

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

APPLICATION OF CHI OPERATING INCORPORATED FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 13814

AFFIDAVIT

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

Ocean Munds-Dry, attorney in fact and authorized representative of Chi Operating, Incorporated, 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

[Signature]

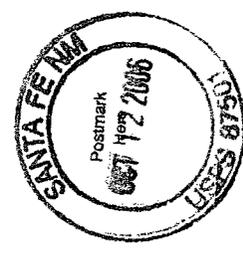
Notary Public

My Commission Expires:

January 14, 2007

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

OFFICIAL USE



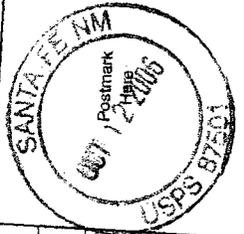
WFO	Postage	\$ 1.87
Chi	Certified Fee	2.40
we	Return Receipt Fee (Endorsement Required)	1.85
	Restricted Delivery Fee (Endorsement Required)	
	Total Postage & Fees	\$ 5.12

Sent To
 Jerry Cox
 1603 Riverside Drive
 Carlsbad, NM 88220
 City, State, ZIP+4

PS Form 3800

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

OFFICIAL USE



WFO	Postage	\$ 1.87
Chi	Certified Fee	2.40
we	Return Receipt Fee (Endorsement Required)	1.85
	Restricted Delivery Fee (Endorsement Required)	
	Total Postage & Fees	\$ 5.12

Sent To
 Virginia Franks & Holly Lawson
 1011 Eddy
 Carlsbad, NM 88220
 City, State, ZIP+4

PS Form 3800

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:
 Jerry Cox
 1603 Riverside Drive
 Carlsbad, NM 88220

2. Article Number (Copy)
 7001 1140 0002 9558 7370

PS Form 3811, July 1999 Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery
 Jerry Franks July 12 2006

C. Signature
 [Signature]

D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

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

4. Restricted Delivery? (Extra Fee) Yes

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:
 Virginia Franks & Holly Lawson
 1011 Eddy
 Carlsbad, NM 88220

2. Article Number (C)
 7001 1140 0002 9558 7356

PS Form 3811, July 1999 Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

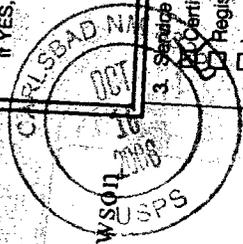
A. Received by (Please Print Clearly) B. Date of Delivery
 Virginia Franks July 12 2006

C. Signature
 [Signature]

D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

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

4. Restricted Delivery? (Extra Fee) Yes

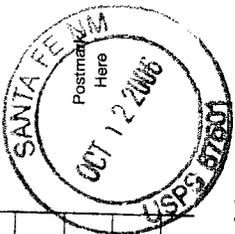


U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only - No Insurance Coverage Provided)

7002 1140 0002 9558 7363

OFFICIAL USE

Wife Ch. 11411 we	Postage \$ 1.87
	Certified Fee 2.40
	Return Receipt Fee (Endorsement Required) 1.85
	Restricted Delivery Fee (Endorsement Required)
	Total Postage & Fees \$ 5.12



Sent To
 Shirley K. Washburn
 Street, Apt. No. or PO Box No. 4410 Harmon Lane
 City, State, ZIP+4 Carlsbad, NM 88220

PS Form 3800

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:

Shirley K. Washburn
 4410 Harmon Lane
 Carlsbad, NM 88220

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) Shirley K. Washburn
 B. Date of Delivery 12/19

C. Signature Shirley K. Washburn
 Agent Addressee

D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

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

4. Restricted Delivery? (Extra Fee) Yes No

2. Article Number (Qty) 7002 1140 0002 9558 7363

PS Form 3811, July 1998 Domestic Return Receipt

102595-00-M-0962

EXHIBIT A

**APPLICATION OF CHI OPERATING, INC.
FOR COMPULSORY POOLING
SECTION 4, TOWNSHIP 22 SOUTH, RANGE 26 EAST, N.M.P.M.
EDDY COUNTY, NEW MEXICO.**

Virginia Franks & Holly Lawson
1011 Eddy
Carlsbad, New Mexico 88220

Shirley K. Washburn
4410 Harmon Lane
Carlsbad, New Mexico 88220

Jerry Cox
1603 Riverside Drive
Carlsbad, New Mexico 88220



October 10, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

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

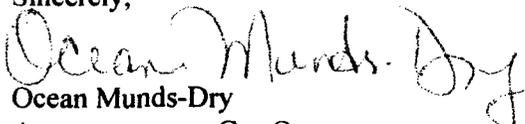
Ladies and Gentlemen:

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 E/2 of Section 4, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico. Said units will be dedicated to its WC "4" Well No. 4 which it proposes to drill at a surface location 1100 feet from the North line and 990 feet from the East line and a bottomhole location 1060 feet from the North line and 660 feet from the East line of Section 4 to test all formations from the surface to the base of the Morrow 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, EDDY 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 E/2 of Section 4, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico: the E/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Happy Valley-Morrow Gas Pool and the Happy Valley Atoka Gas Pool; the NE/4 for all formations and/or pools developed on 160-acre spacing within this vertical extent; and the NE/4 NE/4 for all formations and/or pools developed on 40-acre spacing which includes but is not necessarily limited to the Undesignated West Carlsbad-Delaware Pool and in support of its application states:

1. Chi is a working interest owner in the E/2 of said Section 4 and has the right to drill thereon.
2. Chi proposes to dedicate the above-referenced spacing or proration unit to its WC "4" Well No. 4 to be drilled as a directional well at an unorthodox surface location 1100 feet from the North line and 990 feet from the East line and a bottomhole location of 1060 feet from the North line and 660 feet from the East line (Unit A) of said Section 4, NMPM, Eddy County, New Mexico, to an approximate depth of 11,500 feet to test any and all formations from the surface to the base of the Morrow 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.

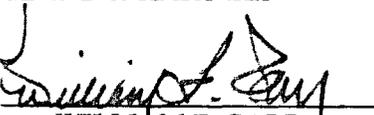
5. In order to permit Chi to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Chi should be designated the operator of the well to be drilled.

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, Eddy 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 E/2 of Section 4, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico: the E/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Happy Valley-Morrow Gas Pool and the Happy Valley-Atoka Gas Pool; the NE/4 for all formation and/or pools developed on 160-acre spacing within this vertical extent; and the NE/4 NE/4 for all formation and/or pools developed on 40-acre spacing which includes but is not necessarily limited to the Undesignated West Carlsbad-Delaware Pool. Said unit is to be dedicated to its WC "4" Well No. 4 to be horizontally drilled from a non-standard surface location 1100 feet from the North line and 990 feet from the East line (Unit A) and a bottomhole location 1060 feet from the North line and 660 feet from the East line of said Section 4 to an approximate depth 11,500 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 1 mile west of Carlsbad, New Mexico.

LEGAL NOTICE

be provided in various accessible forms. Please contact Florana Davidson if a summary or other type of accessible form is needed.

STATE OF NEW MEXICO TO:

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 so stated.)

CASE 13814:
Application of Citi Operating, Inc. for compulsory pooling, Eddy 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 E/2 of Section 4, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico: the E/2 for 4 formations and/or pools developed on 320-acre spacing, which is not necessarily limited to the Happy Valley-Morrow Gas Pool and the Happy Valley-Atoka Gas Pool; the NE/4 for 4 formations and/or pools developed on 160-acre spacing within this vertical extent and the NE/4 NE/4 for 4 formations and/or pools developed on 40-acre spacing, which includes but is not necessarily limited to the Undesignated West-Carlsbad-Delaware Pool. Said unit is to be dedicated to its WC 4 West No. 4 to be horizontally drilled from a non-stacked surface location 1100 feet from the North line and 990 feet from the East line (Unit A) and a horizontal location 1060 feet from the North line and 880 feet from the East line of said Section 4 to an approximate depth 11,500 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 Citi Operating, Inc. as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 1 mile west of Carlsbad, New Mexico. Given under the Seal of the State of New Mexico: Oil Conservation Commission at Santa Fe, New Mexico on this 12th day of October 2006.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION
Mark E. Feemire, P.E., Director
Published in the Artesia Daily Press, Artesia.

Affidavit of Publication

NO. 19456

STATE OF NEW MEXICO

County of Eddy:

Gary D. Scott being duly

sworn, says: That he is the Publisher of The

Artesia Daily Press, a daily newspaper of general

circulation, published in English at Artesia, said county

and county and state, and that the here to attached

Legal Notice

was published in a regular and entire issue of the said

Artesia Daily Press, a daily newspaper duly qualified

for that purpose within the meaning of Chapter 167 of

the 1937 Session Laws of the state of New Mexico for

1 Consecutiv week/days on the same

day as follows:

First Publication October 15 2006

Second Publication _____

Third Publication _____

Fourth Publication _____

Copy of Pu

NOTICE OF PUBLICATION
STATE OF NEW MEXICO
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 9, 2006, in the

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION
Mark E. Feemire, P.E., Director
Published in the Artesia Daily Press, Artesia.