

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -
1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD
- Check One Only for [B] or [C]
- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR
- [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

_____ Print or Type Name	_____ Signature	_____ Title	_____ Date
_____ e-mail Address			



2006 OCT 26 PM 3 29

NSL-~~5506~~

October 26, 2006

HAND DELIVERY

Mr. Mark Fesmire, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Chi Operating, Inc. for administrative approval of an exception to Rule 4 of the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool for an unorthodox well location in the southeast quarter section for its West Todd Well No. 1, to be drilled 990 feet from the East line and 1980 feet from the South line of Section 29, Township 7 South, Range 35 East, N.M.P.M., Roosevelt County, New Mexico.

Dear Mr. Fesmire:

Chi Operating, Inc. ("Chi") hereby seeks administrative approval pursuant to the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool for an unorthodox well location in the southeast quarter of the section for its West Todd Well No. 1 to be located 990 feet from the East line and 1980 feet from the South line of Section 29, Township 7 South, Range 35 East, N.M.P.M., Roosevelt County, New Mexico.

Rule 4 of the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool provides that wells shall be located in the northeast quarter or the southwest quarter of the section and shall be located no nearer than 990 feet to the outer boundary of the quarter section and no nearer than 330 feet to any governmental quarter-quarter section line. The proposed location is unorthodox because it is only 660 feet from the northern boundary of the proposed spacing unit. Additionally, the proposed location is in the southeast quarter rather than the northeast or southwest quarter. Rule 5 of the Special Rules provides that an application may be approved administratively as long as the well location is no nearer than 330 feet to the outer boundary.

The non-standard location in the northeast quarter is required by geologic conditions. As shown on the Structure Map (**Exhibit A**), the Todd Upper San Andres Field is a stratigraphic trap formed by an up-dip pinch-out of porosity on the flank of a structural



nose. Todd Upper San Andres gas production occurs in the upper most porosity zone of the San Andres. This upper zone is designated as "P1" on the enclosed maps. Oil production from the Todd Lower San Andres (Zone "P2") occurs east of the area of interest. Zone P1 does not produce or is a marginal producer in the Todd Lower San Andres Field. This is indicated on the isopach cumulative map (**Exhibit B**). Most of the produced gas in the Todd Lower San Andres Field comes from Zone P2. The gas-water contact for Zone P1 is indicated to be at a sub-sea depth of approximately 60 feet. The potentially productive area is bounded on the northeast by "tight" wells (colored red on the maps). The P1 gas producers are colored green and wells that recovered water from the P1 zone are colored blue.

A net porosity map of Zone P1 defines an east-west fairway of possible production (**Exhibit C**). The map was assembled using the thickness of dolomite porosity greater than 5%. Of particular interest is the Franklin, Aston and Fair Skelly Well No. 1 located in the NE/4 of Section 29. The sonic log on this well shows 46 feet of porosity greater than 5%. However, resistivity logs on this well indicate probably low permeability. In examining logs in the area, it was noted that very little production occurs where resistivity logs record resistivities greater than 200 ohm meters. All available resistivity logs are included on the cross-sections and a map of net resistivity less than 200 ohms is included. **Exhibit D** is an illustration of geological confluence of evidence.

The proposed location is situated approximately one mile northwest of the Jack McClellan (now Yates Petroleum Corporation) No 1 Nix Yates Federal Well. The Nix Yates Federal No. 1 Well has produced 2,157,328 MCFG to date and is still producing. An east offset to the Nix Yates Federal No. 1, the McClellan Texaco Federal No. 1 produced 2,131,661 MCFG and is now abandoned. The enclosed isopach cumulative map showing the relationship of additional wells in the Todd Upper San Andres gas pool indicates that the Todd Upper San Andres gas production may be extended to the west.

The greatest likelihood of finding commercial production is by drilling a well at the proposed location.

Exhibit E is a list of offset operators as defined by Division rules. As required by Rule 1210(A)(2), a copy of this application has been sent to these affected parties in accordance with Rule 1207(A)(5) and they have been advised that if they have an objection to this application it must be filed in writing with the Division's Santa Fe office within twenty days from the date this notice was sent.

A copy of a proposed order is also attached.

Your attention to this application is appreciated.

HOLLAND & HART^{LLP}



Administrative Application
October 26, 2006
Page 3

Sincerely,

Ocean Munds-Dry

Ocean Munds-Dry

ATTORNEY FOR CHI OPERATING INC.

Enclosures

cc: John Qualls, Chi Operating
Randal J. Gardner

October 26, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

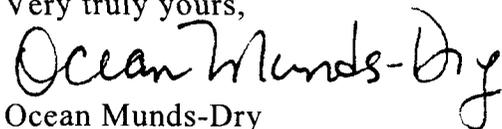
Re: Application of Chi Operating, Inc. for administrative approval of an exception to Rule 4 of the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool for an unorthodox well location in the southeast quarter section for its West Todd Well No. 1, to be drilled 990 feet from the East line and 1980 feet from the South line of Section 29, Township 7 South, Range 35 East, N.M.P.M., Roosevelt County, New Mexico.

Ladies and Gentlemen:

Enclosed is a copy of the above-referenced application which was filed with the New Mexico Oil Conservation Division on this date by Chi Operating Inc. for administrative approval of an unorthodox well location for its West ToddWell No. 1, to be drilled 1980 feet from the South line and 990 feet from the East line of Section 29, Township 7 South, Range 35 East, NMPM, Roosevelt County, New Mexico.

As an owner of an interest that may be affected by the proposed well, you may object to this application. Objections must be filed in writing within twenty days from this date at the Division's Santa Fe office that is located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. 87505. If no objection is received within this twenty-day period, this application for an unorthodox well location may be approved.

Very truly yours,



Ocean Munds-Dry
ATTORNEY FOR CHI OPERATING INC.

Enclosures

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ♻

Chi Operating Inc.

Attention: John Qualls

Administrative Order NSL-_____

Dear Mr. Qualls:

Reference is made to your application dated October 26, 2006 for an unorthodox well location in the southeast quarter of the section for its West Todd Well No. 1 to be located 990 feet from the East line and 1980 feet from the South line of Section 29, Township 7 South, Range 35 East, N.M.P.M., Roosevelt County, New Mexico.

Rule 4 of the Special Rules and Regulations for the Todd-Upper San Andres Gas Pool provides that wells shall be located in the northeast quarter or the southwest quarter of the section and shall be located no nearer than 990 feet to the outer boundary of the quarter section and no nearer than 330 feet to any governmental quarter-quarter section line. The proposed location is unorthodox because it is only 660 feet from the northern boundary of the proposed spacing unit. Additionally, the proposed location is in the southeast quarter rather than the northeast or southwest quarter.

This application has been duly filed under the provisions of Rule 5 of the Special Rules and Rule 104.F of the General Rules of the Oil Conservation Division revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

By authority granted me under the provisions of Rule 104.F(2), the above-described unorthodox well location in the northeast quarter is hereby approved.

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: Oil Conservation Division - Hobbs/Artesia

Exhibit E
Application of Chi Operating Inc.
Section 29, Township 7 South, Range 35 East
Roosevelt County, New Mexico

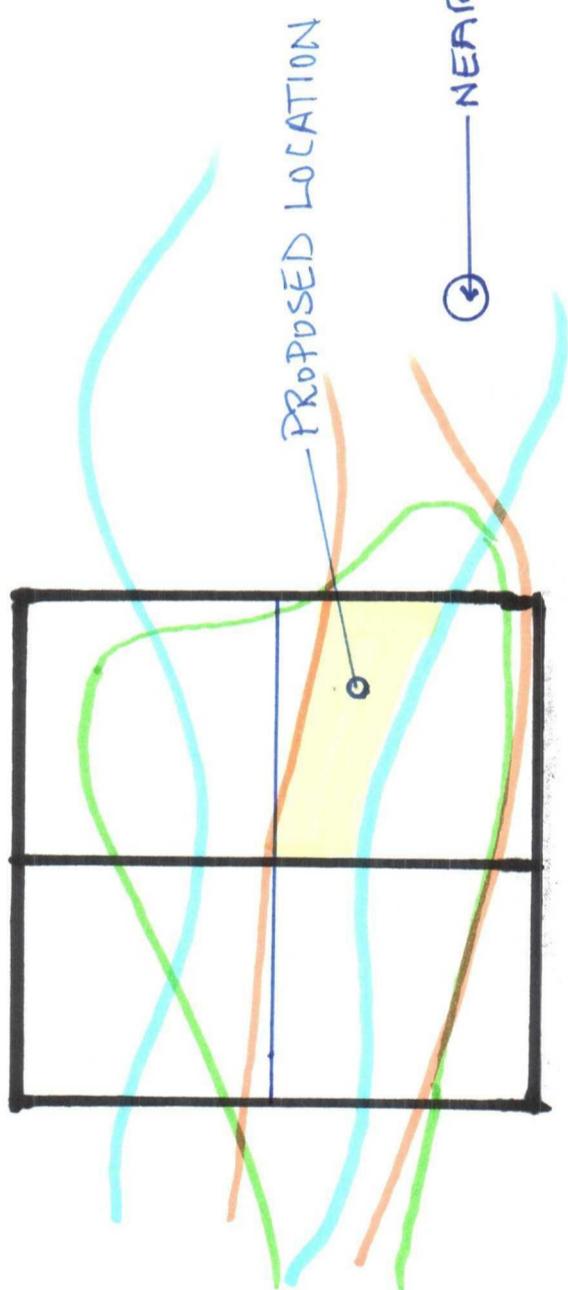
Yates Petroleum Corporation
105 S. 4th Street
Artesia, New Mexico 88210

Prize Energy Resources
3500 Wm. D. Tate Ave. No. 200
Grapevine, Texas 76051

Read & Stevens
Box 1518
Roswell, New Mexico 80202-1518

Bureau of Land Management
2909 West Second Street
Roswell, New Mexico 88201

New Mexico State Land Office
P.O. Box 1148
Santa Fe, New Mexico 87504-1148



- STRUCTURE (TOP OF P-1)
- POROSITY - (TOP OF POROSITY)
- Resistivity (Net feet less than 200 Ohms)
- AREA OF GREATEST CHANCE OF SUCCESS.

Jones, William V., EMNRD

From: Jones, William V., EMNRD
Sent: Tuesday, November 21, 2006 7:01 PM
To: 'Ocean Munds-Dry'
Subject: RE: NSL application: Chi Operating's West Todd #1 to be located in Unit I of Sec 29, T7S R35E, Roosevelt County, NM

Ocean:
Thanks
I'll let you know soon.

Happy Thanksgiving to You Also,

William V. Jones

From: Ocean Munds-Dry [mailto:Omundsdry@hollandhart.com]
Sent: Tuesday, November 21, 2006 3:53 PM
To: Jones, William V., EMNRD
Subject: RE: NSL application: Chi Operating's West Todd #1 to be located in Unit I of Sec 29, T7S R35E, Roosevelt County, NM

Hi Will: Yes, it should be an E/2 320-acre spacing unit. I looked to see if the C-102 was up on the OCD website yet and I do not see it, but I can confirm it is E/2 of section.

As to Rule 4 and 5, this is one of those applications I discussed with Stogner before filing and he said to send it in administratively. I do agree the language is a bit strange in Rule 5 because more often than not the only reasons you can get an administrative exception is for topography or geology and here geology is excluded. It is obviously a matter for your discretion and interpretation and we will proceed as you see fit. When special rules were not clear in the past, I've had this question decided both ways by Stogner. Just let me know and preferably before December 4th so we can make the next filing date.

Thanks Will and Happy Thanksgiving.
Ocean

From: Jones, William V., EMNRD [mailto:William.V.Jones@state.nm.us]
Sent: Monday, November 20, 2006 2:11 PM
To: Ocean Munds-Dry
Cc: Ezeanyim, Richard, EMNRD
Subject: NSL application: Chi Operating's West Todd #1 to be located in Unit I of Sec 29, T7S R35E, Roosevelt County, NM

Hello Ocean:

I am working on this application, but cannot find in the application where it states what the orientation of the spacing unit will be. The maps have a drawing showing the E/2 320 acres, but wanted to make sure this was not also a 160-acre, NSP application. The pool rules say this Todd-Upper San Andres Gas Pool is spaced on 320 acres. If it is intended to be only 160acres, then some additional notice may be required.

Your client is basing the need for a well in this location on "geology". The special pool rules state that the operator can be granted an exception to Rule 4 for "topographic reasons" or "recomplete another well", but does not say that I can do this administratively if only geology reasons are used.

Please let me know about the spacing size and orientation and your take on rule 4 and 5.

Unfortunately, it looks like this must go to hearing?

Regards,

(TODD-UPPER SAN ANDRES GAS POOL - Cont'd.)

(14) That each well which is presently open to both the upper zone and the lower zone of the San Andres formation in the subject area and which has an underproduced status or an overproduced status as of December 1, 1966, should, on that date, have said status reduced by 50 percent, thereby permitting one-half of the well's production and status up to that time to be charged to the prorated lower zone and one-half to be charged to the non-prorated upper zone.

(15) That after December 1, 1966, all production from any well which is open to both the upper zone and the lower zone of the San Andres formation in the subject area should be charged to the allowable of the well for the lower zone only, until said well has been dually completed and notices of connection for both zones have been filed with the Commission.

(16) That any well which is open to both the upper zone and the lower zone of the San Andres formation in the subject area and which has not been dually completed by December 31, 1966, should, on that date, be shut in and the allowable cancelled.

IT IS THEREFORE ORDERED:

(1) That the Todd-San Andres Pool is hereby abolished.

(2) That a new pool in Roosevelt County, New Mexico, classified as an associated reservoir for the production of oil and gas from the Lower San Andres formation is hereby created and designated the Todd-Lower San Andres Pool with vertical limits comprising that portion of the San Andres formation below the anhydrite bed found at 4200 feet in the Franklin, Aston and Fair, Inc., Mark Federal Well No. 1, located in Unit M of Section 26, Township 7 South, Range 35 East, NMPM, Roosevelt County, New Mexico, and with horizontal limits as follows:

TODD-LOWER SAN ANDRES POOL
ROOSEVELT COUNTY, NEW MEXICO

TOWNSHIP 7 SOUTH, RANGE 35 EAST, NMPM
Sections 22 and 23: All
Section 24: W/2
Sections 25, 26, 27, and 28: All
Section 35: N/2 and SE/4
Section 36: All

TOWNSHIP 7 SOUTH, RANGE 36 EAST, NMPM
Section 30: W/2
Section 31: W/2

(3) That a new pool in Roosevelt County, New Mexico, classified as a gas pool for Upper San Andres production is hereby created and designated the Todd-Upper San Andres Gas Pool with vertical limits comprising that portion of the San Andres formation above the anhydrite bed found at 4200 feet in the Franklin, Aston and Fair, Inc., Mark Federal Well No. 1, located in Unit M of Section 26, Township 7 South, Range 35 East, NMPM, Roosevelt County, New Mexico, and with horizontal limits as follows:

TODD-UPPER SAN ANDRES GAS POOL
ROOSEVELT COUNTY, NEW MEXICO

TOWNSHIP 7 SOUTH, RANGE 35 EAST, NMPM
Sections 22 and 23: All
Section 24: W/2
Section 25: W/2
Sections 26, 27, and 28: All

Section 34: N/2
Section 35: All
Section 36: W/2

(4) That the Todd-Lower San Andres Pool shall be governed by all the previous rules, regulations, and orders presently applicable to the Todd-San Andres Pool.

(5) That Special Rules and Regulations for the Todd-Upper San Andres Gas Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS

FOR THE

TODD-UPPER SAN ANDRES GAS POOL

RULE 1. Each well completed or recompleted in the Todd-Upper San Andres Gas Pool or in the Upper San Andres formation within one mile of the Todd-Upper San Andres Gas Pool, and not nearer to or within the limits of another designated Upper San Andres gas pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well completed or recompleted in the Todd-Upper San Andres Gas Pool shall be located on a standard unit consisting of approximately 320 acres which shall comprise any two contiguous quarter sections of a single governmental section, being a legal subdivision (half section) of the United States Public Lands Survey. For purposes of these rules, a unit consisting of between 316 and 324 contiguous surface acres shall be considered a standard unit.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey, or the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a single governmental section and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of Paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Secretary-Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well completed or recompleted in the Todd-Upper San Andres Gas Pool shall be located in the northeast quarter or the southwest quarter of the section and shall be located no nearer than 990 feet to the outer boundary of the quarter section and no nearer than 330 feet to any governmental quarter-quarter section line.

(TODD-UPPER SAN ANDRES GAS POOL - Cont'd.)

RULE 5. The Secretary-Director may grant an exception to the footage requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon, provided the well will be located no nearer than 330 feet to the outer boundary of the unit. All operators offsetting the proposed unorthodox location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Secretary-Director has received the application.

IT IS FURTHER ORDERED:

(1) That any well presently drilling to or completed in the Upper San Andres formation within the Todd-Upper San Andres Gas Pool or within one mile of the Todd-Upper San Andres Gas Pool that will not comply with the well location requirements of Rule 4 is hereby granted an exception to the requirements of said rule. The operator of any such well shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before December 1, 1966.

(2) That any operator desiring to dedicate 320 acres to a well presently drilling to or completed in the Todd-Upper San Andres Gas Pool shall file a new Form C-102 with the Commission on or before December 1, 1966.

(3) That each well presently open to both the upper zone and the lower zone of the San Andres formation in the subject area is hereby authorized for dual completion provided the operator furnishes the items required by Rules 112-A IV (a) and (d) of the Commission Rules and Regulations to the Secretary-Director of the Commission and obtains his approval for said dual completion. No waiting period or offset waivers will be required.

(4) That each well that is presently open to produce from both the upper zone and the lower zone of the San Andres formation in the subject area and which has an underproduced status or an overproduced status as of December 1, 1966, shall have said status reduced by 50 per cent.

(5) That after December 1, 1966, all production from any well which is completed in both the upper zone and the lower zone of the San Andres formation in the subject area shall be charged to the allowable for the lower zone only (Todd-Lower San Andres Pool) until said well has been dually completed and notices of connection for both zones have been filed with the Commission.

(6) That any well which is open to both the upper zone and the lower zone of the San Andres formation in the subject area and which has not been dually completed and notice of connection received by the Commission by December 31, 1966, shall be ordered shut in and the allowable therefor cancelled until such dual completion has been effected and notice of connection received.

(7) That the overproduced or underproduced status of any well presently completed in the lower zone only of the San Andres formation in the subject area shall remain unchanged by this order.

(8) That any well which is presently completed in the upper zone only of the San Andres formation in the subject area shall be removed from the gas proration schedule December 1, 1966.

(9) That this order shall become effective December 1, 1966.

(10) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

GALLEGOS-GALLUP OIL POOL
Rio Arriba and San Juan Counties, New Mexico

Order No. R-1286, Exempting from Rule 502 I(a), the Gallegos-Gallup Oil Pool, Rio Arriba and San Juan Counties, New Mexico, November 21, 1958.

The application of the Oil Conservation Commission upon its own motion at the request of certain operators to determine whether all wells in the Gallegos-Gallup Oil Pool should be granted an exception to Rule 502 I (a) of the Commission Rules and Regulations.

CASE NO. 1544
Order No. R-1286

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 o'clock a. m. on November 13, 1958, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 21st day of November, 1958, the Commission, a quorum being present, having considered the application, and the evidence adduced, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required