



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Betty Rivera
Cabinet Secretary

Lori Wrotenberg
Director
Oil Conservation Division

File
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20 February 2004

Concho Exploration Inc.
550 West Texas Ave. Suite 1300
Midland, Texas 79701

RE: Federal DH Gas Com # 1 M-11-18-27 API 30-015-24857 Violation of Rule 112 A.B.2:
Segregation Test

Dear Sirs:

This letter is sent in reference to my phone call of 2-20-04 with Mark Ellerby. During this call I explained that the well must be shut in immediately and remain shut in until the well is in compliance with O.C.D. Rules.

In December 2003 the O.C.D. was informed that a petition for a "Down Hole Commingle" order was to be executed. To date no paperwork has been submitted.

The O.C.D. is in receipt of the B.L.M. Sundry Form 3160 requesting an exception to the Segregation Test.

Rule 112-A.B. of the New Mexico Oil Conservation Division provides as follows:

112-A.B. Operation and Testing

(1) Wells shall be completed and produced so that no commingling of hydrocarbons from separate pools occurs.

(2) The operator shall commence a segregation and/or packer leakage test within 20 days after the multiple completion. Segregation tests and/or packer leakage tests shall also be made any time the packer is disturbed. The operator shall also conduct any other tests and determinations required by the Division. The appropriate district office shall be notified 48 hours in advance of tests so the district office may schedule personnel to witness the tests. Offset operators may witness such tests and shall advise the operator in writing if they desire to be notified of the tests. Test results shall be filed with the Division within 20 days of test completion. In the event a segregation and/or packer leakage test indicates communication between separate pools, the operator shall immediately notify the Division and commence corrective action on the well.

Your failure to respond to OCD directives and failure to bring this well into compliance are serious violations and merit a severe sanction, up to and including abandonment and plugging as well as civil penalties. In the event that this well is not brought into compliance on or before March 31, 2004 this **Notice of Direction** may precede a request to the Division that you be summoned to a hearing in Santa Fe to Show Cause why this well should not be plugged and civil penalties assessed.

Sincerely,

Van Barton
Field Rep. II