

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (PHONE)
(505) 660-6612 (CELL)
(505) 982-2151 (FAX)

jamesbruc@aol.com

Case 13225

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FEB 11 2004

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

February 11, 2004

Hand Delivered

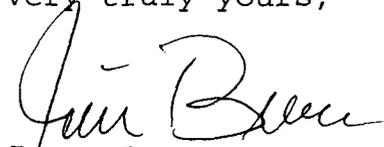
Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 March 4, 2004 Examiner hearing. Thank you.

The advertisement was previously been e-mailed to you.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

PARTIES BEING POOLED

Charles V. Eskridge
4066 Albright Avenue
Los Angeles, California 90066

Lyle Walker
P.O. Box 1479
Clovis, New Mexico 88101

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

FEB 11 2004

APPLICATION OF CHI ENERGY, INC. FOR
COMPULSORY POOLING AND APPROVAL OF A
NON-STANDARD GAS SPACING AND PRORATION
UNIT, EDDY COUNTY, NEW MEXICO.

Case No. 13225

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interest owners from the surface to the base of the Morrow formation underlying Lots 1, 2, E $\frac{1}{2}$ NW $\frac{1}{4}$, and NE $\frac{1}{4}$ (the N $\frac{1}{2}$ equivalent) of Section 30, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and approval of a non-standard gas spacing and proration unit, and in support thereof, states:

1. Applicant is a working interest owner in the N $\frac{1}{2}$ of Section 30, and has the right to drill a well thereon.

2. Applicant proposes to drill its Merlin Well No. 2, at an orthodox well location in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 30, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N $\frac{1}{2}$ of Section 30 to the well to form a non-standard 314.60 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 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 N $\frac{1}{2}$ of Section 30 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

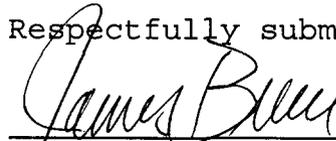
well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 30, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the N½ of Section 30 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 interest owners in the N½ of Section 30 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 200% charge 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,



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

Attorney for Chi Energy, Inc.

Proposed Advertisement

Case 13225: **Application of Chi Energy, Inc. for compulsory pooling and a non-standard gas spacing and proration unit, Eddy County, New Mexico.** Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying Lots 1, 2, E $\frac{1}{2}$ NW $\frac{1}{4}$, and NE $\frac{1}{4}$ (the N/2 equivalent) of Section 30, Township 22 South, Range 27 East, NMPM, to form a non-standard 314.60 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 South Carlsbad-Strawn Gas Pool and South Carlsbad-Morrow Gas Pool. The unit is to be dedicated to applicant's Merlin Well No. 2, to be located at an orthodox gas well location in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 30. Also to be considered will be the cost of drilling and completing the well and the allocation 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 unit is located approximately 3 $\frac{1}{2}$ miles south of Carlsbad, New Mexico.

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Santa Fe, NM 87505