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November 9, 2009

Hand Delivered

Daniel Sanchez
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Gail MacQuesten
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case Nos. 14353 and 14354/Chi Operating, Inc.

Gail and Daniel:

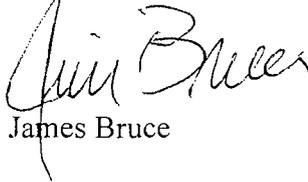
Regarding Daniel's letter of October 15, 2009, my client has informed me that the following actions have been or will be taken on the wells listed in the letter:

1. Elkan #2 & #2Y: The paperwork was previously submitted to the Hobbs District Office regarding clean-up, which Chi has re-submitted. When approved, the action required in the letter will be taken.
2. Footjoy 14 St. #1: The well is ready to plug, and Chi is waiting on a plugging rig.
3. In Bounds Com #1: The paperwork was submitted to the Artesia District Office. Division personnel spent a week at the well site with Chi while the site was being cleaned up. The operating rights were then assigned to Chesapeake, and Chi is checking why a transfer of operations was not filed with the Division.

Chi Energy, Inc.
Case 14353
OCD Exhibit F

4. Munchkin Fed. #7: This well was drilled as a Delaware test (unsuccessful), and Chi will attempt a recompletion in the Yates formation. Chi has just filed an unorthodox location application for the well (copy enclosed), and will then re-complete it.
5. Nichols 30 St. Com. #2: The paperwork to plug the well has been approved (enclosed), and the well is in line for plugging.
6. Oxy Marsh Hawk St. #2: The well has been plugged, and Chi is checking on the status of the paperwork filing.
7. Salado Fed. #1: Sweatt Construction hand delivered the paperwork on the well to the Hobbs District Office. Chi is checking on its status.
8. Silver Bullet #1: The wellsite has been cleaned up and all paperwork submitted to the District Office.
9. WC 4 #1: This well was never drilled.

Very truly yours,



James Bruce

Attorney for Chi Operating, Inc.

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November 5, 2009

Mark E. Fesmire, P.E.
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Mr. Fesmire:

Pursuant to Division Rule NMAC 19.15.15.13, Chi Operating, Inc. applies for approval of an unorthodox oil well location for the following well:

Well name: Munchkin Fed. Well No. 7
Location: 2475 feet FNL & 2310 feet FWL
Well unit: SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 12, Township 19 South, Range 30 East, N.M.P.M.,
Eddy County, New Mexico

The well will was directionally drilled to test the Delaware formation, but was unsuccessful in that zone. **Exhibit A.** Applicant proposes to re-complete the well uphole in the Yates formation (Undesignated). Under the Division's statewide rules, spacing in the Yates formation is 40 acres, with wells to be at least 330 feet from a quarter-quarter section line. A Form C-102 is attached as **Exhibit B.**

The Yates formation is found at the approximate depths of 2240-2430 feet subsurface. Therefore (see page 2 of Exhibit A), the unorthodox location in the Yates formation is the same as the well's surface location. (The well's surface location was unorthodox because it is in the potash area, and to comply with BLM surface use requirements.)

The W $\frac{1}{2}$ and SE $\frac{1}{4}$ of Section 12 are covered by Federal Lease NM 0560353. **Exhibit C.** Interest ownership (royalty overriding royalty, and working interest) in the well unit and in the offsetting acreage is uniform as to the subject depths. Therefore, there is no adversely affected offset owner.

Please call me if you have any questions concerning this application.

Very truly yours,

COPY

James Bruce

Attorney for Chi Operating, Inc.

Submit 3 Copies To Appropriate District Office
 District I
 1625 N. French Dr., Hobbs, NM 88240
 District II
 531 W. Grand Ave., Artesia, NM 88210
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
 Energy, Minerals and Natural Resources

JUN 26 2009

Form C-103
 June 19, 2008

OIL CONSERVATION DIVISION
 1220 South St. Francis Dr.
 Santa Fe, NM 87505

WELL API NO. 30-015-36788
5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No.
7. Lease Name or Unit Agreement Name Nichols "30" State Com.
8. Well Number #2
9. OGRID Number 4378
10. Pool name or Wildcat ILLINOIS CAMP MORROW
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 3566' GL

SUNDRY NOTICES AND REPORTS ON WELLS
 (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well: Oil Well Gas Well Other

2. Name of Operator
CHI OPERATING, INC.

3. Address of Operator
P.O. BOX 1799, MIDLAND, TEXAS 79702

4. Well Location
 Unit Letter C : 950 feet from the NORTH line and 1980 feet from the WEST line
 Section 30 Township 18S Range 28E NMPM County EDDY

RECEIVED
 OCT 14 2009
 NMOCD ARTESIA

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
PERFORM REMEDIAL WORK <input type="checkbox"/>	PLUG AND ABANDON <input checked="" type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input type="checkbox"/>	P AND A <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	MULTIPLE COMPL <input type="checkbox"/>	CASING/CEMENT JOB <input type="checkbox"/>	
DOWNHOLE COMMINGLE <input type="checkbox"/>			
OTHER: <input type="checkbox"/>		OTHER: <input type="checkbox"/>	

Notify OCD 24 hrs. prior
 To any work done

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

RU DD PU. Circ hole w/mud laden fluid. POOH w/pkr & prod tbg. Set CIBP @ 10,240', spot 35' of cmt on to abandon Morrow Perfs. Set CIBP @ 7480', spot 35' of cmt on to abandon Bone Spring Carb perfs. Free point & attempt to cut 5 1/2 csg @ 7000'.
 POOH LD csg. Spot 150' cmt plug half in & half out @ 2395'. Tag. Spot 50' surf plug. Cut off WH. Install dry hole marker & reclaim location.

Spud Date: 12-10-08 Rig Release Date: 1-5-09 Approval Granted providing work is complete by 12/15/09

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Robina Askew TITLE REGULATORY CLERK DATE _____

Type or print name ROBINA ASKEW E-mail address: robina@chienergyinc.com PHONE: 432-685-5001

APPROVED BY: [Signature] TITLE _____ DATE: 10/15/09

* Required 100' cmt Plug - Bone Spring 3310' (3360' - 3260')
 * If CSG Cat & Pulled. Spot 100' cmt stub Plug. (50' below + 50' Above) TAC
 * 13 3/8 CSG shoe. 100' cmt (50' below + 50' Above) TAC.

60' Cement Plug To Surface.

100' Cement Plug. 13 3/8" (50' below 50' Above) TAG

13-3/8" 61# J55 @ 395'
cmt at surface (circ)

100' Cement Plug (50' below - 50' Above) TAG. 8 5/8"

3310 Bone Spring 100' Cement (3360' - 3260')

Set CIBP @ 7480' w/3sx cement on top

Perfs: Bone Spring 7502-7520'

Set CIBP @ 10,240' w/3sx cement on top

Perfs: Morrow 10,483-10,493', 10285-10,306', 10254-10262'

Nichols 30 No. 2
(current wellbore)
30-015-36788
950 FNL & 1980 FWL
Section 30, T18S R28E

8-5/8" 32# J55 @ 2395'
cmt at surface (circ)

If CSG Cut @ 7000' -
100' Cement Plug. TAG

5-1/2" 17# N80 @ 10,689'
TOC 5950' CBL

Proposed Plugging Procedure:

RU DD PU. Circ hole w/mud laden fluid. POOH w/pkr & prod tbg.

Set CIBP @ 10,240', spot 35' of cmt on to abandon Morrow perfs.

Set CIBP @ 7,480', spot 35' of cmt on to abandon Bone Spring Carb perfs.

Free point & attempt to cut 5 1/2" csg @ 7000' POOH LD csg

Spot 150' cmt plug half m & half out @ 2395'. Tag.

100' Cement Plug.

13 3/8" CSC Shave 100' Cement (50' below + 50' Above) TAG.

1" down.

- San Andres 2140'
- * Bone Spring 3310'
- * Wolfcamp 7830'
- Cisco/Canyon 8540'
- Atoka 9790'
- Morrow Classics 10,180'
- Lower Morrow 10,320'
- Chester 10630'

Bone Spring 3310
100' Cement Plug. TAG
50' below + 50' Above
1" down
13 3/8" CSC Shave 100' Cement (50' below + 50' Above) TAG.