



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

August 31, 2004

Chi Energy, Inc.

c/o **James Bruce**

P. O. Box 1056

Santa Fe, New Mexico 87504-1056

RECEIVED

SEP 07 2004

OCB-ARTESIA

Administrative Order NSL-5103

Dear Mr. Bruce:

Reference is made to the following: (i) your application on behalf of the operator, Chi Energy, Inc. ("Chi") dated August 20, 2004 (*administrative application reference No. pSEM0-423729294*); (ii) your e-mail of Tuesday morning, August 24, 2004, to Mr. Michael E. Stogner, Engineer/Hearing Officer with the New Mexico Oil Conservation Division ("Division"); and (iii) the Division's records in Santa Fe: all concerning Chi's request for an unorthodox gas well location in the Wolfcamp and Morrow formations for the Read & Stevens, Inc. Otis "33" Well No. 2 (API No. 30-015-24810), located 990 feet from the North line and 2130 feet from the West line (Unit C) of Section 33, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico.

The N/2 of Section 33, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, being a standard 320-acre lay-down deep gas spacing unit in both the Undesignated East Carlsbad-Wolfcamp Gas Pool and the deeper South Carlsbad-Morrow Gas Pool (73960), is to be dedicated to this well.

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

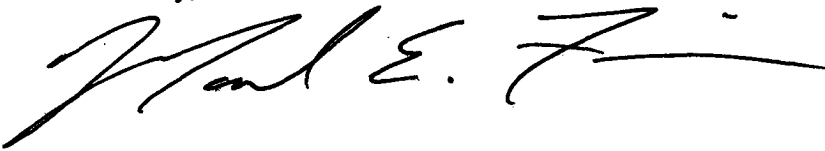
According to the Division's records, the above-described Otis "33" Well No. 2 was originally drilled to a total depth of 12,070 feet in 1984 by Read & Stevens, Inc. of Roswell, New Mexico and completed in the South Carlsbad-Morrow Gas Pool at a standard gas well location within the above-described 320-acre unit. In 1992/93 Read & Stevens, Inc. attempted to recompleate this well up-hole into the Undesignated South Carlsbad-Strawn Gas Pool (74120); however, this zone tested dry and never produced from the Strawn interval. The well was subsequently plugged and abandoned on May 4, 1995. At the time Read & Stevens, Inc. drilled, recompleated, and operated this well, its location within the N/2 of Section 33 was standard for deep gas production in southeast New Mexico.

It is the Division's understanding that Chi intends to re-enter this well to test the shallower Wolfcamp formation at an approximate depth of 9,000 feet. In addition Chi may deepen the well in order to retest the Morrow formation.

By the authority granted me under the provisions of Division Rule 104.F (2), as revised, the above-described unorthodox deep Wolfcamp and Morrow gas well location for the existing Valle Feliz Well No. 1 within the N/2 equivalent of Section 3 is hereby approved.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", with a long horizontal flourish extending to the right.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Artesia