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September 15, 1998

12053


**Hand Delivered**

Florene Davidson  
Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and two copies of an application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the October 8, 1998 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

OIL CONSERVATION DIV.  
98 SEP 15 PM 2:04

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

No. 12053

OIL CONSERVATION DIV.  
98 SEP 15 PM 2:04

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S $\frac{1}{2}$  of Section 3, Township 17 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 S $\frac{1}{2}$  of said Section 3, and has the right to drill a well thereon.

2. Applicant proposes to drill its Little Hammer Fed. Com. Well No. 1, at an orthodox location 860 feet from the South line and 2100 feet from the West line of Section 3, to a depth sufficient to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The S $\frac{1}{2}$  of Section 3 for all pools or formations spaced on 320 acres, including the Crow Flats-Morrow Gas Pool;

(b) The SW $\frac{1}{4}$  of Section 3 for all pools or formations spaced on 160 acres; and

(c) The SE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 3 for all pools or formations spaced on 40 acres.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S $\frac{1}{2}$  of Section 3 for the purposes set forth herein.

4. Although applicant attempted to obtain voluntary

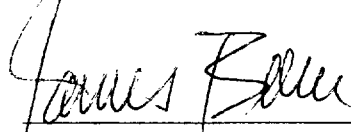
agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the S½ of Section 3, pursuant to N.M. Stat. Ann. § 70-2-17 (1995 Repl. Pamp.).

5. The pooling of all mineral interests underlying the S½ of Section 3, 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 3, from the surface to the base of the Morrow formation;
- B. Designating applicant 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 said rates per the COPAS accounting procedure; and
- E. Setting a penalty 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 12053 : 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 3, Township 17 South, Range 27 East, NMPM, and in the following manner: The S $\frac{1}{2}$  of Section 3 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within said vertical extent, including the Undesignated Crow Flats-Morrow Gas Pool; the SW $\frac{1}{4}$  of Section 3 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within said vertical extent; and the SE $\frac{1}{4}$ SW $\frac{1}{4}$  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 said vertical extent. Said units are to be dedicated to the applicant's Little Hammer Fed. Com. Well No. 1, to be drilled at an orthodox gas well location 860 feet from the South line and 2105 feet from the West line of said Section 3. 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 applicant as operator of the well, and a charge for the risk involved in drilling and the well. Said units are located approximately 8 miles East-Northeast of Artesia, New Mexico.

OIL CONSERVATION DIV.  
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