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2004 OCT 26 PM 4 04

October 26, 2004

*Case 13378*

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 application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the November 18, 2004 Examiner hearing. Thank you.

The advertisement has also been e-mailed to Sally.

Very truly yours,

  
James Bruce

PARTIES BEING POOLED

Bird Creek Resources, Inc.  
P.O. Box 21470  
Tulsa, Oklahoma 74121

BK Exploration Corp.  
Suite 208  
810 South Cincinnati  
Tulsa, Oklahoma 74119

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

2009 OCT 26 PM 4 05

Case No. 13378

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 28, 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 28, and has the right to drill a well thereon.

2. Applicant proposes to drill its Skeen Well No. 2, at an orthodox location in the SE¼SE¼ (Unit P) of Section 28, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The SE¼SE¼ of Section 28 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 Wye-Delaware Pool;

(b) The SE¼ of Section 28 to form a standard 160 acre oil or gas spacing and proration unit for any and all formations and/or pools developed on 160 acre spacing within that vertical extent, including the Undesignated North Cass Draw-Wolfcamp Pool; and

(c) The S½ of Section 28 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 East Carlsbad-Wolfcamp Gas Pool, 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 S½ of Section 28 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 28, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 28, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

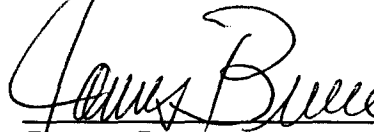
**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in the S½ of Section 28 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.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", is written over 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 13378: 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 28, 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 East Carlsbad-Wolfcamp Gas Pool, South Carlsbad-Strawn Gas Pool, Undesignated Otis-Atoka Gas Pool, and South Carlsbad-Morrow Gas Pool; the SE¼ to form a standard 160-acre oil or gas spacing and proration unit for any and all formations developed on 160-acre spacing within that vertical extent, including the Undesignated North Cass Draw-Wolfcamp Pool; and the SE¼SE¼ to form a standard 80-acre oil spacing and proration unit for any and all formations developed on 40-acre spacing within that vertical extent, including the Undesignated Wye-Delaware Pool. The units are to be dedicated to the proposed Skeen Well No. 2, to be drilled at an orthodox location in the SE¼SE¼ (Unit P) of Section 28. 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 northwest of Otis, New Mexico.

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