

BEFORE THE OIL CONSERVATION DIVISION
NEW MEXICO ENERGY, MINERALS AND
NATURAL RESOURCES DEPARTMENT

APPLICATION OF CHI OPERATING, INC. FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 13815

AFFIDAVIT

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

Ocean Munds-Dry, attorney in fact and authorized representative of Chi Operating, Inc., the Applicant herein, states that notice of the above-referenced Application was mailed to the interested parties shown on Exhibit "A" attached hereto in accordance with Oil Conservation Division Rules, and that true and correct copies of the notice letter and proof of notice are attached hereto.

Ocean Munds-Dry

Ocean Munds-Dry

SUBSCRIBED AND SWORN to before me this 18th day of October 2006.



OFFICIAL SEAL
LISAMARIE ORTIZ
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires 01/14/07

Lisamarie Ortiz

Notary Public

My Commission Expires:

January 14, 2007

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only - No Insurance Coverage Provided)

0 5 9 1 0 1 2 2 0 8 6

| | |
|--|----------------|
| Postage | \$ 1.87 |
| Return Receipt Fee (Endorsement Required) | 2.40 |
| Restricted Delivery Fee (Endorsement Required) | 1.85 |
| Total Postage & Fees | \$ 5.12 |

SANTA FE NM
 Postmark Here
 OCT 12 1999
 USPS 87501

Sent To
 Darr Angell
 Street, Apt. No., or PO Box No.
 P. O. Box 190
 City, State, ZIP+
 Lovington, NM 88260

7394 9558 2002 1140 0002 9558 7394

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only - No Insurance Coverage Provided)

0 5 9 1 0 1 2 2 0 8 6

| | |
|--|----------------|
| Postage | \$ 1.87 |
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| Total Postage & Fees | \$ 5.12 |

SANTA FE NM
 Postmark Here
 OCT 12 1999
 USPS 87501

Sent To
 Pride Energy Company
 Street, Apt. No. or PO Box No.
 P. O. Box 701950
 City, State, ZIP
 Tulsa, Oklahoma 74170

7387 9558 2002 1140 0002 9558 7387

SENDER - COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 Pride Energy Company
 P. O. Box 701950
 Tulsa, Oklahoma 74170

2. Article Number (Copy fr 7001 1140 0002 9558 7387

COMPLETE THIS SECTION ON DELIVERY

- A. Received by (Please Print Clearly) **Kari Goldsberry** B. Date of Delivery
- C. Signature **Kari Goldsberry**
- D. delivery address different from item 1. If YES, enter delivery address below. Agent Addressee No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes No

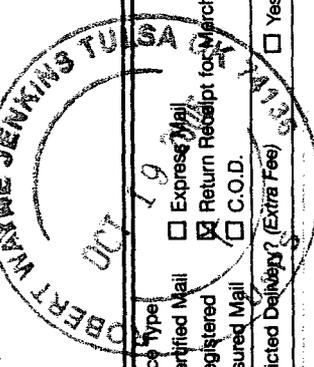


EXHIBIT A

**APPLICATION OF CHI OPERATING, INC.
FOR COMPULSORY POOLING
SECTION 11, TOWNSHIP 14 SOUTH, RANGE 34 EAST, N.M.P.M.
LEA COUNTY, NEW MEXICO.**

Pride Energy Company
P.O. Box 701950
Tulsa, Oklahoma 74170

Darr Angell
P.O. Box 190
Lovington, New Mexico 88260



October 10, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

Re: Application of Chi Operating, Inc. for compulsory pooling, Lea County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Chi Operating, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking the compulsory pooling of certain spacing and proration units in the NE/4 of Section 11, Township 14 South, Range 34 East, NMPM, Lea County, New Mexico. Said units will be dedicated to its Elkan Well No. 2 which it proposes to drill at a location 1980 feet from the North line and 660 feet from the East line of Section 11 to test all formations from the surface to the base of the Cisco/Canyon formation.

This application has been set for hearing before a Division Examiner on November 9, 2006. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-Hearing Statement with the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, four days in advance of a scheduled hearing, but at least on the Thursday preceding the hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Sincerely,


Ocean Munds-Dry
ATTORNEY FOR CHI OPERATING, INC.

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF CHI OPERATING INCORPORATED FOR
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

Chi Operating, Inc. ("Chi") through its undersigned attorneys, hereby makes application to the Oil Conservation Division pursuant to the provisions of N.M. Stat. Ann. § 70-2-17 (2006), for an order pooling all mineral interests from the surface to the base of the Morrow formation in the following described spacing and proration units located in the NE/4 of Section 11, Township 14 South, Range 34 East, N.M.P.M., Lea County, New Mexico: the NE/4 for all formations and/or pools developed on 160-acre spacing which includes but is not necessarily limited to the Undesignated Cerca-Upper Pennsylvanian Pool; and the SE/4 NE/4 for all formations and/or pools developed on 40-acre spacing, and in support of its application states:

1. Chi is a working interest owner in the NE/4 of said Section 11 and has the right to drill thereon.
2. Chi proposes to dedicate the above-referenced spacing or proration unit to its Elkan Well No. 2 to be drilled at a location 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 11, NMPM, Lea County, New Mexico, to an approximate depth of 10,600 feet to test any and all formations from the surface to the base of the Cisco/Canyon formation.
3. Chi has sought and been unable to obtain a voluntary agreement for the development of these lands from certain interest owners in the subject spacing unit who are identified on **Exhibit A** to this application.
4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

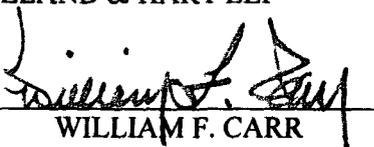
5. In order to permit Chi to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Chi should be designated the operator of the well to be drilled.

WHEREFORE, Chi Operating, Inc. requests this application be set for hearing before a Division Examiner on November 9, 2006 and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration units,
- B. designating Chi operator of these units and the well to be drilled thereon,
- C. authorizing Chi to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures, and
- E. imposing a penalty for the risk assumed by Chi in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

WILLIAM F. CARR
OCEAN MUNDS-DRY
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR CHI OPERATING INC.

CASE _____:

Application of Chi Operating, Inc. for compulsory pooling, Lea County, New Mexico. Applicant in the above-styled cause seeks an order pooling all mineral interests from the surface to the base of the Morrow formation in the following described spacing and proration units located in the NE/4 of Section 11, Township 14 South, Range 34 East, N.M.P.M., Lea County, New Mexico: the NE/4 for all formations and/or pools developed on 160-acre spacing which includes but is not necessarily limited to the Undesignated Cerca-Upper Pennsylvanian Pool, and the SE/4 NE/4 for all formation and/or pools developed on 40-acre spacing. Said unit is to be dedicated to its Elkan Well No. 2 to be drilled 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 11 to an approximate depth 10,600 feet. 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 risk involved in drilling said well. Said area is located approximately 11 miles northwest of Lovington, New Mexico.

Affidavit of Publication

STATE OF NEW MEXICO)
) ss.
 COUNTY OF LEA)

Joyce Clemens being first duly sworn on oath deposes and says that she is Advertising Director of **THE LOVINGTON LEADER**, a daily newspaper of general paid circulation published in the English language at Lovington, Lea County, New Mexico; that said newspaper has been so published in such county continuously and uninterruptedly for a period in excess of Twenty-six (26) consecutive weeks next prior to the first publication of the notice hereto attached as hereinafter shown; and that said newspaper is in all things duly qualified to publish legal notices within the meaning of Chapter 167 of the 1937 Session Laws of the State of New Mexico.

That the notice which is hereto attached, entitled

Legal Notice
 was published in a regular and entire issue of **THE LOVINGTON LEADER** and not in any supplement thereof, for one day, beginning with the issue of October 14, 2006 and ending with the issue of October 14, 2006.

And that the cost of publishing said notice is the sum of \$ 75.04 which sum has been (Paid) as Court Costs.

Joyce Clemens
 Subscribed and sworn to before me this 27th day of October, 2006.

Debbie Schilling
 Notary Public, Lea County, New Mexico
 My Commission Expires June 22, 2010

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION SANTA FE, NEW MEXICO

The State of New Mexico through its Oil Conservation Division hereby gives notice pursuant to law and the Rules and Regulations of the Division of the following public hearing to be held at 8:15 A.M. on November 8, 2006, in the Oil Conservation Division Hearing Room at 1220 South St. Francis, Santa Fe, New Mexico, before an examiner duly appointed for the hearing. If you are an individual with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing, please contact: Florencia Davidson at 505-476-3459 or through the New Mexico Relay Network, 1-800-869-1779 by October 30, 2006. Public documents including the agenda and minutes, can be provided in various accessible forms. Please contact: Florencia

Davidson if a summary or other type of accessible form is needed.

STATE OF NEW MEXICO

All named parties and persons having any right, title, interest or claim in the following cases, and notice to the public.

(NOTE: All land descriptions herein refer to the New Mexico Principal Meridian whether or not well as actual operating costs and charges for supervision, designation of Chi Operating, Inc. as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 11 miles northwest of Lovington, New Mexico.

CASE 138115

Application of Chi Operating, Inc. for compulsory pooling, Lea County, New Mexico. Applicant in the above-styled cause seeks an order pooling all mineral interests from the surface to the base of the Morrow formation in the following described spacing and proration units located in the NE/4 of Section 11, Township 14 South, Range 34 East, N.M.P.M., Lea County, New Mexico: the NE/4 for all formations and/or pools developed on 160-acre spacing which includes but is not necessarily limited to the Undesignated Caracas Upper Pennsylvanian

Pool, and the SE/4 NE/4 for all formations and/or pools developed on 40-acre spacing. Said unit is to be dedicated to its drilled 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 11 to an approximate depth 10,600 feet. 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 risk involved in drilling said well. Said area is located approximately 11 miles northwest of Lovington, New Mexico.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

Mark E. Fasmore, P.E.,
 Director

Published in the Lovington Leader October 14, 2006.

LEGAL NOTICE NOTICE OF PUBLICATION

STATE OF NEW MEXICO