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jamesbruc@aol.com

March 22, 2004

Hand Delivered

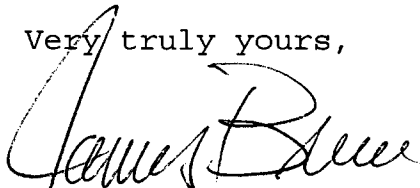
Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

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 April 15, 2004 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,

  
James Bruce

Attorney for Chi Energy, Inc.

**RECEIVED**

MAR 23 2004

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

*Case 13248*

32 AC  
All le  
Sp. rier

(NE(4)SE(4))

32.78 leased  
5.04 leased (Arthur 1971)

(SE(4)SE(4))

4 PL  
M. Fiero  
16 AC lease  
M. Fiero  
16 AC lease

LANEY

MAP 225

OIL CONSERVATION DIVISION  
CASE NUMBER

EXHIBIT 2

210  
2005 AC  
All leased  
M. Fiero  
16 AC lease

3

37.97 AC  
Open  
M. Fiero

(SE(4)SW(4))

WORLEY

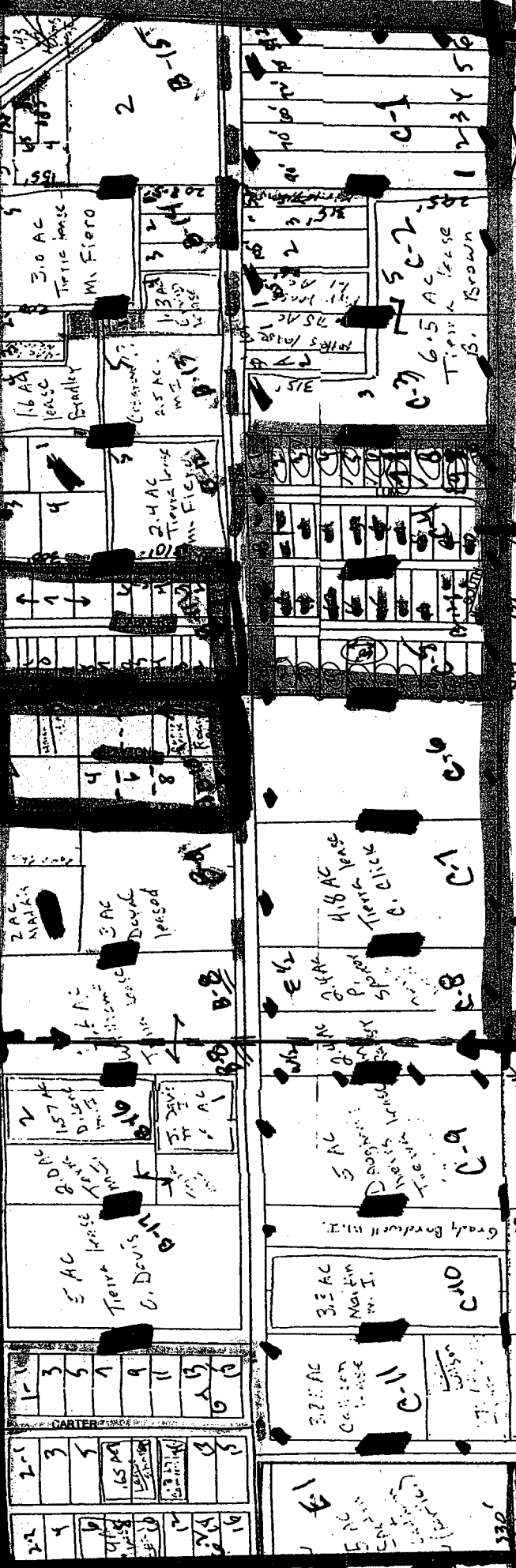
WESTVIEW

FABIAN

MARBLESS

MAP 226

D-2  
Tripp - Adams  
25%  
25%  
Tripp - Adams  
#6  
Adams  
10



Pauls  
B-11  
B-10

Parties Being Pooled

Miguel C. Morales

Paulina Morales  
3909 Jones Street  
Carlsbad, NM 88220

Gladys L. Pryor, as  
separate property

John E. Dean and  
wife Ruth Dean

Wilson L. Akins, as  
separate property

Theo A. Bennett and  
wife Maurine Bennett

Richard L. Asbury and  
wife Debra E. Asbury

Lupe G. Lara and wife  
Mary V. Lara, as  
joint tenants

Leo B. Estrada III and  
wife Vickie Estrada  
607 South 11th  
Carlsbad, NM 88220

John R. Rogers and wife  
Janet Neosha Rogers

C.L. Thacker and wife  
Annie M. Thacker  
711 North Happy Valley Road  
Carlsbad, NM 88220

Robert L. Graves and wife  
Yolanda H. Graves  
109 South Abner  
Carlsbad, NM 88220

Juan Rascon and wife  
Adela Rascon  
603 Boyd Drive  
Carlsbad, NM 88220

Emma Loftis, a widow  
2312 Parsifal NE  
Albuquerque, NM 87112

The heirs of Annette Cranford,  
who are apparently Jerry  
Cranford, Dale Cranford,  
Dorothy Debrosse, Penny  
Ebersbacher, and Debbie  
Fletcher

T.L. Spoonts, Jr. and  
wife Hetty G. Spoonts

Kenneth Stiles and wife  
Earlene Stiles (as joint  
tenants) and Ida Norma  
Ferrero (as separate property),  
as joint tenants

Ruth E. Davis  
805 Hueco Street  
Carlsbad, NM 88220

Beneficial Mortgage Company

Johnny M. Hunt and  
wife Mary P. Hunt

Roy B. Laney and  
wife Barbara L. Laney  
4001 Jones Street  
Carlsbad, NM 88220

H. Davis Holt  
10145 Monaco  
El Paso, TX 79925

Ruby N. Holt Estate  
c/o H. Davis Holt  
10145 Monaco  
El Paso, TX 79925

Viola M. Jackson, a widow

W.C. Allen and wife  
Clara Mae Allen

Clarence J. Ramsey and  
wife Marjorie Ramsey

Roy G. Barton, Jr., as  
separate property  
1919 North Turner  
Hobbs, NM 88240

E.L. Latham Co.  
P.O. Box 1392  
Hobbs, NM 88241

Bennie P. Grant  
P.O. Box 128  
Santa Cruz, NM 87562

Marion Lee Smith  
719 El Alhambra Circle NW  
Albuquerque, NM 87107

Hilton W. McKinney

Javier Hinojos and wife  
Charlotte Hinojos;

or Eduvijen Calderon,  
subject to Real Estate  
Contract in favor  
of Yolanda Mendoza

Successors to Robert J.  
Harris and G. Marie  
Harris, both deceased

Donald R. Couch and wife  
Virginia M. Couch

Michael Lee DeMoss

Janet Louise Dewey and  
husband John E. Dewey

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MAR 23 2004

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

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

Case No. 13248

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S $\frac{1}{2}$  of Section 3, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the S $\frac{1}{2}$  of Section 3, and has the right to drill a well thereon.

2. Applicant proposes to drill its WC 3 Well No. 3, at an orthodox location in the SE $\frac{1}{4}$ SE $\frac{1}{4}$  (Unit P) of Section 3, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The SE $\frac{1}{4}$  of Section 3 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

(b) The S $\frac{1}{2}$  of Section 3 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 Happy Valley-Strawn Gas Pool, Undesignated Happy Valley-Atoka Gas Pool, and Undesignated Happy Valley-Morrow Gas Pool.

3. The S $\frac{1}{2}$  of Section 3 will be simultaneously dedicated, as to formations developed on 320 acre spacing, to the proposed well

and to the existing WC 3 Well No. 2, located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 3.

4. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S $\frac{1}{2}$  of Section 3 for the purposes set forth herein.

5. 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 S $\frac{1}{2}$  of Section 3, pursuant to NMSA 1978 §70-2-17.

6. The pooling of all mineral interests underlying the S $\frac{1}{2}$  of Section 3, 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 S $\frac{1}{2}$  of Section 3 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", 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 13248: 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 3, Township 22 South, Range 26 East, NMPM, and in the following manner: The S½ 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 Happy Valley-Strawn Gas Pool, Undesignated Happy Valley-Atoka Gas Pool, and Undesignated Happy Valley-Morrow Gas Pool; and the SE¼ 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. The units are to be dedicated to applicant's WC 3 Well No. 3, to be located at an orthodox location in the SE¼SE¼ of Section 3. 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 cost plus 200% charge for the risk involved in drilling and completing the well. The units are located approximately 3 miles west of Carlsbad, New Mexico.

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Santa Fe, NM 87505