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Case 15232

October 21, 2014

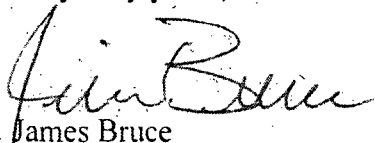
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Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing, on behalf of Chi Energy, Inc., is an application for compulsory pooling, etc., together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the November 20, 2014 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

Parties Being Notified

Yates Petroleum Corporation
Yates Industries, LLC
Sharbro Energy, LLC
Abo Petroleum Corporation
Myco Industries, Inc.
105 South Fourth Street
Artesia, New Mexico 88210

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF CHI ENERGY, INC. FOR
A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.**

Case No. 15232

APPLICATION

Chi Energy, Inc. applies for an order (i) approving a 160 acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the E $\frac{1}{2}$ E $\frac{1}{2}$ of Section 25, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the E $\frac{1}{2}$ E $\frac{1}{2}$ of Section 25, and has the right to drill a well thereon.
2. Applicant proposes to drill its Peacekeeper 25 State Com. Well No. 6H, to a depth sufficient to test the Bone Spring formation, and seeks to dedicate the E $\frac{1}{2}$ E $\frac{1}{2}$ of Section 25 to the well to form a non-standard 160 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent. The well is a horizontal well, with a surface location in the SE $\frac{1}{4}$ SE $\frac{1}{4}$, and a terminus in the NE $\frac{1}{4}$ NE $\frac{1}{4}$, of Section 25.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the E $\frac{1}{2}$ E $\frac{1}{2}$ of Section 25 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.

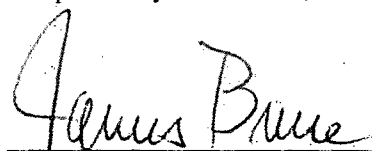
Therefore, applicant seeks an order pooling all mineral interest owners in the E½E½ of Section 25, pursuant to NMSA 1978 §§70-2-17, 18.

5. The approval of the non-standard unit and the pooling of all mineral interests underlying the E½E½ of Section 25 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. Approving a non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the E½E½ of Section 25;
- B. Pooling all mineral interests in the Bone Spring formation underlying the E½E½ of Section 25;
- C. Designating Chi Operating, Inc. as operator of the well;
- D. Considering the cost of drilling and completing the well, and allocating the cost among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. 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,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case No. 15232 :

Application of Chi Energy, Inc. for a non-standard oil spacing and proration unit and compulsory pooling, Eddy County, New Mexico. Chi Energy, Inc. seeks an order approving a 160-acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the E/2E/2 of Section 25, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks the pooling of all mineral interests in the Bone Spring formation underlying the non-standard unit (project area) for any pools or formations developed on 40 acre spacing within that vertical extent. The unit is to be dedicated to the Peacekeeper 25 State Com. Well No. 6H, a horizontal well with a surface location in the SE/4SE/4, and a terminus in the NE/4NE/4, of Section 25. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, 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 19-1/2 mile east of Lakewood, New Mexico.

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