

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, 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-101
May 27, 2004

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Submit to appropriate District Office

☐ AMENDED REPORT

2006 FEB 14 PM 1 16

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address El Paso E & P Company, L.P. PO Box 190 Raton, NM 87740		² OGRID Number 180514
		³ API Number 30-007-20701
⁴ Property Code 25180	⁵ Property Name Vermejo Park Ranch	
⁶ Well No. VPR B 206		
⁷ Proposed Pool 1 Van Bremmer - Vermejo		⁸ Proposed Pool 2

⁷ Surface Location

UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	33	30N	18E	N	1230	South	1775	West	Colfax

⁸ Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
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Additional Well Information

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable Rotary Rotary/Air	¹⁴ Lease Type Code P	¹⁵ Ground Level Elevation 8,189'
¹⁶ Multiple Yes	¹⁷ Proposed Depth 2,870'	¹⁸ Formation Vermejo	¹⁹ Contractor Pense	²⁰ Spud Date March 1, 2006
Depth to Groundwater		Distance from nearest fresh water well		Distance from nearest surface water
Pit: Liner: Synthetic <input type="checkbox"/> mils thick Clay <input type="checkbox"/> Pit Volume: bbls Drilling Method: Fresh Water <input type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input checked="" type="checkbox"/>				
Closed-Loop System <input type="checkbox"/>				

²¹ Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
11"	8 5/8"	23#	330'	100 sks	Surface
7 7/8"	5 1/2"	15.5#	2,870'	400 sks	Surface

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

1. Drill 11" hole to +/- 330' with air.
2. Set 8 5/8" surface casing and cement to surface with 100 sks of cement.
3. Drill 7 7/8" hole to 2,870' with air. Run open hole logs.
4. Set 5 1/2" production casing to TD and cement to surface. Cement volumes calculated from open hole logs.
5. Perforate and stimulate the Vermejo and/or Raton Coals. Clean out well bore and run production equipment.

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines ☐, a general permit ☐, or an (attached) alternative OC D-approved plan ☐.

Printed name: Donald R. Lankford <i>DR Lankford</i>		OIL CONSERVATION DIVISION	
Title: Production Manager		Approved by: <i>[Signature]</i>	
E-mail Address: don.lankford@elpaso.com		Title: DISTRICT SUPERVISOR	
Date: 02/10/06		Approval Date: 2/14/06 Expiration Date: 2/14/07	
Phone:		Conditions of Approval Attached <input type="checkbox"/>	

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State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number		² Pool Code 97047	³ Pool Name Van Bremmer Canyon - Vermejo Gas
⁴ Property Code 25180	⁵ Property Name VERMEJO PARK RANCH		⁶ Well Number VPR'B'-206
⁷ OGRID No. 180514	⁸ Operator Name EL PASO ENERGY RATON, L.L.C.		⁹ Elevation 8189'

¹⁰ Surface Location

UL or lot no. N	Section 33	Township T 30 N	Range R 18 E	Lot Idn N	Feet from the 1230	North/South line SOUTH	Feet from the 1775	East/West line WEST	County COLFAX
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¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres		¹³ Joint or Infill		¹⁴ Consolidation Code		¹⁵ Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;"> LAT/LONG NAD27 (DMS) N 36°47'14.2" W 105°02'15.4" </div>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i></p> <p>Signature: <u>DR Lankford</u> Date: <u>2/13/06</u></p> <p>Printed Name: Don Lankford Production Manager</p> <hr/> <p>¹⁸ SURVEYOR CERTIFICATION</p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i></p> <p>October 31, 2005</p> <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor:</p> <p style="text-align: right;"><u>Jim Shields</u></p> <p>Certificate Number: NM LSN 5103</p>
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**DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
CASE RECORDATION
(LIVE) Serial Register Page**

Run Date/Time: 02/01/06 11:00 AM

Page 19 of 25

01 02-25-1920;041STAT0437;30USC226(G)

Total Acres

Serial Number

Case Type 318120: O&G CMPNS RLTY AGRMT-DRN

160.000

NMNM-- - 115547

Commodity 459: OIL & GAS L

Case Disposition: AUTHORIZED

Serial Number: NMNM-- - 115547

Name & Address

Int Rel

%Interest

BLM FARMINGTON FO
EL PASO PRODUCTION1235 LA PLATA HWY
PO BOX 2511FARMINGTON NM 87401
HOUSTON TX 77252OFFICE OF RECORD
OPERATING RIGHTS100.00000000
0.00000000

Serial Number: NMNM-- - 115547

Mer Twp Rng Sec SType SNr Suff Subdivision

District/Resource Area

County

Mgmt Agency

23 0300N 0180E 033 ALIQ

SW;

TAOS FO

COLFAX

BUREAU OF LAND MGMT

Serial Number: NMNM-- - 115547

Act Date

Code

Action

Action Remarks

Pending Office

01/01/2006

387

CASE ESTABLISHED

01/01/2006

530

RLTY RATE - 12 1/2%

01/01/2006

868

EFFECTIVE DATE

12/31/2008

763

EXPIRES

Line Nr

Remarks

Serial Number: NMNM-- - 115547

115547

COMPENSATORY ROYALTY AGREEMENT

This agreement is entered into in triplicate effective January 1, 2006, by and between the United States of America, through the Department of the Interior, Bureau of Land Management (BLM), referred to as the "USA", and El Paso E&P Company, L.P. ("El Paso"), witnesseth:

Whereas, The USA and El Paso are each the owner of mineral rights being located within a 160-acre governmental spacing unit being described as the SW/4, Section 33-30N-18E, and;

Whereas, The USA through the Bureau of Land Management is the administrator of the unleased mineral rights which are more particularly described on the plat attached hereto and marked as Exhibit "A", and;

Whereas, El Paso desires to form a spacing unit and drill a well in accordance with the rules and regulations of the New Mexico Oil Conservation Division (NMOCD), and;

Whereas, The USA desires to receive royalty compensation from offset drainage of its unleased minerals, and;

Now, therefore, in consideration of the foregoing and the premises described above, El Paso and the USA hereby agree as follows:

1. El Paso agrees to tender to the USA a royalty on the amount or value of all oil and gas produced and taken from the above-described lands, payments to be made to the Minerals Management Service. The royalty paid to the USA shall be calculated by multiplying the royalty rate of 12.5% by a fraction equal to the number of net mineral acres owned by the USA in the governmental spacing unit described above divided by the number of acres in the spacing unit described above.
2. Royalty payments are due at the end of the month following the month during which the oil and gas is produced and sold except when the last day of the month falls on a weekend or holiday. In such cases, payments are due on the first business day of the succeeding month (30 CFR 218.50(a)), and when paid in kind to be delivered in the field where produced at such time and in such manner as may be required by the duly authorized officer of the Department of the Interior.
3. For the purpose of computing the compensation payable to the United States pursuant to the terms of this agreement, the market value shall be computed in accordance with the departmental regulations. Each payment shall be accompanied by the Statement of oil and gas runs showing the quantity and the market value of oil and gas produced, saved and marketed during the period for which payment is made. All payments shall be made by check drawn to the order of the

Minerals Management Service and transmitted to the Royalty Management Program, P. O. Box 5810, Denver, Colorado 80217.

4. El Paso will file with the Minerals Management Service copies (in triplicate) of all sales contracts for the disposition of oil and gas produced from said lands, excluding any hydrocarbons used for production purposes thereon.
5. The said premises and all wells, improvements, machinery, and fixtures thereon or connected therewith, and all books and accounts of the party of the second part shall be open at all times for the inspection of any duly authorized officer of the Department of the Interior for the purposes of production verification. El Paso will furnish annually and at such times as the USA may require, in the manner and form prescribed, a plat showing all development and improvements on said lands, and other related information, together with a statement as to the amount and grade of oil and gas produced and sold, and the amount received therefore.
6. The USA agrees to waive any right to the working interest portion allocable to the unleased minerals of the USA in the governmental spacing unit described above from the surface of the earth to the top of the Trinidad formation, and agrees that no third party shall be granted rights to extract oil and gas from the unleased minerals of the USA in the governmental spacing unit described above from a well or wells drilled in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation during the term of this agreement. El Paso's sole obligation to the USA with respect to the unleased minerals of the USA in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation shall be the payment of royalties as provided in this Compensatory Royalty Agreement.
7. El Paso shall have no right to occupy the surface owned by the USA and administered by the Carson National Forest as to the lands described herein. The well drilled in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation shall be drilled at the location described on Exhibit A, or, at the election of El Paso, at a legal location in the governmental spacing unit described above that is no closer to the boundary of the Carson National Forest than the location described on Exhibit A; provided, the well is permitted, drilled and produced in accordance with the rules and regulations of the NMOCD.
8. The United States agrees that during the term of this agreement it shall not offer for sale or lease any portion of its oil and gas rights located in the spacing unit described above being limited to those depths from the surface of the Earth to the Top of the Trinidad Formation. Moreover, any lease granted by the USA for depths below the Top of the Trinidad Formation shall specifically exclude all formations and horizons above the Top of the Trinidad formation.
9. El Paso shall provide the USA with a full suite of logs, in both paper and digital format, for all wells drilled on the governmental spacing unit, showing the strata and the character of the ground passed through by the drill.

10. El Paso agrees it shall not seek approval of an Application from the New Mexico Oil Conservation Division for irregular or non-standard spacing units covering any portion of the governmental spacing unit described above during the term of this agreement.

11. This Compensatory Royalty Agreement shall become effective on the date set forth below, and shall remain in effect for a period of two years and so long thereafter oil or gas is produced from the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation. If a well is not drilled within two years from the effective date of this Compensatory Royalty Agreement, this Compensatory Royalty Agreement shall terminate and be void and of no effect. This Compensatory Royalty Agreement shall not terminate upon the cessation of production if, within 60 days thereafter, reworking or drilling operations are commenced in the governmental spacing unit described above as to depths from the surface of the earth to the top of the Trinidad formation and are thereafter conducted with reasonable diligence.

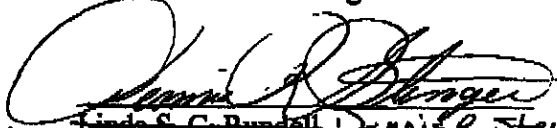
12. This Compensatory Royalty Agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective successors and assigns.

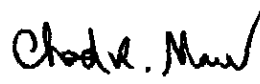
If the foregoing agreement meets with your approval, please so indicate by signing and returning one copy of this agreement to the undersigned.

IN WITNESS WHEREOF this agreement is signed and effective this 1st day of January 2006.

THE UNITED STATES OF AMERICA
Bureau of Land Management

EL PASO E&P COMPANY, L.P.


Acting Linda S. C. Rundell
State director
Date: 1/31/06


Chad R. Shaw
Attorney-in-Fact
Date: P40



STATE OF NM §
COUNTY OF SANTA FE §

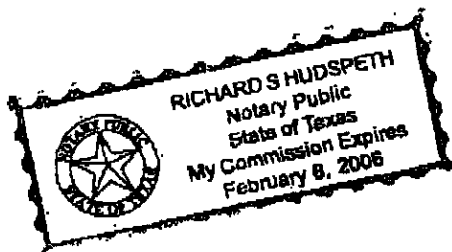
This instrument was acknowledged before me on this 31st day of January, 2006 by Dennis R. Stanger as State Director of Bureau of Land Management, on behalf of the Department of the Interior, Bureau of Land Management.



Sandra M. Cordova
Notary Public, State of NEW MEXICO
Printed Name: SANDRA M. CORDOVA
Commission Expires: 11/4/2006

STATE OF TEXAS §
COUNTY OF HARRIS §

This instrument was acknowledged before me on this 1st day of January, 2006 by Chad R. Shaw, as Attorney-in-Fact of El Paso E&P Company, L.P., a Delaware corporation, on behalf of said corporation.



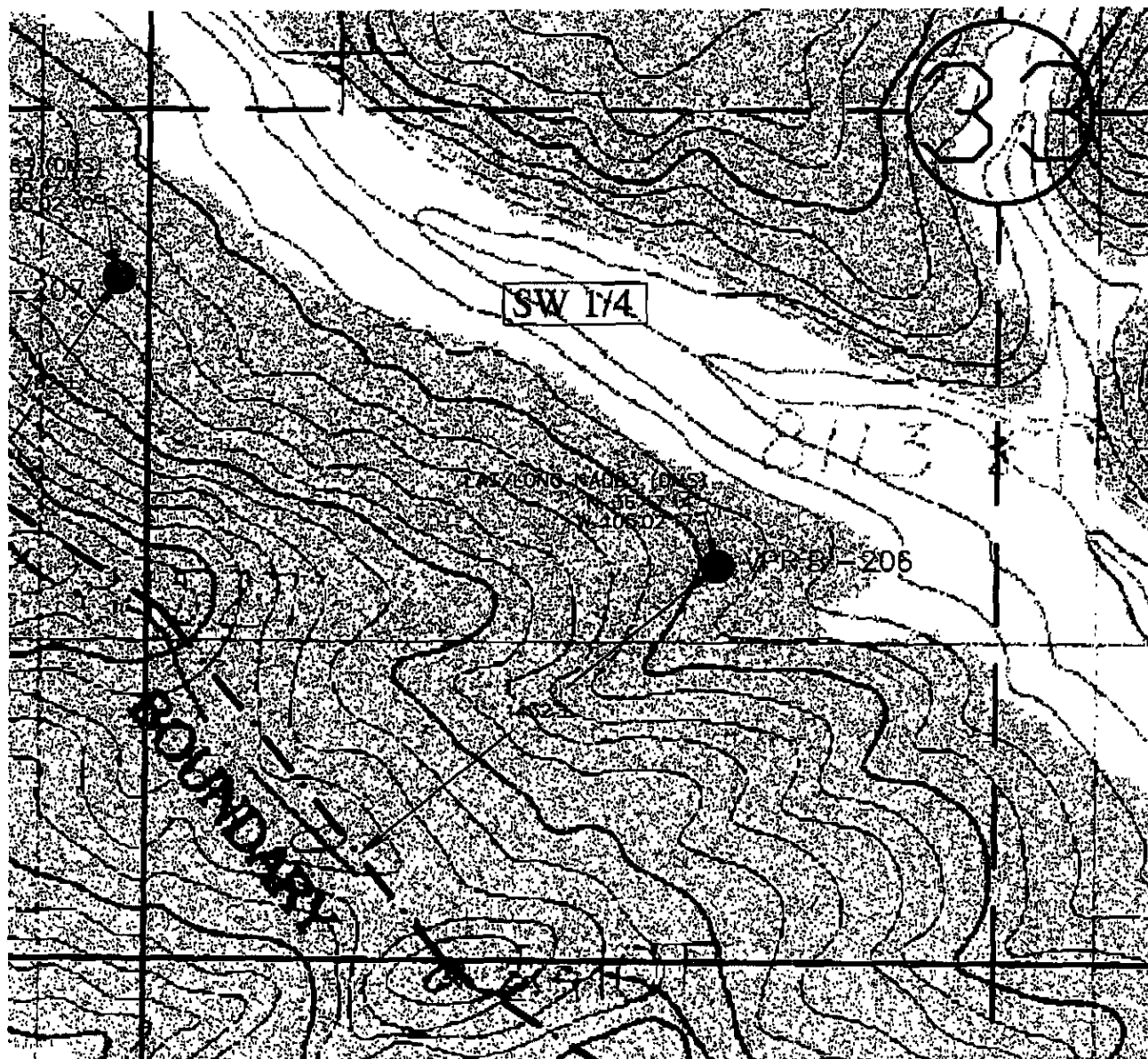
Richard S. Hudspeth
Notary Public, State of Texas
Printed Name: Richard S. Hudspeth
Commission Expires: 2-8-06

EXHIBIT "A"

ATTACHED TO AND MADE APART OF THAT CERTAIN COMPENSATORY
ROYALTY AGREEMENT DATED EFFECTIVE JANUARY 1, 2006

SW1/4 SECTION 33 T 30 N R 18 E

VPR ACRES	147.8
VALLE VIDAL ACRES	12.2
TOTAL ACRES	160.0



(33) = CENTER OF SECTION
--- BOUNDARY BETWEEN VERMEJO PARK
RANCH AND CARSON NATIONAL FOREST

GRAPHIC SCALE
125 0 125 250 500
(IN FEET)
1 inch = 500 ft.

SHIELDS SURVEY Ltd. Co.
819 South 2nd Street
P.O. Box 639
Baton Rouge, Louisiana 70740
Phone: 645-1232 Fax: 645-3668