HOLLAND & HART LLP

DENVER + ASPEN BOULDER - COLORADO SPRINGS DENVER TECH CENTER BILLINGS - BOISE CHEYENNE - JACKSON HOLE SALT LAKE CITY - SANTA FE WASHINGTON, D.C. P.O. BOX 2208 SANTA FE, NEW MEXICO 87504-2208 110 NORTH GUADALUPE, SUITE 1 SANTA FE, NEW MEXICO 87501-8525

March 11, 2002

TELEPHONE (505) 998-4421 FACSIMILE (505) 983-8043 Michael H. Feldewert mfeldewert@hallandhart.com

45967,0002

VIA FACSIMILE

David K. Brooks, Esq. New Mexico Energy, Minerals and Natural Resources Department 1220 South St. Francis Drive Santa Fe, New Mexico 87505-4000

> Re: Case No. 12811 Cibola Energy Corporation Ysletano Canyon Federal Well No. 1

Dear Mr. Brooks:

By letter dated February 7, 2002, Mr. Yates set forth the history of the Ysletano Canyon Federal Well No. 1 and asked to be informed why the Division considered this well to be in a "non-compliant" status. Attached is the BLM Form noting the results of today's well integrity test. You will see the BLM has approved the status of this well for the next 12 months.

If the Division still considers this well to be "non-compliant" and intends to call this well for hearing on February 21st, please explain the basis for such action.

Sincerely,

Michael H. Feldewert

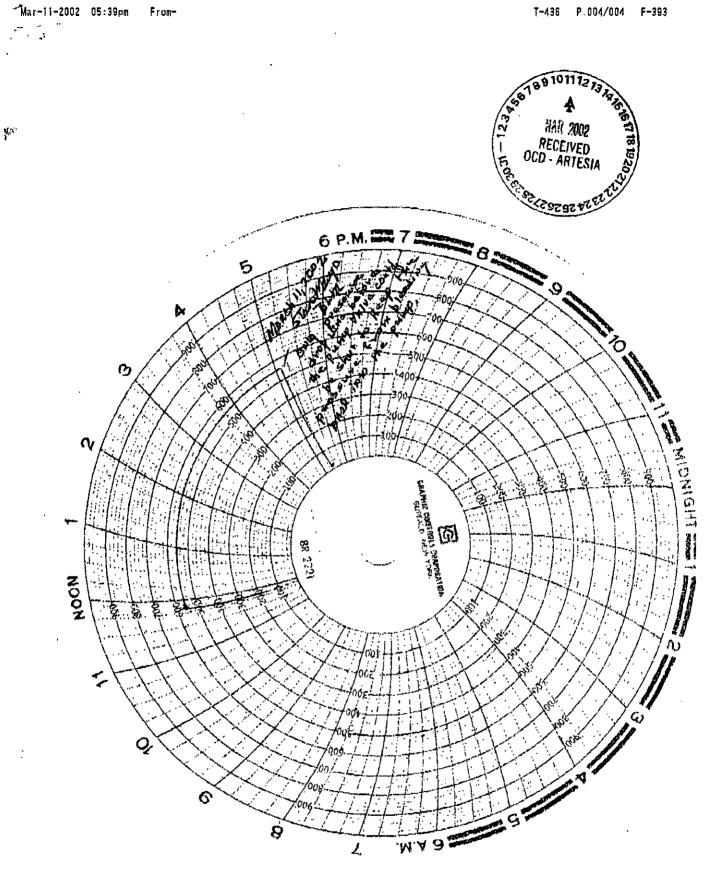
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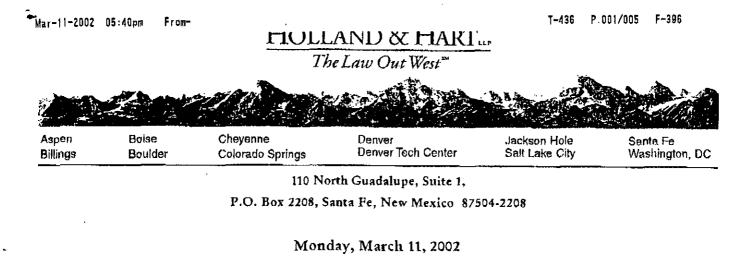
cc: Mr. Tim Gum, Oil Conservation Division - Artesia w/o encl. Harvey Yates, Jr. w/o encl.

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To:David K. Brooks, Esq.Fax : 505.476.3471New Mexico Energy, Minerals & NaturalPhone:Resources DepartmentPhone:

From: Michael H. Feldewert

Fax: 505.983.6043 Phone: 505.988.4421

Message: Re: Case No. 12811 Attached is our letter dated today's date.

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attorney-client privi	lege. If	you are not the named re	ecipient, you ma	contain confidential information protecte y not use, distribute or otherwise disc will arrange for its destruction or return.	d by the lose this	
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HOLLAND & HAR'T' LLP ATTORNEYS AT LAW

DENVER - ASPEN BOULDER - COLORADO SPRINGS DENVER TECH CENTER BILLINGS - BOISE CHEYENNE - JACKSON HOLE SALT LAKE CITY - SANTA FE WASHINGTON, D.C.

P.O. ROX 2208 SANTA FE, NEW MEXICO 87504-2208 110 NORTH GUADALUPE, SUITE 1 SANTA FE, NEW MEXICO 87501-6525 TELEPHONE (505) 988-4421 FACSIMILE (505) 983-5043 Michael H. Feldewert mfeldewert@hollandhart.com

March 11, 2002

VIA FACSIMILE

David K. Brooks, Esq. New Mexico Energy, Minerals and Natural Resources Department 1220 South St. Francis Drive Santa Fe, New Mexico 87505-4000

> Re: Case No. 12811 Jalapeno Corporation Louise Yates State Well No. 1 (API No. 30-005-62894)

Dear Mr. Brooks:

Enclosed please find Administrative Order SWD-830. I understand from our earlier conversations that this order sets forth the "remedial action" necessary for this well and that this matter will be removed from the list of "non-compliance" wells subject to hearing under Case No. 12811.

If the Division still considers this well to be "non-compliant" and intends to call this well for hearing on February 21st, please explain the basis for such action.

Sincerely,

Michael H. Feldewert

MHF/js Enclosure

cc: Mr. Tim Gum, Oil Conservation Division - Artesia w/o encl. Harvey Yates, Jr., Jalapeno Corporation w/o encl. Mar-11-2002 05:40pm From-



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON Governor Betty Rivern Cabinet Secretary Lori Wrotenbery Director Oll Conservation Division

ADMINISTRATIVE ORDER SWD-830

APPLICATION OF JALAPENO CORPORATION FOR SALT WATER DISPOSAL, CHAVES COUNTY, NEW MEXICO.

ADMINISTRATIVE ORDER OF THE OIL CONSERVATION DIVISION

Under the provisions of Rule 701(B), Jalapeno Corporation made application to the New Mexico Oil Conservation Division on February 4, 2002, for permission to complete for produced water disposal its Louise Yates State Well No. 1 (API No. 30-005-62894) located 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 7, Township 9 South, Range 28 East, NMPM, Chaves County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

(1) The application has been duly filed under the provisions of Rule 701(B) of the Division Rules and Regulations;

(2) Satisfactory information has been provided that all offset operators and surface owners have been duly notified;

(3) The applicant has presented satisfactory evidence that all requirements prescribed in Rule 701 will be met; and

(4) No objections have been received within the waiting period prescribed by sàid rule.

IT IS THEREFORE ORDERED THAT:

Jalapeno Corporation is hereby authorized to complete its Louise Yates State Well No. 1 (API No. 30-005-62894) located 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 7, Township 9 South, Range 28 East, NMPM, Chaves County, New Mexico, in such a manner as to permit the injection of produced water for disposal purposes into the San Andres formation from a depth of 2,262 feet to 2,855 feet through 2 3/8 inch plastic-lined tubing set in a packer located at approximately 2,162 feet.

Oil Conservation Division * 1220 South St. Francis Drive * Santa Fe, New Mexico 87505 Phone: (505) 476-3440 * Fax (505) 476-3462 * <u>http://www.cmurd.state.nm.us</u> Administrative Order SWD-830 Jalapeno Corporation February 19, 2002 Page 2

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

Prior to commencing injection operations into the well, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge at the surface or left open to the atmosphere to facilitate detection of leakage in the casing, tubing, or packer.

The injection well or system shall be equipped with a pressure limiting device which will limit the wellhead pressure on the injection well to no more than 452 psi.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the San Andres formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Artesia District Office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Artesia District Office of the Division of the failure of the tubing, casing, or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

<u>PROVIDED FURTHER THAT</u>, jurisdiction is retained by the Division for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

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Approved at Santa Fe, New Mexico, on this 19th day of February, 2002.

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LORI WROTENBERY, Director

LW/DRC

cc: Oil Conservation Division – Artesia State Land Office-Oil & Gas Division