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2004 OCT 26 PM 4 05

October 26, 2004

Case 13380

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 November 18, 2004 Examiner hearing. Thank you.

The advertisement has also been e-mailed to Sally.

Very truly yours,


James Bruce

PARTIES BEING POOLED

Eulalio Medrano
2412 Harding Street
Carlsbad, New Mexico 88220

Lee Roy Lujan
1421 Smedley Road
Carlsbad, New Mexico 88220

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

Case ~~NO~~ 2004 OCT 26 13380 PM 4 05

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interest owners from the surface to the base of the Morrow formation underlying the N $\frac{1}{2}$ of Section 33, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the N $\frac{1}{2}$ of Section 33, and has the right to drill a well thereon.

2. Applicant proposes to drill its Otis Well No. 1, at an orthodox well location in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 33, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N $\frac{1}{2}$ of Section 33 to the well 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 East Carlsbad-Wolfcamp Gas Pool, Undesignated Cass Draw-Wolfcamp Gas Pool, Undesignated South Carlsbad-Strawn Gas Pool, Undesignated Otis-Atoka 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 33 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

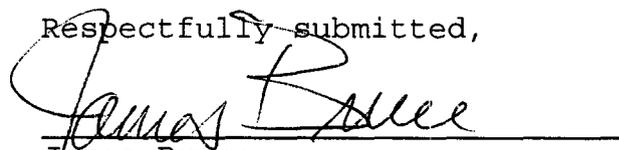
well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 33, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the N½ of Section 33 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 33 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 13380: 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 N½ of Section 33, Township 22 South, Range 27 East, N.M.P.M., to form a standard 320-acre gas spacing and proration unit for any and all formations developed on 320-acre spacing within that vertical extent, including the Undesignated East Carlsbad-Wolfcamp Gas Pool, Undesignated Cass Draw-Wolfcamp Gas Pool, Undesignated South Carlsbad-Strawn Gas Pool, Undesignated Otis-Atoka Gas Pool, and South Carlsbad-Morrow Gas Pool. The unit is to be dedicated to the proposed Otis Well No. 1, to be drilled at an orthodox location in the NE¼NW¼ (Unit C) of Section 33. 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 200% charge for the risk involved in drilling and completing the well. The units are located approximately 1½ miles west of Otis, New Mexico.

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