



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

June 30, 2005

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Chi Energy, Inc.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87501

Administrative Order NSL-5225

Dear Mr. Bruce:

Reference is made to the following: (i) your application on behalf of the operator, Chi Energy, Inc. ("Chi"), dated June 22, 2005 (*administrative application reference No. pSEM0-517526893*); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe: all concerning Chi's request for an unorthodox gas well location in both the Atoka and Morrow formations for its proposed W. C. "4" Well No. 4, or W. C. Well No. 4, whichever is applicable, to be drilled 2490 feet from the North line and 1150 feet from the East line (Unit H) of Section 4, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico.

Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 4, being a standard 319.55-acre stand-up deep gas spacing unit pursuant to Division Rule 104.C (2) within both the Undesignated Happy Valley-Strawn Gas Pool (78070) Undesignated Happy Valley-Morrow Gas Pool (78060), is to be dedicated to this well.

This application has been duly filed under the provisions of Division Rule 104.F.

The proposed unorthodox location is necessary to minimize disturbance to residences within the immediate area.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox deep gas well location within the Atoka and Morrow formations for Chi's proposed well is hereby approved.

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

Sincerely,

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division -- Artesia