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CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

November 25, 2007

Mr. Harry Burgess
City Administrator
City of Carlsbad
P.O. Box 1569
Carlsbad, New Mexico 88221

Re: Oil & Gas Well Drilling Permit
Chi Operating, Inc.
Arthur #1, Section 30
T22S-R27E, Eddy County
New Mexico

Dear Mr. Burgess,

Enclosed is our Oil, Gas, Pipeline Application for Permit/License concerning the subject well. Included with our application is the supporting documentation as required as well as the required fee of \$5,000.

Please advise Chi Operating, Inc. of our public hearing date before the city council in order that we may get our signage in place, as well as the notice placed in the newspaper in accordance with the city ordinance. Please do not hesitate to call me or Gary Womack at 432-685-5001 if any additional information is required.

Sincerely,



Pam Corbett
cc/file

432-685-5001
pamc@chienergyinc.com

H2S Contingency Plan to follow
along with other information from
our field Engineer.

Arrant, Bryan, EMNRD

To: Dave A. Henard
Cc: richard.aguilar@cityofcarlsbadnm.com
Subject: RE: Chi Energy, Arthur #1 Permit to Drill

Hi Dave,

In my initial review of the above noted well, I feel that a surface casing setting depth of @ 400' would be more than sufficient to cover all water bearing zones that are for domestic/public use and in addition also meets OCD's requirements in that it protects protectable fresh ground water in the State of New Mexico.

However, if one goes too deep in this area, then there is the possibility 'tagging' the Salado and this would not be what any regulatory agency or what an operator would want to incur.

In reviewing the State engineer's web site, the deepest recorded water wells in sections 19,20,29,20,21 & 32 is 270'.

To the west in T-22S-26E in sections 24,25, & 36 the deepest recorded water well is 400' which lies in the NW /4 of 25-22S-26E.

As far the the distance to the closet public dwelling, please review the following NMOCD's rules:

19.15.3.109 BLOWOUT PREVENTION: (See Section 114, Subsection B of 19.15.3 NMAC also)

A. Blowout preventers shall be installed and maintained in good working order on all drilling rigs operating in areas of known high pressures at or above the projected depth of the well and in all areas where pressures which will be encountered are unknown, and on all work over rigs working on wells in which high pressures are known to exist.

B. Blowout preventers shall be installed and maintained in good working order on all drilling rigs and work over rigs operating within the corporate limits of any city, town, or village, or within 1320 feet of habitation, school, or church, wherever located.

C. All operators, when filing Form C-101, Application for Permit to Drill, Deepen, or Plug Back, or Form C-103, Sundry Notices, for any operation requiring blowout prevention equipment in accordance with Subsections A and B above, shall submit a proposed blowout prevention program for the well. The program as submitted may be modified by the district supervisor if, in his judgment, such modification is necessary.

[10-22-74...2-1-96; 19.15.3.109 NMAC - Rn, 19 NMAC 15.C.109, 11-15-01]

19.15.5.310 TANKS, OIL TANKS, FIRE WALLS, AND TANK IDENTIFICATION:

A. Oil shall not be stored or retained in earthen reservoirs, or in open receptacles. Dikes or fire walls shall not be required except such fire walls must be erected and kept around all permanent oil tanks, or battery of tanks that are within the corporate limits of any city, town or village, or where such tanks are closer than 150 feet to any producing oil or gas well or 500 feet to any highway or inhabited dwelling or closer than 1000 feet to any school or church, or where such tanks are so located as to be deemed an objectionable hazard within the discretion of the division. Where fire walls are required, fire walls shall form a reservoir having a capacity one-third larger than the capacity of the enclosed tank or tanks.

Please be advised that the OCD does not enforce city or county ordinances as these agencies would not reverse roles and do the same for the OCD.

Concerning drilling pits, please be advised that I do not personally engage in regulating or review drilling pits.

If you need further information on this subject, Mr. Mike Batcher in our office can assist you.

His extension number is: 108.

Bryan G. Arrant

District II Geologist

New Mexico Oil Conservation Division

1301 West Grand Ave.

Artesia, NM 88210

505-748-1283 Ext. 103

12/17/2007

From: Dave A. Henard [mailto:Dave.Henard@respec.com]
Sent: Monday, December 17, 2007 11:40 AM
To: Arrant, Bryan, EMNRD
Cc: richard.aguilar@cityofcarlsbadnm.com
Subject: Chi Energy, Arthur #1 Permit to Drill

Bryan,

I have recieved a permit to drill application from the City of Carlsbad for the above referenced Chi Energy well. They are proposing to drill a 5400' Delaware Fm. test. When you approve this permit could you please forward me the assigned API number so I can browse the OCD e-permit file for this well.

I have briefly looked at the application and it appears that it does not confirm the minimum required distance from a commercial or residential building. I will be in Carlsbad on Thursday and will get with Mr. Aguilar and confirm distance to nearest buildings. If I remember correctly, the well is located in a large field and should be good to go except if located across (east) from DOE offices and north of residential area located south of Chapman Road.

Chi proposes to set 350' of 8 5/8" surface pipe. Will that be sufficient depth to cover total depth of fresh water. The only reference I have for the area is the Mewbourne Oil Co. Pecos River 20 API # 015-34230 well which set surface pipe to 400'.

Finally, a reserve pit diagram was included that proposed an open earthen pit. Will that meet Rule 50 requirements? Groundwater will be approximately 30' below ground surface in this area. I am fairly sure it will not meet the new regs presently being discussed at OCD but I do not know the status of the new regs.

I will wait on your (OCD) final approval of the C-101 before I complete my review.

Thanks for your attention to this. If you need anything please do not hesitate to call me at 505-268-2661.

Dave Henard
Oil & Gas Inspector, City of Carlsbad

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12/17/2007