

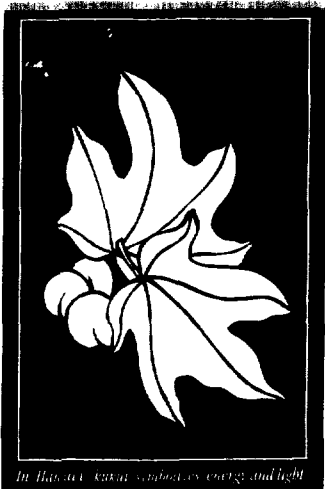
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KUKUI Operating Company

OIL CONSERVATION DIV.

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August 23, 2001



CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Mr. Michael Stogner
Engineering Bureau
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, NM 87505

Case 12736

Re: Application for Unorthodox Well Location
Rule 104 Exception
Goodnight "35" Federal No. 3
660' FWL and 440' FSL of Section 35-T23S-R29E
Eddy County, New Mexico

(30-015-31865)

Dear Mr. Stogner:

Pursuant to our conversation of August 8, 2001, KUKUI Operating Company (KUKUI) respectfully requests that the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico grant an unorthodox well location for the Wolfcamp, Strawn, Atoka and Morrow zones for the Goodnight "35" Federal No. 3 for the reasons discussed below. The proposed location of this wellbore is 660' FWL and 440' FSL of Section 35-T23S-R29E, Eddy County, New Mexico.

The well is designed to test the Delaware Group (Bell Canyon, Cherry Canyon, Brushy Canyon) and the Bone Spring Sands as well as the deeper Wolfcamp, Strawn, Atoka and Morrow zones. KUKUI currently operates the Goodnight "35" Federal No. 1 located in the SE/4 SW/4 Section 35-T23S-R29E. The Goodnight "35" Federal No. 1 has tested mostly water with shows of hydrocarbons from the Bone Spring and Delaware Brushy Canyon. As shown on the attached 1st Bone Spring Structure map, in order to move up dip for a chance at a commercial well in the Bone Spring/Delaware, KUKUI

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must move as far as possible in a westerly direction from the Goodnight "35" Federal No. 1.

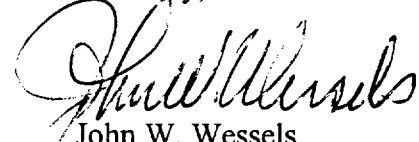
An orthodox location for the deeper zones (Wolfcamp, Strawn, Atoka, Morrow) would be 660' FSL and 660' FWL of Section 35. Geologically, this location would be acceptable also for the Bone Spring/Delaware zones. However, due to the presence of a potash mining area, the Bureau of Land Management (BLM) will not permit a well at an orthodox location. The farthest point north of the south section line the BLM will permit a well is 440' while still staying 660' FWL. The boundary of known potash reserves and within which the BLM will not allow drilling is shown on the attached Form C-102.

The attached Morrow Lime Structure Map shows the outline of the northern portion of existing Cedar Canyon-Morrow pool. The closest Morrow production is the Devon Energy HB2 State No. 1 located in the SW/4 NW/4 Section 2-T24S-R29E of a standup 320 acre unit. The Vision Energy HB3 Federal No. 1 located in the NW/4 SE/4 Section 3-T24S-R29E penetrated the Morrow but is currently producing from the Bone Spring.

A directional well could be drilled from the unorthodox location such that the bottom hole location at the Morrow formation would be 660' FSL and 660' FWL. However, the additional trouble free costs for a directional well would be approximately \$150,000. KUKUI does not believe these additional costs along with the increased mechanical risks can be justified.

A copy of the approved Application for Permit to Drill issued by the BLM is attached to this application. Please note the well was originally permitted to be drilled to 8500'. This permit was amended by sundry notice to directionally drill the well to 14,300'. The BLM has indicated that no additional forms are necessary to drill the well vertically instead of directionally. Copies of notices to affected persons are also attached. These notices were sent by certified mail on August 23, 2001. Your attention to this matter is greatly appreciated.

Sincerely,



John W. Wessels
Vice President – Operations

JWW:le
Enclosures

Cc: Larry Strider (w/encls.)
Well File (w/encls.)