



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

April 6, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

El Paso E & P Company, L. P.
P. O. Box 190
Raton, New Mexico 87740

Attention: Donald R. Lankford
Operations Manager
don.lankford@elpaso.com

Division Administrative Order SD-06-01

Dear Mr. Lankford:

Reference is made to your letter dated December 28, 2005 and submitted to New Mexico Oil Conservation Division's office in Santa Fe, New Mexico ("Division") on December 29, 2005 regarding El Paso E & P Company, L. P.'s ("El Paso") plans to establish a high angle/horizontal directional drilling pilot project/producing area (4,480 acres, more or less), pursuant to Division Rule 111.A (9), for the additional development of the coal gas bearing Vermejo formation underlying that portion of the publicly un-surveyed Maxwell Land Grant, projected by private survey conducted by PennzEnergy Company, Colfax County, New Mexico, comprising:

TOWNSHIP 31 NORTH, RANGE 17 EAST

Sections 25, 26, 35, and 36: All

TOWNSHIP 31 NORTH, RANGE 18 EAST

Section 31: All

TOWNSHIP 30 NORTH, RANGE 17 EAST

Sections 1 through 3: All.

Further, reference is hereby made to: (i) your meeting in Santa Fe, New Mexico on November 18, 2005 with Messrs. Roy Johnson, Supervisor Division District IV, and Michael E. Stogner, Staff Engineer with the Division; and (ii) the Division's records in Santa Fe, including the file on Division Administrative Order NSL-4251. For administrative and record keeping purposes this matter has been assigned **Division application reference No. pMES0-601357950**.

By Order No. R-11561, issued in Case No. 12639 on April 9, 2001 and made effective on May 1, 2001, the Division created and defined the Castle Rock Park-Vermejo Gas Pool (**97046**) for the production of gas from the Vermejo formation; the horizontal limits for this pool, as currently designated, comprises the following described lands in Colfax County, New Mexico, as projected into the (publicly un-surveyed) Maxwell Land Grant by private survey conducted by PennzEnergy Company:

TOWNSHIP 30 NORTH, RANGE 17 EAST

Section 1: E/2

Section 12: E/2

TOWNSHIP 30 NORTH, RANGE 18 EAST

Sections 3 through 10: All
Sections 15 through 18: All

TOWNSHIP 31 NORTH, RANGE 18 EAST

Section 29: S/2
Section 30: S/2
Sections 31 and 32: All
Section 33: W/2.

Currently, gas production from the Castle Rock Park-Vermejo Gas Pool and the Vermejo formation underlying the proposed pilot project/producing is "unprorated" and not subject to Part H of the Division's statewide rules entitled "*Gas Proration and Allocation*" (Rules 601 through 605); however, such gas production is subject to Division Rules 104.C (3) and 104.D (3) (see Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, and Division Memorandum issued by Director Lori Wrotenbery on October 25, 1999), which provides for: (i) 160-acre gas spacing, or drilling, units; (ii) requires that wells be located no closer than 660 feet to any outer boundary of such tract nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary; and (iii) limits the number of wells for each 160-acre drilling tract to only one. Further, Division Administrative Order NSL-4251, dated April 5, 1999, allowed the Supervisor of the Division's District office in Santa Fe, New Mexico, to grant exceptions to the setback requirements under most conditions.

El Paso is currently developing the above-described 4,480-acre, more or less, pilot project/producing area with the following 31 wells:

Section 26, Township 31 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 152-H (*API No. 30-007-20514*), a horizontal well with a surface location 1309 feet from the North line and 163 feet from the East line (Unit A) and a bottomhole location, or subsurface end point located, approximately 649 feet from the North line and 1462 feet from the East line (Unit B);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 67 (*API No. 30-007-20277*), located 2630 feet from the North line and 1265 feet from the West line (Unit E);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 50 (*API No. 30-007-20268*), located 519 feet from the South line and 1943 feet from the West line (Unit N); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 57 (*API No. 30-007-20271*), located 1633 feet from the South line and 970 feet from the East line (Unit I);

Section 25, Township 31 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 154 (*API No. 30-007-20499*), located 918 feet from the North line and 2073 feet from the East line (Unit B);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 153 (*API No. 30-007-20498*), located 777 feet from the North line and 1569 feet from the West line (Unit C);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 69 (*API No. 30-007-20279*), located 1748 feet from the South line and 1331 feet from the West line (Unit K); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 70 (*API No. 30-007-20275*), located 1186 feet from the South line and 1437 feet from the East line (Unit O);

Section 35, Township 31 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 60 (*API No. 30-007-20274*), located 936 feet from the North line and 672 feet from the East line (Unit A);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 59 (*API No. 30-007-20273*), a horizontal well with a surface location 713 feet from the North line and 1360 feet from the West line (Unit C) and a bottomhole location, or subsurface end point located, approximately 1985 feet from the North line and 2217 feet from the West line (Unit F);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 96 (*API No. 30-007-20384*), a horizontal well with a surface location 480 feet from the South line and 1597 feet from the West line (Unit N) and a bottomhole location, or subsurface end point located, approximately 2451 feet from the South line and 2548 feet from the West line (Unit K); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 167-H (*API No. 30-007-20536*), a directionally drilled/horizontal well with a surface location 624 feet from the North line and 1034 feet from the West line (Unit D) of Section 1, Township 30 North, Range 17 East, which well intersected the top of the Vermejo formation at an approximated depth of 1,258 feet (TVD), or 2,030 feet (MD), at a subsurface location approximately 62 feet from the South line and 85 feet from the East line (Unit P) of Section 35 and has a bottomhole location, or subsurface end point located, approximately 1156 feet from the South line and 1193 feet from the East line (Unit P) of Section 35;

Section 36, Township 31 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 29 (*API No. 30-007-20265*), located 1766 feet from the North line and 1907 feet from the East line (Unit G);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 45 (*API No. 30-007-20266*), located 841 feet from the North line and 1758 feet from the West line (Unit C);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 55 (*API No. 30-007-20270*), located 882 feet from the South line and 1882 feet from the West line (Unit N); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 28 (*API No. 30-007-20264*), located 1537 feet from the South line and 1356 feet from the East line (Unit J);

Section 31, Township 31 North, Range 18 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 23 (*API No. 30-007-20151*), located 1333 feet from the North line and 1642 feet from the East line (Unit G);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 22 (*API No. 30-007-20150*), located 1739 feet from the North line and 2392 feet from the West line (Unit F);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 18 (*API No. 30-007-20095*), located 747 feet from the South line and 990 feet from the West line (Unit M); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 19 (*API No. 30-007-20149*), located 1657 feet from the South line and 1307 feet from the East line (Unit I);

Section 3, Township 30 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 98 (*API No. 30-007-20386*), located 1124 feet from the North line and 1378 feet from the East line (Unit B);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 97 (*API No. 30-007-20385*), located 2209 feet from the North line and 2019 feet from the West line (Unit F); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 100 (*API No. 30-007-20398*), located 1195 feet from the South line and 1703 feet from the East line (Unit O);

Section 2, Township 30 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 47 (*API No. 30-007-20267*), located 2612 feet from the North line and 287 feet from the East line (Unit H);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 99 (*API No. 30-007-20387*), a horizontal well with a surface location 135 feet from the North line and 147 feet from the West line (Unit D) and a bottomhole location, or subsurface end point located, approximately 54 feet from the North line and 2392 feet from the West line (Unit C);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 101 (*API No. 30-007-20388*), a horizontal well with a surface location 300 feet from the South line and 1062 feet from the West line (Unit M) and a bottomhole location, or subsurface end point located, approximately 2586 feet from the South line and 2581 feet from the West line (Unit K); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 68 (*API No. 30-007-20278*), a horizontal well with a surface location 1021 feet from the South line and 1119 feet from the East line (Unit P) and a bottomhole location, or subsurface end point, at a measured depth of 3384 feet located approximately 2298 feet from the South line and 2174 feet from the East line (Unit J);

Section 1, Township 30 North, Range 17 East

NE/4: dedicated to the Vermejo Park Ranch "D" Well No. 13 (*API No. 30-007-20179*), located 1037 feet from the North line and 1169 feet from the East line (Unit A);

NW/4: dedicated to the Vermejo Park Ranch "D" Well No. 51 (*API No. 30-007-20269*), located 690 feet from the North line and 878 feet from the West line (Unit D);

SW/4: dedicated to the Vermejo Park Ranch "D" Well No. 27 (*API No. 30-007-20263*), located 1017 feet from the South line and 1263 feet from the West line (Unit M); and

SE/4: dedicated to the Vermejo Park Ranch "D" Well No. 8 (*API No. 30-007-20176*), a horizontal well recently drilled from a surface location 1300 feet from the South line and 1021 feet from the East line (Unit P) and a bottomhole location, or subsurface end point located, approximately 1305 feet from the South line and 2033 feet from the East line (Unit O).

It is the Division's understanding that El Paso intends to initially develop this area by: (i) recompleting the existing Vermejo Park Ranch "D" Well No. 98 (*API No. 30-007-20386*), located 1124 feet from the North line and 1378 feet from the East line (Unit B) of Section 3, Township 30 North, Range 17 East, with a single lateral horizontal wellbore directionally drilled to the east into the NW/4 of offsetting Section 2; and (ii) drilling the following 12 new wells and completing each with multi-lateral horizontal wellbores which may penetrate and drain from up to four different 160-acre spacing units:

- (1) Vermejo Park Ranch "D" Well No. 300 (*API No. 30-007-20678*) to be drilled from a surface location 861 feet from the North line and 760 feet from the East line (Unit A) of Section 35, Township 31 North, Range 17 East;
 - (2) Vermejo Park Ranch "D" Well No. 301 (*API No. 30-007-20679*) to be drilled from a surface location 781 feet from the North line and 1826 feet from the West line (Unit C) of Section 36, Township 31 North, Range 17 East;
 - (3) Vermejo Park Ranch "D" Well No. 302 (*API No. 30-007-20680*) to be drilled from a surface location 1679 feet from the North line and 1896 feet from the East line (Unit G) of Section 36, Township 31 North, Range 17 East;
 - (4) Vermejo Park Ranch "D" Well No. 303 (*API No. 30-007-20681*) to be drilled from a surface location 405 feet from the South line and 1541 feet from the West line (Unit N) of Section 35, Township 31 North, Range 17 East;
 - (5) Vermejo Park Ranch "D" Well No. 304 (*API No. 30-007-20682*) to be drilled from a surface location 656 feet from the South line and 2254 feet from the West line (Unit N) of Section 36, Township 31 North, Range 17 East;
 - (6) Vermejo Park Ranch "D" Well No. 305 (*API No. 30-007-20683*) to be drilled from a surface location 1522 feet from the South line and 1275 feet from the East line (Unit I) of Section 36, Township 31 North, Range 17 East;
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- (7) Vermejo Park Ranch "D" Well No. 306 (*API No. 30-007-20684*) to be drilled from a surface location 730 feet from the South line and 921 feet from the West line (Unit M) of Section 31, Township 31 North, Range 18 East;
- (8) Vermejo Park Ranch "D" Well No. 307 (*API No. 30-007-20685*) to be drilled from a surface location 575 feet from the North line and 971 feet from the West line (Unit D) of Section 1, Township 30 North, Range 17 East;
- (9) Vermejo Park Ranch "D" Well No. 308 (*API No. 30-007-20686*) to be drilled from a surface location 985 feet from the North line and 1219 feet from the East line (Unit A) of Section 1, Township 30 North, Range 17 East;
- (10) Vermejo Park Ranch "D" Well No. 309 (*API No. 30-007-20687*) to be drilled from a surface location 1192 feet from the South line and 1686 feet from the East line (Unit O) of Section 3, Township 30 North, Range 17 East;
- (11) Vermejo Park Ranch "D" Well No. 310 (*API No. 30-007-20688*) to be drilled from a surface location 2413 feet from the North line and 101 feet from the East line (Unit H) of Section 2, Township 30 North, Range 17 East; and
- (12) Vermejo Park Ranch "D" Well No. 311 (*API No. 30-007-20689*) to be drilled from a surface location 1026 feet from the South line and 1360 feet from the West line (Unit N) of Section 1, Township 30 North, Range 17 East.

El Paso as operator of the proposed lateral horizontal wellbore pilot project/producing area, as further described above, is granted exception to Division Rule 104.D (3) and is hereby authorized to develop the spacing units within this area with multiple wells.

Under the authority granted me under the applicable provisions of Division Rules 104 and 111 and Division Administrative Order NSL-4251, El Paso shall be permitted to proceed with its intended development of the Vermejo formation within the above-described pilot project/producing area with the drilling or recompletion of the thirteen aforementioned wells (Vermejo Park Ranch "D" Wells No. 98, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, and 311); provided however, the path of these wellbores within the Vermejo formation shall be confined to a 10 foot buffer area surrounding the entire 4,480-acre, more or less, pilot project/producing area [see Division Rule 111.A (7)].

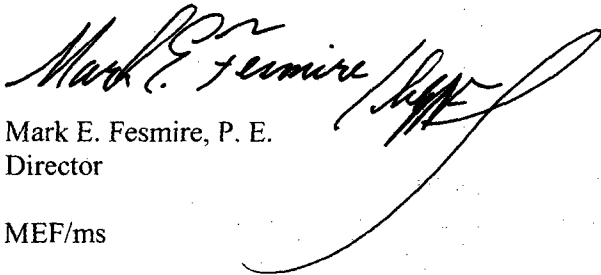
Furthermore, development within the pilot project/producing area is not necessarily confined to these thirteen wells; the operator is hereby authorized to recomplete any existing wellbore or drill additional wells within this 4,480-acre, more or less, pilot project/producing area it deems necessary.

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Jurisdiction of this cause is retained for the entry of such orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is stylized with a large, sweeping flourish extending from the end of the name.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: Roy Johnson, Supervisor District IV- New Mexico Oil Conservation Division - Santa Fe
File: NSL-4251
