

OIL CONSERVATION DIV.

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**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
SANTA FE, NEW MEXICO 87501

(505) 982-2043  
(505) 982-2151 (FAX)

September 9, 1999

*Case 12255*


**Hand Delivered**

Florene Davidson  
Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and two copies of an application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the October 7, 1999 Examiner hearing. Thank you.

Very truly yours,

  
James Bruce  
Attorney for Chi Energy, Inc.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

No. 1255

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 4, 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 4, and has the right to drill a well thereon.

2. Applicant proposes to drill its Heavy Harry State Com. Well No. 1, at a location 660 feet from the south line and 1650 feet from the west line of Section 4, to a depth sufficient to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The S½ of Section 4 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; and

(b) The SW¼ of Section 4 for all pools or formations developed on 160 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 4 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 4, pursuant to NMSA 1978 §70-2-17 (1996).

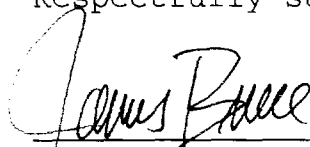
5. Applicant requests that Chi Operating, Inc. be designated operator of the well.

6. The pooling of all mineral interests underlying the S½ of Section 4, 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 4, 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;
- 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  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 12255 : 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 4, Township 17 South, Range 28 East, NMPM, and in the following manner: The S½ of Section 4 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within said vertical extent, including the Undesignated Dog Canyon-Strawn Gas Pool and Undesignated Southeast Crow-Flats-Morrow Gas Pool; and the SW¼ of Section 4 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within said vertical extent. Said units are to be dedicated to the applicant's Heavy Harry State Com. Well No. 1, to be drilled a location 660 feet from the south line and 1650 feet from the west line of said Section 4. Also to be considered will be the cost of drilling and completing said 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 charge for the risk involved in drilling and completing the well. Said units are located approximately 13 miles east-southeast of Artesia, New Mexico.

OIL CONSERVATION DIV.

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