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2004 OCT 26 PM 4 06

October 26, 2004

Hand Delivered

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

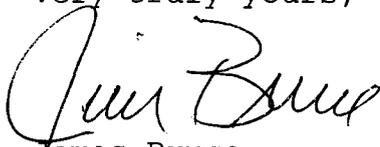
Case 13382

Dear Florene:

Enclosed are an original and one copy of an application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the November 18, 2004 Examiner hearing. Thank you.

The advertisement has also been e-mailed to Sally.

Very truly yours,


James Bruce

PARTIES BEING POOLED

Redfern Enterprises, Inc.
P.O. Box 2127
Midland, Texas 79702

Monte Mount
2611 Ridge Road
Lubbock, Texas 79404

Marilou Wright
J. Cleo Thompson & James
Cleo Thompson, Jr., L.P.
Suite 4300
325 North St. Paul
Dallas, Texas 75201

I & L Development
Suite 720
3500 Oaklawn
Dallas, Texas 75219

Ken Gray
Land Department
Devon Energy Production Company, L.P.
P.O. Box 108838
Oklahoma City, Oklahoma 73101-8838

8 Way Oil & Gas, Inc.
Suite 1250
508 West Wall Street
Midland, Texas 79701

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CHI ENERGY, INC.
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

2004 OCT 26 PM 4 06
Case No. 13382

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E½ of Section 14, Township 19 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the E½ of Section 14, and has the right to drill a well thereon.

2. Applicant proposes to drill its Foot Joy State Com. Well No. 1, at an orthodox location in the NE¼NE¼ (Unit A) of Section 14, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The NE¼NE¼ of Section 14 to form a standard 40 acre oil spacing and proration unit for any and all formations and/or pools developed on 40 acre spacing within that vertical extent, including the Undesignated North McMillan-Grayburg Pool;

(b) The NE¼ of Section 14 to form a standard 160 acre gas spacing and proration unit for any and all formations and/or pools developed on 160 acre spacing within that vertical extent; and

(c) The E½ of Section 14 to form a standard 320 acre gas spacing and proration unit for any and all formations and/or pools developed on 320 acre spacing within that vertical

extent, including the Undesignated Angell Ranch-Strawn Gas Pool and Angell Ranch Atoka-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the E½ of Section 14 for the purposes set forth herein.

4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the E½ of Section 14, pursuant to NMSA 1978 §70-2-17.

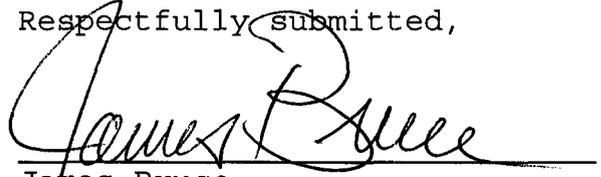
5. The pooling of all mineral interests underlying the E½ of Section 14, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in the E½ of Section 14 from the surface to the base of the Morrow formation;
- B. Designating Chi Operating, Inc. as operator of the well;
- C. Considering the cost of drilling and completing the well, and allocating the cost thereof among the well's working interest owners;
- D. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and

E. Setting a charge of cost plus 200% for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", written over a horizontal line.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Chi Energy, Inc.

Proposed Advertisement

Case 15382: Application of Chi Energy, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 14, Township 19 South, Range 27 East, N.M.P.M., and in the following manner: The E $\frac{1}{2}$ to form a standard 320-acre gas spacing and proration unit for any and all formations developed on 320-acre spacing within that vertical extent, including the Undesignated East Angell Ranch-Strawn Gas Pool and Angell Ranch Atoka-Morrow Gas Pool; the NE $\frac{1}{4}$ to form a standard 160-acre gas spacing and proration unit for any and all formations developed on 160-acre spacing within that vertical extent; and the NE $\frac{1}{4}$ NE $\frac{1}{4}$ to form a standard 80-acre oil spacing and proration unit for any and all formations developed on 40-acre spacing within that vertical extent, including the Undesignated North McMillan-Grayburg Pool. The units are to be dedicated to the proposed Foot Joy State Com. Well No. 1, to be drilled at an orthodox location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ (Unit A) of Section 14. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of Chi Operating, Inc. as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 7 $\frac{1}{2}$ miles east-northeast of Lakewood, New Mexico.

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