. Contract 464
7. Lease Name or Unit Agreement Name 22184
8. Well Number Jicarilla 464-29 #10
9. OGRID Number 013925
10. Pool name or Wildcat East Blanco Pictured Cliffs Cabresto Canyon Tertiary

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator
Black Hills Gas Resources

3. Address of Operator
**3200 N 1st St / P.O. Box 249
Bloomfield, NM 87413**

4. Well Location
Unit Letter **J** : **1600** feet from the **North** line and **1800** feet from the **East** line
Section **29** Township **30N** Range **3W** NMPM County **Rio Arriba**

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
7,151' GL

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☐
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐
DOWNHOLE COMMINGLE ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: **Surface Commingle** ☒

OTHER: ☐

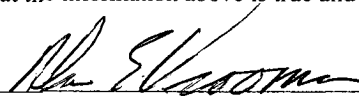
13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

Black Hills Gas Resources intends to surface commingle the East Blanco Pictured Cliff and the Cabresto Canyon Tertiary for the subject well. The correlative rights in the well bore are identical.

Spud Date:

Rig Release Date:

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE  TITLE Sr. Permitting Coordinator DATE 2/24/10

Type or print name Alan Vrooman E-mail address: alan.vrooman@blackhillscorp.com PHONE: (303) 566- 3356

For State Use Only

APPROVED BY: _____ TITLE _____ DATE _____

Conditions of Approval (if any): _____

Jicarilla 464-29 #10

Wellbore Diagram

API # 30-039-25761

NW/SE, Sec 29, T30N, R3W Rio Arriba, NM

Elev. GL 7107'

Elev. KB 7121'

2/14/2007

SURF CSG

8 5/8" 24# @ 537',
cmt TOC surf

PROD TBG

2 3/8" tbg 113 jts

ON/OFF

Arrowset 1-X packer

3 jts 2 3/8" tbg

Std SN

1.78"

WL re-entry guide

EOT

3697

San Jose perfs; 10-13-98; 1503-1512, 1521-1528,
1540-1550, 1570-1591, 1628-1632, 1630-1634', BD
3500 gal HCl, Fraced with 35000# 12/20 SHT and N2
foam. tested 527 mcf + 35 bwph

Nacimiento perfs; 7-30-04; 2694-2724, BD HCl,
Fraced with 51660# 20/40 + 20700# 20/40 SLT and N2

Ojo Alamo perfs: 3-11-98; 3140-3194, BD 3500 gal
HCl, frac with 43000# 12/20 and N2 foam. Tested 1172
mcf + 3 to 4 bwph

Arrowset packer @ 3593' 3-08-05

Pictured Cliffs perfs; 7-30-04; 3652-3668, 3678-3686,
3688-3702, 3723-3730, BD HCl, Fraced with 100000#
20/40 and N2 foam.

PBTD=3855'

TD=3940'

PROD CSG

5 1/2" 15.5#, J-55
@3934' cmt w/ 473 sx
35/65/12+ 810 sx
50/50, TOC surf

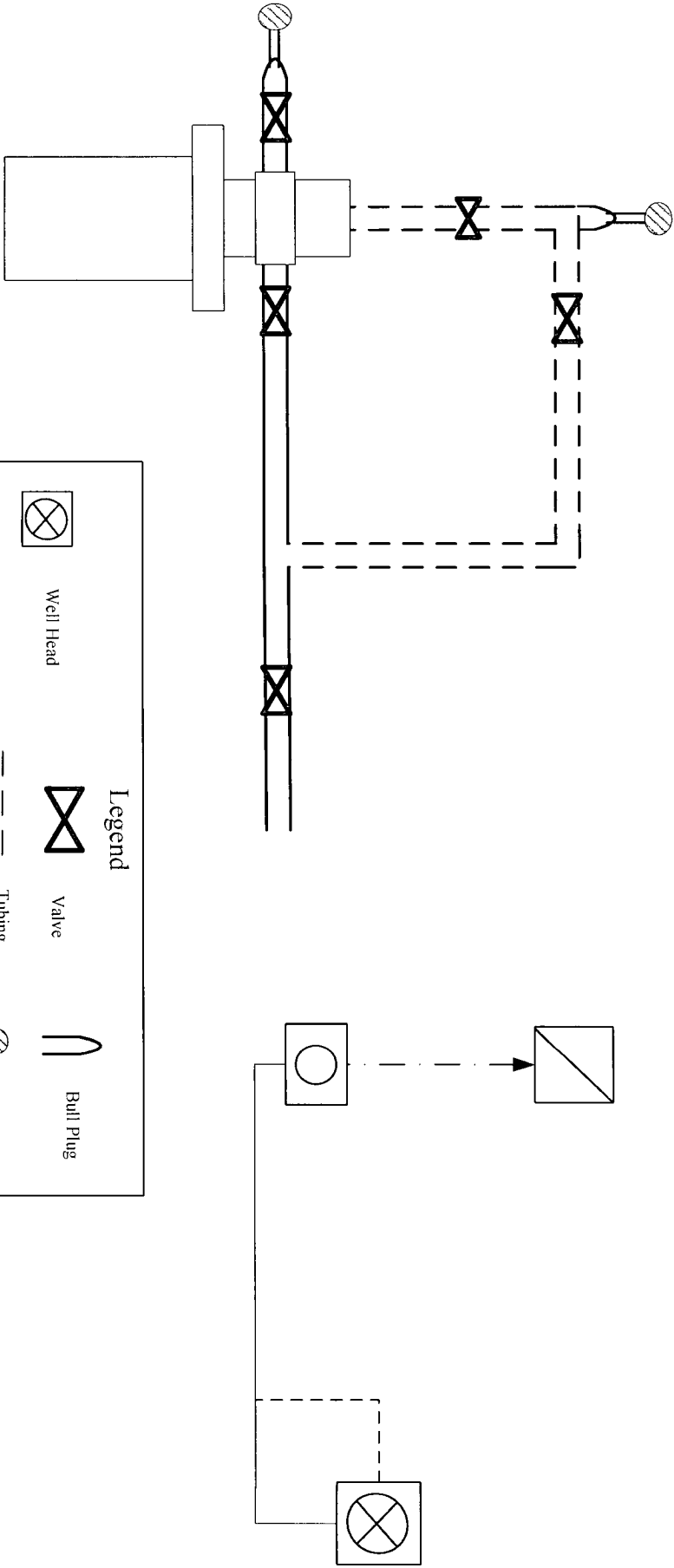
Black Hills Exploration and Production
Surface Commingling Diagram

Well Name Jicarilla 464-29 #10
Township 30 N
Range 3 W
Section NWSE 29

Location Rio Arriba County, NM
Latitude N 36.77981
Longitude W 107.17043

API # 3003925761

Aerial View of Surface Facilities



Not to Scale

Jones, William V., EMNRD

From: Jones, William V., EMNRD
Sent: Tuesday, January 12, 2010 12:23 PM
To: Sharp, Karen, EMNRD; Perrin, Charlie, EMNRD
Cc: Brooks, David K., EMNRD; Ezeanyim, Richard, EMNRD; 'Mike Pippin'
Subject: Black Hills Commingling production on the Jicarilla Tribal Lands

Hello Karen or Charlie:

To comply with the open records act, would you please print this email and save it in the "Black Hills" company file – we don't have those here.

Then please forward this email to the appropriate Black Hills person. Alan called this morning and I can't seem to get him on the phone.

Alan:

I ran this by Richard E., Terry Warnell, and our attorney David Brooks.

We understand you have DHC permits in place and a Total Flow (sales gas meter) on each well and these are all Tribal wells operated (100% WI) by Black Hills with identical royalty ownership between Pools.

Please commence production as soon as is practical from all completed Pools in wells that have a DHC order approved and in order to ensure correlative rights are protected and our rules are followed....submit the following information to this office by March 1, 2010. This data will be copied and placed in the well files or DHC permit files for each well involved.

- a. Send a cover letter addressed to the Engineering Bureau in Santa Fe stating the overall ownership situation on the Jicarilla and that these Total Flow gas meters are installed on all wells and these meters are considered to be "sales" meters for purposes of royalty payments.
- b. Send a list of all the wells involved including each API number and each DHC permit number for each well. List the Pool Names approved for commingling in the DHC permit and what percentage allocation you are approved to use.
- c. Send another letter signed by a Landman or Attorney stating the ownership situation between the completed Pools in each well. If ownership is identical (ORRI, RI, WI the same) between Pools, have that stated and the letter signed. You can send in only one letter and just list the identically owned wells/pools within that letter.

If in this investigation, your landman finds differing overrides or differing WI from any Pool completed in any of these wells, please prepare diversely owned surface commingle application for each diverse well, send out notices, and send the application in to Santa Fe for approval.

If you have wells not yet covered by DHC orders and are completed as duals or triples, then you could apply for a surface commingle permit on those – most likely under category: "identically owned Pool Commingles".

Regards,

William V. Jones PE
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, NM 87505
505-476-3448

Tracking: