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2005 JAN 25 AM 10 17

January 25, 2005

Hand Delivered

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

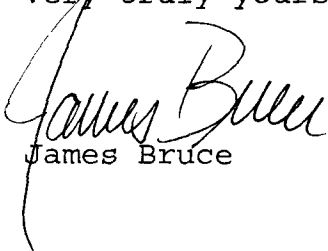
Re: Case No. 13,381

Dear Florene:

Enclosed are an original and one copy of a second amended application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please re-set this matter for the February 17, 2005 Examiner hearing. Thank you.

The advertisement has also been e-mailed to the Division.

Very truly yours,



James Bruce

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CHI ENERGY, INC. 2005 JAN 25 AM 10 17  
FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

Case No. 13,381

SECOND AMENDED 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 17, 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 S½ of Section 17, and has the right to drill a well thereon.

2. Applicant proposes to drill its Kodiak Well No. 1, at an orthodox location in the NE¼SE¼ (Unit I) of Section 17, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

- (a) The NE¼SE¼ to form a standard 40 acre oil spacing and proration unit for any and all formations and/or pools developed on 40 acre spacing within that vertical extent, including the Undesignated South Carlsbad-Cherry Canyon Pool;
- (b) 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; and
- (c) 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 East Carlsbad-Wolfcamp Gas Pool, 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 S½ of Section 17 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 17, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 17, 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 17 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.

APPLICANT REQUESTS THAT, IN THE ABSENCE OF OBJECTION, THIS MATTER BE TAKEN UNDER ADVISEMENT.

Respectfully submitted,

A handwritten signature in cursive script, reading "James Bruce", written in dark ink. The signature is positioned above 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 13381 (continued and readvertised): 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 17, Township 22 South, Range 27 East, N.M.P.M., and in the following manner: The S½ 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, South Carlsbad-Strawn Gas Pool, and South Carlsbad-Morrow Gas Pool; the SE¼ to form a standard 160-acre gas spacing and proration unit for any and all formations developed on 160-acre spacing within that vertical extent; and the NE¼SE¼ to form a standard 40-acre oil spacing and proration unit for any and all formations developed on 40-acre spacing within that vertical extent, including the Undesignated South Carlsbad-Cherry Canyon Pool. The units are to be dedicated to the proposed Kodiak Well No. 1, to be drilled at an orthodox location in the NE¼SE¼ (Unit I) of Section 17. 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 2 miles south-southwest of Otis, New Mexico. **IN THE ABSENCE OF OBJECTION THIS MATTER WILL BE TAKEN UNDER ADVISEMENT.**

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