

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

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No. 12245

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 10, Township 17 South, Range 28 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 10, and has the right to drill a well thereon.

2. Applicant proposes to drill its Coal Train Fed. Com. Well No. 1, at a location 990 feet from the south line and 990 feet from the west line of Section 10, to a depth sufficient to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The S½ of Section 10 for all pools or formations developed on 320 acre spacing, including the Undesignated Dog Canyon-Strawn Gas Pool and Undesignated Southeast Crow Flats-Morrow Gas Pool;

(b) The SW¼ of Section 10 for all pools or formations developed on 160 acre spacing; and

(c) The SW¼SW¼ of Section 10 for all pools or formations developed on 40 acre spacing.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S½ of Section 10 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 10, pursuant to NMSA 1978 §70-2-17 (1996).

5. Applicant requests that Chi Operating, Inc. be designated operator of the well.

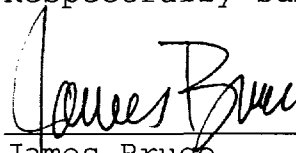
6. The pooling of all mineral interests underlying the S½ of Section 10, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

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

- A. Pooling all mineral interests in the S½ of Section 10, 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 said rates per the COPAS accounting procedure;
- E. Setting a penalty for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in drilling the well; and

F. Granting such further relief as the Division deems proper.

Respectfully submitted,

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

James Bruce
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Attorney for Chi Energy, Inc.