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September 29, 2009

Hand Delivered

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

Re: Case Nos. 14353 and 14354/Chi Energy, Inc.

Dear Florene:

Enclosed for filing, on behalf of Chi Energy, Inc., are amended applications in the above cases, together with proposed advertisements. The advertisements have also been e-mailed to the Division. Please set these matters for the October-29, 2009 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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APPLICATION OF CHI ENERGY, INC. FOR  
APPROVAL OF A SECONDARY RECOVERY  
PROJECT AND TO QUALIFY THE PROJECT  
FOR THE RECOVERED OIL TAX RATE,  
EDDY COUNTY, NEW MEXICO.

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Case No. 14353

AMENDED APPLICATION

Chi Energy, Inc., whose address is P.O. Box 1799, Midland, Texas 79702, phone number (432) 685-5001, applies for an order approving a secondary recovery project and qualifying the project for the recovered oil tax rate. In support thereof, applicant states:

1. Applicant is a working interest owner in the proposed Benson Delaware Unit (the "Unit Area"), which covers the following lands located in Eddy County, New Mexico:

Township 19 South, Range 30 East, N.M.P.M.

Section 1: NE $\frac{1}{4}$ SW $\frac{1}{4}$ , S $\frac{1}{2}$ SW $\frac{1}{4}$ , and W $\frac{1}{2}$ SE $\frac{1}{4}$

Section 11: E $\frac{1}{2}$ NE $\frac{1}{4}$  and SW $\frac{1}{4}$ NE $\frac{1}{4}$

Section 12: NW $\frac{1}{4}$  and N $\frac{1}{2}$ SW $\frac{1}{4}$

Containing 560.00 acres of federal lands.

The unitized interval is the Brushy Canyon Member of the Delaware formation, as further described in the unitization application filed concurrently with this application.

2. Chi Operating, Inc. will be the operator of the Unit Area.
3. Applicant proposes to institute a secondary recovery project in the Unit Area.
4. Applicant proposes to inject water into the Brushy Canyon from nine (9) wells. A plat outlining the Unit Area, and marking the locations of the injection and producing wells, is attached hereto as Exhibit A. A listing of the injection wells is attached as Exhibit B.

5. Applicant requests that the secondary recovery project for the Unit Area be qualified for the recovered oil tax rate, pursuant to the Enhanced Oil Recovery Act (L. 1992, ch. 38) and Division regulations. Project data includes:

(a)	Number of producing wells:	11
(b)	Number of injection wells:	9
(c)	Capital cost of additional facilities:	\$7,500,500
(d)	Estimated total project cost:	\$16,050,500
(e)	Estimated value of incremental production:	\$82,500,000
(f)	Estimated injection commencement date:	December 2009
(g)	Type of injected fluid:	Produced water
(h)	Anticipated injection volumes:	450 BWPD/well

5. The Form C-108 for the project was previously submitted to the Division.

6. Approval of this application will prevent waste and protect correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order approving the injection application, and qualifying the secondary recovery project as an Enhanced Oil Recovery Project.

Respectfully submitted,



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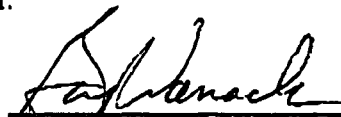
James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Chi Energy, Inc.

VERIFICATION

STATE OF TEXAS            )  
                                  ) ss.  
COUNTY OF MIDLAND    )

Gary Womack, being duly sworn upon his oath, deposes and states that: He is a petroleum engineer for Chi Energy, Inc.; he is authorized to make this verification on its behalf; he has read the foregoing application, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
Gary Womack

SUBSCRIBED AND SWORN TO before me this 23<sup>rd</sup> day of June, 2009 by Gary Womack.

My Commission Expires: 11-17-09

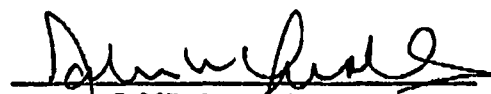

  
\_\_\_\_\_  
Notary Public  
 JOHN WALTER QUALLS  
Notary Public, State of Texas  
My Commission Expires  
November 17, 2009

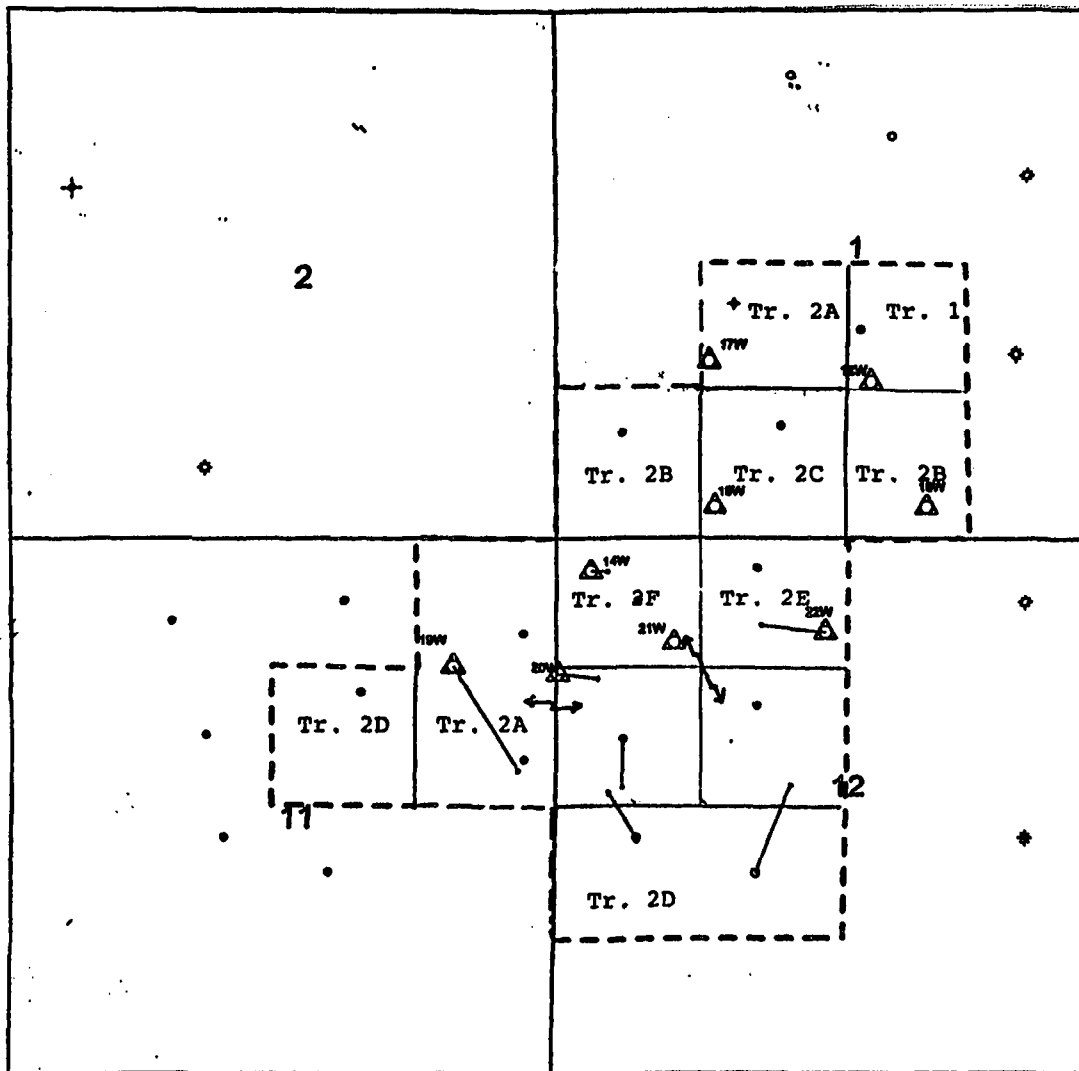
EXHIBIT "A"

MAP OF UNIT AREA

BENSON DELAWARE UNIT

Eddy County, New Mexico

Township 19 South, Range 30 East, N.M.P.M.



FEDERAL LANDS: 100%

Well NameWell Location

Munchkin Well No. 14W

330 feet FNL & 500 feet FWL §12 (SHL)  
330 feet FNL & 330 feet FWL §12 (BHL)

Munchkin Well No. 15W

330 feet FSL &amp; 1550 feet FWL §1

Munchkin Well No. 16W

300 feet FSL &amp; 1650 feet FEL §1

Munchkin Well No. 17W

1700 feet FSL &amp; 1500 feet FWL §1

Munchkin Well No. 18W

1500 feet FSL &amp; 2200 feet FEL §1

Munchkin Well No. 19W

2300 feet FNL & 400 feet FEL §11 (SHL)  
1300 feet FNL & 1000 feet FEL §11 (BHL)

Munchkin Well No. 20W

1400 feet FNL & 400 feet FWL §12 (SHL)  
1350 feet FNL & 20 feet FWL §12 (BHL)

Munchkin Well No. 21W

1050 feet FNL &amp; 1150 feet FWL §12

Munchkin Well No. 22W

900 feet FNL & 1980 feet FWL §12 (SHL)  
930 feet FNL & 2620 feet FWL §12 (BHL)

All wells located in Township 19 South, Range 30 East, N.M.P.M.

EXHIBIT

**B**

PROPOSED ADVERTISEMENT

***Case No. 14353: (Amended and readvertised)***

***Application of Chi Energy, Inc. for approval of a secondary recovery project and to qualify the project for the Recovered Oil Tax Rate, Eddy County, New Mexico.*** Applicant seeks approval to institute a waterflood project in the Brushy Canyon member of the Delaware formation (Benson-Delaware Pool) by the injection of water into nine wells located on federal lands covering parts of Sections 1, 11, and 12, Township 19 South, Range 30 East, N.M.P.M. Applicant further seeks to qualify the project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1-5). The project is centered approximately 10 miles south-southeast of Loco Hills, New Mexico.

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