



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

**Mark E. Fesmire, P.E.**

Director

**Oil Conservation Division**

April 3, 2006

Chi Operating, Inc.  
P.O. Box 1799  
Midland, TX 79702  
Attn: Mr. John W. Wolf or To Whom it May Concern

Re: Request for Allowable, received March 30, 2006  
Valle Feliz #2, API #30-015-33781

Dear Mr. Wolf or To Whom it May Concern:

Your request for allowable is **denied** and said well is to be shut in on April, 6, 2006

Under Rule 1104, the Oil Conservation Division (OCD) may not grant a request for allowable and authorization to transport oil and natural gas to an operator who is out of compliance with Rule 40. Rule 40 requires, in relevant part, that an operator who operates between 101 and 500 wells have no more than 5 wells on the Rule 40 inactive well list. OCD records as of April 3, 2006, show that Chi Operating, Inc. operates 370 wells, and 16 of those wells appear on the Rule 40 inactive well list.

You can remove a well from the Rule 40 inactive well list by returning the well to production or other beneficial use, placing the well on approved temporary abandonment status, or plugging the well bore. You may also remove wells from the Rule 40 inactive well list by placing the wells under an agreed compliance order (ACO) under which you agree to return the wells to compliance according to a negotiated schedule, with penalties for failure to meet that schedule. To enter into an ACO, please contact OCD attorney Gail MacQuesten at (505) 476-3451.

Respectfully Yours,

  
Bryan G. Arrant

District II Geologist-Artesia  
505-747-1283 ext 103

CC: Mark Fesmire, Division Director-Santa Fe  
Gail MacQuesten, Legal Council-Santa Fe  
Daniel Sanchez, Enforcement & Compliance Manager-Santa Fe  
Tim Gum, District Supervisor-Artesia  
Well file

Encl: Rule 40 Inactive Well List April 3, 2006



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April 5, 2006

Mr. John Qualls  
Chi Operating, Inc.  
P.O. Box 1799  
Midland, TX 79702

Facsimile: 432 687 2662

Via facsimile and mail

Re: Valle Feliz #2, API 30-015-33781

Dear Mr. Qualls,

By letter dated April 3, 2006, the Oil Conservation Division (OCD) notified Chi Operating Inc. (Chi) that its request for allowable for the Valle Feliz #2 well had been denied, and directed Chi to shut in the well on April 6, 2006. As we discussed by phone this afternoon, the OCD rescinds that part of the April 6, 2006 letter directing Chi to shut in the well.

As explained in the April 3 letter, the OCD cannot grant Chi's request for allowable so long as Chi remains out of compliance with Rule 40 due to the number of inactive Chi wells appearing on the inactive well list. Operation of Valle Feliz #2 well without an allowable is a violation of the Oil and Gas Act. See NMSA 1978, Sections 70-2-17(B), 70-2-21 and 70-2-22. To avoid further violations, Chi should take immediate action to come into compliance with Rule 40 so it can obtain an allowable. Chi may come into compliance with Rule 40 by bringing wells on the Rule 40 inactive well list into compliance or by entering into an agreed compliance order setting a schedule for bringing those wells into compliance.

The OCD would like to meet with representatives of Chi to discuss Chi's violations of the Oil and Gas Act and OCD rules, and to discuss a path forward for Chi to come into compliance. By separate letter, the OCD will outline its compliance concerns and request information from Chi that will help us address those concerns at the meeting. Once you have had a chance to review that letter, please contact me so that we can arrange a time for the meeting.

Sincerely,

Daniel Sanchez  
Compliance and Enforcement Manager

Ec; Gail MacQuesten, OCD Attorney  
Tim Gum, District II  
Chris Williams, District I