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November 26, 2002

*Case 12980*

**Hand Delivered**

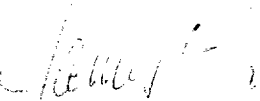
Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

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 December 19, 2002 Examiner hearing. Thank you.

The application and advertisement are also on the enclosed disk.

Very truly yours,

  
James Bruce

Attorney for Chi Energy, Inc.

PARTIES BEING POOLED

Exxon Mobil Corporation  
Mobil Producing Texas & New Mexico Inc.  
P.O. Box 4697  
Houston, Texas 77210-4697

Attention: Paul Keffer

Nearburg Exploration Company, L.L.C.  
Suite 120  
3300 North A Street  
Midland, Texas 79705

Attention: Duke Roush

Burlington Resources Oil & Gas Company LP  
P.O. Box 51810  
Midland, Texas 79710

Fina Oil and Chemical Company  
c/o Total Fina Elf E&P, USA, Inc.  
Suite 700  
800 Gessner  
Houston, Texas 77024

Chambers & Kennedy  
c/o Duncan Kennedy  
Suite 1225  
550 West Texas  
Midland, Texas 79701

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

No. 12980

APPLICATION

Chi Energy, Inc. applies for an order pooling all leasehold record title owners from the base of the Wolfcamp formation to the base of the Morrow formation underlying the S $\frac{1}{2}$  of Section 32, Township 18 South, Range 31 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 Section 32, and has the right to drill a well thereon.

2. Applicant proposes to drill its KC Strip State Com. Well No. 1, at an orthodox gas well location, to a depth sufficient to test the Morrow formation, and seeks to dedicate the S $\frac{1}{2}$  of Section 32 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 Undesignated North Shugart-Atoka Gas Pool and Undesignated Shugart-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other interest owners in the S $\frac{1}{2}$  of Section 32 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 32, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 32 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 leasehold record title owners in the S½ of Section 32 from the base of the Wolfcamp formation to the base of the Morrow formation;

B. Designating Chi Operating, Inc. as operator of the well; and

C. Granting such further relief as the Division deems proper.

**Applicant requests expedited approval of this application in order to obtain State Land Office approval of a communitization agreement which includes an expiring lease.**

Respectfully submitted,



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

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 12980: Application of Chi Energy, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the S½ of Section 32, Township 18 South, Range 31 East, NMPM, 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 Undesignated North Shugart-Atoka Gas Pool and Undesignated Shugart-Morrow Gas Pool. The unit is to be dedicated to applicant's KC Strip State Com. Well No. 1, to be located at an orthodox gas well location in the S½ of Section 32. Also to be considered will be the designation of Chi Operating, Inc. as operator of the well. The unit is located approximately 9½ miles southeast of Loco Hills, New Mexico.