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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

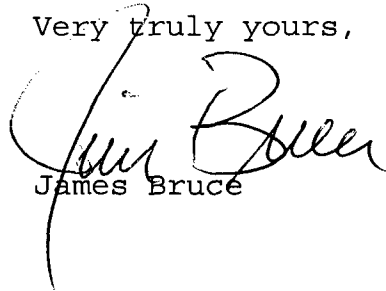
*Case 13381*

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

Vivian Burrhus HC-1 Box 530-4 Center Point, TX 78010	Richard A. Smead 206 E. Rose Street Carlsbad, NM 88220	Raymond C. Foreman 1012 Spring Street Carlsbad, NM 88220	Phillips Marketing Properties Odessa, Texas 79760
Ronald D. Fischer 109 Colinas Ave. NE Albuquerque, NM 87113	Henry H. Hrandi P.O.Box 893 Carlsbad, NM 88220	Shawn Judah 316 East Rose Street Carlsbad, NM 88202	Doris Ann Croley Melvin 430 Knotty Pine Green River, WY 82935
Kenneth E. Fischer 2423 Garden Ave. Waverly, Iowa 50677	Gary L. Roberts 210 E. Rose Street Carlsbad, NM 88220	W.D. Briminstool 2502 South Canal Street Carlsbad, NM 88220	Albert H. Fisher and wife Lena L. Fisher, Joint Tenants Rt 1, Box 266 Carlsbad, NM 88220
Steven Fischer 1009 East Wood Carlsbad, NM 88220	B.V. Ballard 1311 W. Mermod Carlsbad, NM 88220	Linda S. Crowley P.O.Box 1295 Carlsbad, NM 88220	Cotton Growers Inc. P.O.Box CC Carlsbad, NM 88220
Tom Fischer 1442 East Harmony Mesa, Az 85204	Jimmie Houchin 220 E. Rose Street Carlsbad, NM 88220	Donna Croley Laman Route 1 Box 5M Carlsbad, NM 88220	Queen Oil and Gas P.O.Box 959 Carlsbad, NM 88220
Jimmy Fischer c/o Robert Fischer	James B. Garrett 2408 Faulkner Apt A-3 Midland, TX 79705	Dorothy Croley, a widow 2421 Primrose Carlsbad, NM 88220	Elvira Murphy 209 North Missouri Roswell, NM 88201
Carol Fischer Matsumoto 2403 Hanston Court Pearland, TX 77803	Marion Jenkins 1206 West Mermod Street Carlsbad, NM 88220	Kathy Faye Croley 2421 Primrose Carlsbad, NM 88220	
Linda Fischer Mathews 2512 Hardwood Bryan, TX 77803	Clinton J. Coleman P.O.Box 941 Harlingen, Tx	Ethelyn Louise Croley Sheuy Carlsbad, NM 88220	
Eddie Lee Fischer c/o Betty Harris 2402 West Story Midland, TX 79710	Margaret Keeling Guengerich 1941 East Delsur Dr. Tempe, Az 85383	Billy Lee Croley 10 Rockridge Pueblo, Co 81001	
W.R. Williamson, Jr. 837 East Parkway Coppell, Tx 75019-6016	Bobbie Javine Smith 306 East Rose Street Carlsbad, NM 88202	Jerry and Nancy Calvani Revocable Trust P.O.Box 172 Carlsbad, NM 88220	
OXY USA WTP Limited 6 Desta Drive Midland, TX 7970	Carlsbad Nat'l Bank Trustee Erminia Holder Trust William Holder Trust 202 W Stevens Carlsbad, NM 88220	Emma Irene Blackwell 1206 North Thorpe Hobbs, NM 88240	

Flora Louise Tracy and Charles G. Tracy  
Trustees of The Francis G. Tracy and Bessie  
Driver Tracy Revocable Trust, Dated 07/30/81  
P.O.Box 700  
Carlsbad, NM 88220

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Richard L. Menuey and Wife  
Mary L. Menuey, as Joint Tenants  
Carlsbad, NM

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Robert Wilson Finlay, Jr.  
720 Appaloosa Drive  
Walnut Creek, CA 94596

Nancy Finlay Rodekohr  
720 Appaloosa Drive  
Walnut Creek, CA 94596

Nora Finley Cook  
720 Appaloosa Drive  
Walnut Creek, CA 94596

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Everett L. Wheeler  
1801 N. Mission Ave.  
Carlsbad, NM 88220

C.E. Wheeler  
647 Old Cavern Hwy  
Carlsbad, NM 88220

Phyllis Marie Wheeler Western  
1174 East Center Ave.  
Carlsbad, NM 88220

Heirs of Elsie M. Weldon  
c/o Mary Francis Linnardon  
Carlsbad, NM

Ralph Calvani  
28765 Via Zapato  
Munieta CA 92563

Heirs of Albert C. Boeglin  
c/o Albert C. Boeglin  
Las Cruces, NM

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CHI ENERGY, INC. 2004 OCT 26 PM 4 06  
FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

Case No. 13381

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S½ of Section 17, Township 22 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 S½ of Section 17, and has the right to drill a well thereon.

2. Applicant proposes to drill its Kodiak Well No. 1, at an orthodox location in the SE¼SE¼ (Unit P) of Section 17, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The SE¼SE¼ of Section 17 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 South Carlsbad-Cherry Canyon Pool;

(b) The SE¼ of Section 17 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 S½ of Section 17 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 East Carlsbad-Wolfcamp Gas Pool, South Carlsbad-Strawn Gas Pool, and South Carlsbad-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S½ of Section 17 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 S½ of Section 17, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 17, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

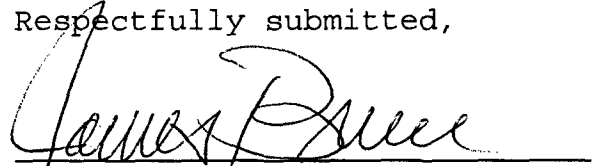
**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in the S½ of Section 17 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", is 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 13381:** 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 17, Township 22 South, Range 27 East, N.M.P.M., and in the following manner: The S½ 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 Carlsbad-Wolfcamp Gas Pool, South Carlsbad-Strawn Gas Pool, and South Carlsbad-Morrow Gas Pool; the SE¼ 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 SE¼SE¼ 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 South Carlsbad-Cherry Canyon Pool. The units are to be dedicated to the proposed Kodiak Well No. 1, to be drilled at an orthodox location in the SE¼SE¼ (Unit P) of Section 17. 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 2 miles south-southwest of Otis, New Mexico.

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