

**CASE 13380: 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 N/2 of Section 33, Township 22 South, Range 27 East, 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 will be dedicated to the Otis 33 Well No. 2, to be re-entered at a previously approved unorthodox gas well location in the NE/4 NW/4 (Unit C) of Section 33. Also to be considered will be the cost of re-entering 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 re-entering and completing the well. The units are located approximately 1½ miles west of Otis, New Mexico.

**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, and in the following manner: The S/2 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 SE/4 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 NE/4 SE/4 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 NE/4 SE/4 (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.

**CASE 13376: Continued and Readvertised**

***Application of COG Operating LLC for compulsory pooling and an unorthodox surface gas well location, Lea County, New Mexico.*** Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 33, Township 19 South, Range 33 East, 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 Gem-Morrow Gas Pool. The unit is to be dedicated to the proposed Jade Viper 33 Fed. Com. Well No. 1, to be drilled from an unorthodox surface gas well location 495 feet from the north line and 1650 feet from the east line of Section 33, to an orthodox bottomhole location in the NW/4 NE/4 (Unit B) 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 applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 16 miles southwest of Buckeye, New Mexico.

**CASE 13362: Continued from November 4, 2004, Examiner Hearing**

***Application of the New Mexico Oil Conservation Division for a Compliance Order.*** The Applicant seeks an order requiring operator KC Resources Inc. to remediate contamination at a tank battery site in compliance with 19.15.3.116.D NMAC and bring three inactive wells into compliance with 19.15.4.201 NMAC; authorizing the Division to plug said wells and ordering a forfeiture of the applicable plugging bond if the operator fails to comply; and assessing civil penalties. The tank battery is located at the site of the Lea YH State #003, API #30-025-26562, J-25-18S-34E, NMPM. The inactive wells are the Lea YH State #001, API #30-025-26104, O-25-18S-34E, NMPM; the Lea YH State #002, API #30-025-26299, P-25-18S-34E, NMPM; and the Lea YH State #004, API #30-025-26687, I-25-18S-34E, NMPM. The tank battery and wells are located approximately 22 miles west of Hobbs in Lea County, New Mexico.

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213  
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)  
(505) 660-6612 (Cell)  
(505) 982-2151 (Fax)

jamesbruc@aol.com

2004 NOV 23 PM 5 32

November 23, 2004

Hand Delivered

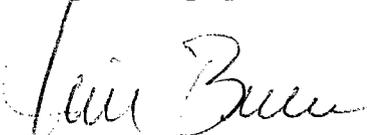
Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and one copy of an amended application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the December 16, 2004 Examiner hearing. Thank you.

The advertisement has also been e-mailed to Sally.

Very truly yours,



James Bruce

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

2004 NOV 23 PM 5 32

Case No. 13,380

AMENDED 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 N½ 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 N½ of Section 33, and has the right to drill or-renter a well thereon.

2. Applicant proposes to re-enter the Otis 33 Well No. 2, located at a previously approved unorthodox well location in the NE¼NW¼ of Section 33, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N½ 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 N½ 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 re-entering of the well or to otherwise commit their interests to

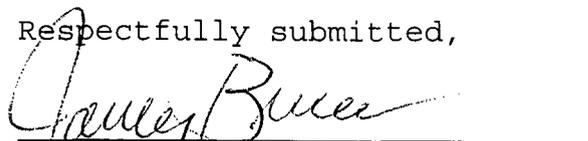
the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 33, pursuant to NMSA 1978 §70-2-17.

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 re-entering 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 re-entering 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.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

Case No. 13,380

AMENDED 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 N½ 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 N½ of Section 33, and has the right to drill or-renter a well thereon.

2. Applicant proposes to re-enter the Otis 33 Well No. 2, located at a previously approved unorthodox well location in the NE¼NW¼ of Section 33, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N½ 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 N½ 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 re-entering of the well or to otherwise commit their interests to

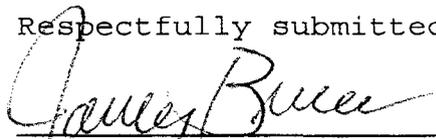
the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 33, pursuant to NMSA 1978 §70-2-17.

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 re-entering 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 re-entering 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 (continued and re-advertised): 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 N $\frac{1}{2}$  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 will be dedicated to the Otis 33 Well No. 2, to be re-entered at a previously approved unorthodox gas well location in the NE $\frac{1}{4}$ NW $\frac{1}{4}$  (Unit C) of Section 33. Also to be considered will be the cost of re-entering 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 re-entering and completing the well. The units are located approximately 1 $\frac{1}{2}$  miles west of Otis, New Mexico.