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2005 MAY 24 PM 3 06

May 24, 2005

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

Case 13507

Dear Florene:

Enclosed for filing, on behalf of Chi Energy, Inc., are an original and one copy of an application for compulsory pooling, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the June 16, 2005 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

PERSONS BEING POOLED

Devon Energy Production Company, L.P.
P.O. Box 108838
Oklahoma City, Oklahoma 73101

Ray Westall
P.O. Box 4
Loco Hills, New Mexico 88255

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

2005 MAY 24 PM 3 06

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

Case No. 13507

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 26, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is an interest owner in the S½ of Section 26, and has the right to drill a well thereon.
2. Applicant proposes to drill its Henry Grandi Well No. 1, at an orthodox well location in the NE¼SE¼ of Section 26, to a depth sufficient to test the Morrow formation, and seeks to dedicate the S½ of Section 26 to the well to form a standard 320 acre gas and spacing and proration unit for any formations and/or pools developed on 320 acre spacing within that vertical extent, including the Undesignated Cass Draw-Wolfcamp Gas Pool, Carlsbad-Strawn Gas Pool, Undesignated Otis-Atoka Gas Pool, and Otis-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 26 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 26, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 26 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 26, 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 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 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.

Case No. 13507: 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 S/2 of Section 26, Township 22 South, Range 27 East, NMPM, to form a standard 320-acre gas spacing and proration unit for any and all formations or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Cass Draw-Wolfcamp Gas Pool, Carlsbad-Strawn Gas Pool, Undesignated Otis-Atoka Gas Pool, and Otis-Morrow Gas Pool. The unit is to be dedicated to the Henry Grandi Well No. 1, to be drilled at an orthodox gas well location in the NE/4SE/4 of Section 26. 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 unit is located approximately 1 mile northeast of Otis, New Mexico.

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