



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

OLD-Aztec

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

January 30, 2004

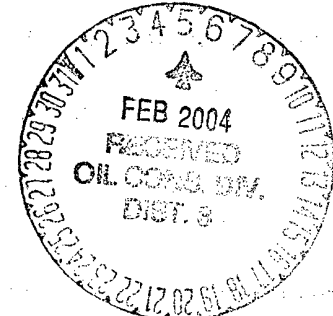
Lori Wrotenbery

Director

Oil Conservation Division

Black Hills Exploration and Production, Inc./Mallon Oil Company
350 Indiana Street – Suite 400
Golden, Colorado 80401

Attention: Randall G. Harris, CPL
Land Manager



Re: Application for Non-Standard Pictured Cliffs Gas Spacing Unit
Horizontal Re-entry: Jicarilla 29-02-16 Well No. 4 (API No. 30-039-27462)
N/2 Section 16, Township 29 North, Range 2 West, NMPM, Rio Arriba County.

Dear Mr. Harris:

Reference is hereby made to your application dated January 14, 2004 that was submitted to the New Mexico Oil Conservation Division's Santa Fe office on January 22, 2004 and assigned *administrative application reference No. pMES0-402335016*, styled as an exception to the spacing requirements of Division Rule 104.C (3) in order to create a non-standard 320-acre gas spacing unit in the Pictured Cliffs formation comprising the N/2 of Section 16. Division Rule 104.C (3) requires gas wells developed on 160-acre spacing are to be located in a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys. Altering well spacing is complex and restricted to pool-wide areas; further such spacing exceptions require hearings and results in the formation of special pool rules for all operations in that pool to abide. This is why your particular request for the formation of a single spacing unit twice the size as the assigned spacing for gas wells to this depth and area is beyond the Division's administrative review process [see Division Rule 104.D (2) (b)]. Such restriction discourages the formation of oversized units for the purpose of holding acreage.

HOWEVER, TO ENCOURAGE HORIZONTAL DRILLING AND DEVELOPMENT, the New Mexico Oil Conservation Division adopted/re-codified Rule 111 in 1997 allowing operators to combine complete spacing units to form a "project area" [see Rule 111.A (9)] for the purpose of developing a reservoir with a lateral wellbore. Such project areas can, in some cases, be approved at the district level.

My review of the data contained in your application indicates the surface location of Mallon Oil Company's existing Jicarilla 29-02-16 Well No. 4 is at a standard Pictured Cliffs gas well location 685 feet from the North line and 690 feet from the West line (Unit D) of Section 16 and that the proposed termination point of this wells planed horizontal recompletion (1925' FNL & 660' FEL in Unit "H" of Section 16) is also considered to be standard for a Pictured Cliffs gas well. Under Division Rules 111.A (7) and 111.C (1) your proposed horizontal directional drilling project can be processed at the Aztec district office of the Division.

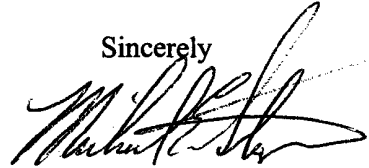
Black Hills Exploration and Production, Inc./Mallon Oil Company

January 30, 2004

Page 2

I am therefore forwarding your request to Aztec for processing. Please review Division Rules 111 and 104 in their entirety (see <http://www.emnrd.state.nm.us/OCD/default.htm>). After which you may contact the Division's Aztec district office at (505) 334-6178 for any additional instructions.

Sincerely



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: ✓ New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Albuquerque
William F. Carr, Legal Counsel for Mallon Oil Company - Santa Fe

DATE IN 1-22-04	SUSPENSE 2-11-04	ENGINEER MS	LOGGED IN MS	TYPE NSP	PMESO- APP NO. 402335016
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☒ NSP ☐ SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

[D] Other: Specify _____

[2] NOTIFICATION REQUIRED TO:- Check Those Which Apply, or ☐ Does Not Apply

[A] ☐ Working, Royalty or Overriding Royalty Interest Owners

[B] ☒ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] CERTIFICATION: I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Randall G. Harris
 Print or Type Name

Signature

Randy Harris

Land Manager
 Title

Date

1-14-04

rgarris@bhep.com
 e-mail Address

RECEIVED
 JAN 22 2004
 Oil Conservation Division
 1220 S. St. Francis Drive
 Santa Fe, NM 87505

Wildcat P.C.



Black Hills Exploration and Production

Mallon Oil Company

350 Indiana Street, Suite 400; Golden, CO 80401

Randal G. Harris, CPL
Land Manager

Direct: (720) 210-1316
Fax: (720) 210-1363
rgharris@bhep.com

January 14, 2004

Ms. Lori Wrotenberg
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

RE: Application for Non-Standard Spacing Unit
Jicarilla 29-02-16 #4 Well (Horizontal Re-Entry)
N/2 Section 16, Township 29 North, Range 2 West
Rio Arriba County, New Mexico

Wildcat P.C.
30-039-27462

Dear Ms. Wrotenberg:


Mallon Oil Company, an indirect, wholly owned subsidiary of Black Hills Exploration and Production, Inc. hereby requests administrative approval of a non-standard spacing unit containing 320 acres comprising the N/2 of Section 16-T29N-R2W for re-entry of the captioned well. This well was previously drilled at a location 685' FNL and 690' FWL in the NW/4NW/4 of Section 16-T29N-R2W (API 30-039-27462). Subject to administrative approval, Mallon intends to re-enter the existing wellbore and complete the well as a horizontal Pictured Cliffs well. The projected bottom-hole location will be 1925' FNL and 660' ^{FWL}_E in the SE/4NE/4 of Section 16-T29N-R2W.

Enclosed for your reference is a plat showing the proposed spacing unit and surrounding spacing units. The Jicarilla Apache Nation is the only owner affected by this request and proper notification has been made as required by Rule 1207.A(2), a copy of which is attached.

Non-standard spacing is being requested for this horizontal re-entry in an effort to prevent waste, protect correlative rights, promote conservation, minimize surface disturbances on the Jicarilla Apache Nation acreage and recover reserves which may otherwise not be recovered. The requested non-standard spacing unit will not affect future orderly development of the Pictured Cliffs formation in offsetting spacing units. There are currently four wells in the vicinity producing from the Pictured Cliffs formation utilizing 160-acre spacing. An additional three wells are waiting on completion to the Pictured Cliffs formation.

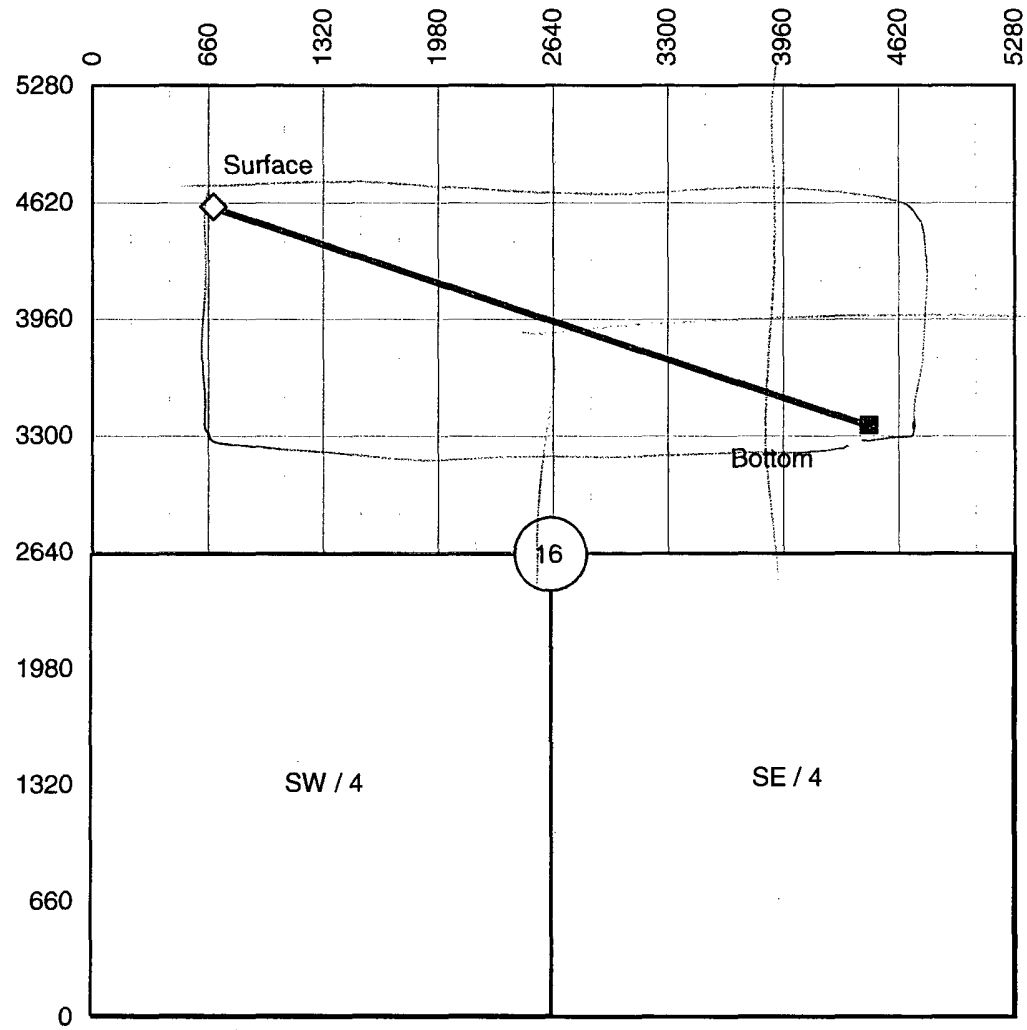
Please do not hesitate to contact me if you have any questions concerning this application.

Sincerely,


Randal G. Harris, CPL
Land Manager

/pld
Enclosures

**Mallon Oil Company
Jicarilla 29-02-16 #4 (Horizontal Pictured Cliffs)**



MALLON OIL COMPANY

Proposed 320-acre Non-Standard Spacing Unit for Horizontal Pictured Cliffs Completion

Jicarilla 29-02-16 #4

Jicarilla 29-02-08 #4 API 30-039-26864 Pictured Cliffs	Jicarilla 29-02-08 #3 API 30-039-26863 Pictured Cliffs	Jicarilla 29-02-09 #2 API 30-039-26865 Pictured Cliffs/Tertiary		
8		9		10
Jicarilla 29-02-08 #1 API 30-039-26327 Tertiary	Jicarilla 29-02-08 SJ #2 API 30-039-26660 Tertiary	Jicarilla 29-02-09 #1 API 30-039-26094 Pictured Cliffs/Tertiary		Unleased Owner: Jicarilla Apache Nation
Jicarilla 29-02-17 SJ #2 API 30-039-26658 Tertiary		Proposed Horizontal Spacing Unit - PC Jicarilla 29-02-16 #4 API 30-039-27462		15
17				
		Jicarilla 29-02-16 #5 API 30-039-27402 Waiting on Completion	Jicarilla 29-02-16 #1 API 30-039-26108 Waiting on Completion	
Jicarilla 29-02-20 #1 API 30-039-26093 Waiting on Completion - Fruitland Coal		Jicarilla 29-02-21 #1 API 30-039-27463 Waiting on Completion	Jicarilla 29-02-21 #2 API 30-039-27460 Waiting on Completion	
20		21		22



Jicarilla Mineral Development Agreement 701-98-0013

Mallon Oil Company - 100%



Black Hills Exploration and Production

Mallon Oil Company

350 Indiana Street, Suite 400; Golden, CO 80401

Randal G. Harris, CPL
Land Manager

Direct: (720) 210-1316
Fax: (720) 210-1363
rgharris@bhep.com

January 14, 2004

CERTIFIED MAIL 7000 1670 0003 4354 7988
Return Receipt Requested

Mr. Fred Vigil, Director
Jicarilla Apache Nation Oil and Gas Administration
Dulce Rock Road
Dulce, NM 87528

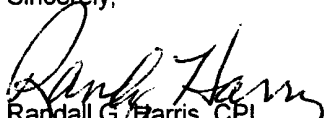
RE: Application for Non-Standard Spacing Unit
Jicarilla 29-02-16 #4 Well (Horizontal Re-Entry)
N/2 Section 16, Township 29 North, Range 2 West
Rio Arriba County, New Mexico

Dear Fred:

Mallon Oil Company, an indirect, wholly owned subsidiary of Black Hills Exploration and Production, Inc. is making application to the New Mexico Oil Conservation Division for approval of a non-standard spacing unit containing 320 acres comprising the N/2 of Section 16-T29N-R2W. This well was previously drilled at a location 685' FNL and 690' FWL in the NW/4NW/4 of Section 16-T29N-R2W. It is Mallon's desire to re-enter the wellbore for completion as a horizontal Pictured Cliffs well. The subject well is located on Tract 4 of MDA 701-98-0013. A copy of the proposed application is enclosed for your review.

If you have no objections to the proposed non-standard spacing unit, please so indicate by signing below and returning one copy of this letter to us by fax and mail (envelope enclosed). In the event you wish to object, you must notify the New Mexico Oil Conservation Commission at 2040 South Pacheco Street, Santa Fe, NM 87505 within 20 days of receiving this notice.

Sincerely,


Randal G. Harris, CPL
Land Manager

Jicarilla Apache Nation waives objection to the non-standard spacing unit described above this _____ day of January, 2004.

JICARILLA APACHE NATION OIL AND GAS ADMINISTRATION

By: _____
Fred P. Vigil, Director

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

Postage \$
Certified Fee
Return Receipt Fee (Endorsement Required)
Restricted Delivery Fee (Endorsement Required)
Total Postage & Fees \$

Mr. Fred Vigil, Director
Jicarilla Apache Nation Oil and Gas Administration
Dulce Rock Road
Dulce, NM 87528

PS Form 3800, May 2000

See Reverse for Instructions