



OLD-Artisia

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

December 16, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Chi Energy, Inc.
c/o **James Bruce**
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-4966

Dear Mr. Bruce:

Reference is made to the following: (i) your application submitted to the New Mexico Oil Conservation Division ("Division") on behalf of the operator, Chi Energy, Inc. ("Chi"), on November 3, 2003 (*administrative application reference No. pLR0-330751470*); and (ii) the Division's records in Santa Fe: all concerning Chi's request for an unorthodox Morrow gas well location for the plugged and abandoned Shugart West "24" Federal Well No. 6 (API No. 30-015-32139), located 2100 feet from the North line and 2310 feet from the West line (Unit F) of Section 24, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico.

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.

The above-described Shugart West "24" Federal Well No. 6 was originally drilled by KCS Medallion Resources, Inc. of Tulsa, Oklahoma in early January, 2002 to a total depth of 8,275 feet to test both the Undesignated North Shugart-Bone Spring (56405) and Undesignated Shugart (Yates-Seven Rivers-Queen-Grayburg) (56439) Pools at a standard oil well location within the SE/4 NW/4 (Unit F) of Section 24, being a standard 40-acre oil spacing and proration unit for both pools. In February, 2002 this well was plugged and abandoned.

It is our understanding that Chi now intends to reenter this well and deepen it to an approximate depth of 12,300 feet in order to test the Morrow formation for gas within the N/2 of Section 24, thereby forming a standard 320-acre lay-down gas spacing unit for either the Undesignated North Shugart-Morrow Gas Pool (85305) or Undesignated North Hackberry-Morrow Gas Pool (96785).

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox Morrow gas well location for the Shugart West "24" Federal Well No. 6 is hereby approved.

Sincerely,

Lori Wrotenbery
Director

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cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad