

**Ocean Munds-Dry
Associate**
omundsdry@hollandhart.com

October 10, 2006

HAND-DELIVERED

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13814

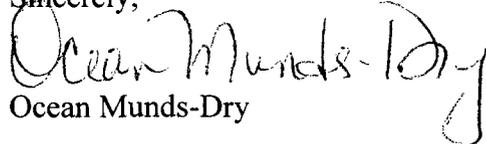
2006 OCT 10 PM 2 42

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

Dear Mr. Fesmire:

Enclosed is the Application of Chi Operating, Inc. in the above-referenced case as well as a copy of a legal advertisement. Chi requests that this application be placed on the docket for the November 9, 2006 Examiner hearings.

Sincerely,


Ocean Munds-Dry

Enclosures

cc: John Qualls (w/enclosures)

**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. 13814

2006 OCT 10 PM 2:42

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.

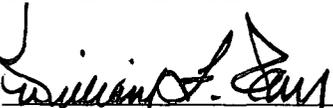
5. In order to permit Chi to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Chi should be designated the operator of the well to be drilled.

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.

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

CASE 13814:

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.

October 10, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AFFECTED INTEREST OWNERS

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

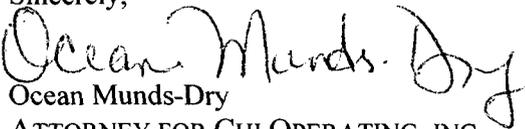
Ladies and Gentlemen:

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.