



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 22, 2006

Chi Operating, Inc.
c/o Ms. Ocean Munds-Dry
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87504-2208

RE: West Todd Well No. 1 (API Not Available)

990 feet from the East Line, 1980 feet from the South line
Section 29, Range 7 South, Township 35 East, NMPM, Roosevelt County
E/2 of Section 29 (320 Acres Dedication)

Administrative Order NSL-5480

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (administrative application reference No. pTDS0630046676 for non-standard location [NSL]) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on October 26, 2006, on behalf of Chi Operating, Inc. (Chi Operating); and

(b) the Division's records pertinent to Chi Operating's request.

Chi Operating proposes to drill the above referenced well at the above referenced unorthodox San Andres gas well location within the E/2 of Section 29 and requests to produce San Andres gas from the well within a 320-acre spacing unit within the Todd-Upper San Andres Gas Pool consisting of the E/2 of Section 29.

The Todd-Upper San Andres Gas Pool (86240) is governed by the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool promulgated on November 2, 1966 in Case 3490, Order R-3153, which allows [Rule 2] 320-acre gas well spacing units with [Rule 4] one well located in either the NE/4 or the SW/4 and located no nearer than 990 feet from the quarter section line and no nearer than 330 feet to any governmental quarter-quarter section line. Rule 5 of these rules allow an administrative exception to the provisions of Rule 4 if all offset operators are noticed, the well is located at least 330 feet from the spacing unit boundaries, and the location is proposed because of topographic reasons or the re-completion of a well previously drilled.

Division Rule 104F allows the Division director to grant location exceptions in order to prevent waste and protect correlative rights.

This well location is un-orthodox for two reasons; (i) it is in the SE/4 of Section 29, which is not the NE/4 or SW/4 and (ii) is also located closer than 990 feet from the northern boundary of the SE/4 of Section 29.

The nearest Todd-Upper San Andres gas well is located in Unit O of Section 28, almost one mile away. Your application states this well location is necessary based on geological considerations. Your application on behalf of Chi Operating has been duly filed and notice has been provided as required in the Special Pool Rules and under the provisions of Division Rules 104.F and 1210.A.

In order to prevent waste and protect correlative rights, the above-described non-standard San Andres gas well location within the Todd-Upper San Andres Gas Pool is hereby approved.

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

Sincerely,



Mark E. Fesmire, P.E.
Director

MEF/wvjj

cc: New Mexico Oil Conservation Division – Hobbs
Bureau of Land Management – Roswell
State Land Office – Oil, Gas, and Minerals Division