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April 29, 2003

Hand Delivered

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

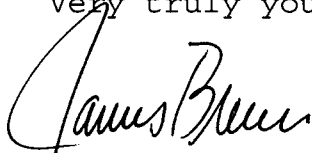
Case 13078

Dear Florene:

Enclosed are an original and one copy of two applications for compulsory pooling, together with proposed advertisements, filed on behalf of Chi Energy, Inc. Please set these matters for the May 22, 2003 Examiner hearing. Thank you.

The advertisements are also on the enclosed disk.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

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Oil Conservation Division

PARTIES BEING POOLED

Magnum Hunter Production, Inc.
Suite 200
3500 William D. Tate Avenue
Grapevine, Texas 76051

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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Oil Conservation Division

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

No. 13078

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the base of the Queen formation to the base of the Morrow formation underlying the N $\frac{1}{2}$ 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 N $\frac{1}{2}$ of Section 32, and has the right to drill a well thereon.

2. Applicant has proposed its Porter House "32" State Com. Well No. 1, at an orthodox location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of the section, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The NE $\frac{1}{4}$ of Section 32 to form a standard 160 acre gas spacing and proration unit for any and all formations and/or pools developed on 160 acre spacing within that vertical extent; and

(b) The N $\frac{1}{2}$ 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 North Shugart-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N $\frac{1}{2}$ 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 N½ of Section 32, pursuant to NMSA 1978 §70-2-17.

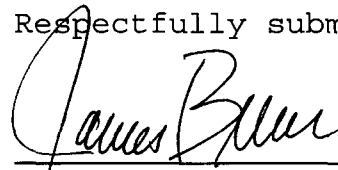
5. The pooling of all mineral interests underlying the N½ of Section 32, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

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

- A. Pooling all mineral interests in the N½ of Section 32 from the base of the Queen formation 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;
- 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; and

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", 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 13078: 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 Queen formation to the base of the Morrow formation underlying the following described acreage in Section 32, Township 18 South, Range 31 East, NMPM, and in the following manner: The N $\frac{1}{2}$ 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 North Shugart-Morrow Gas Pool; and the NE $\frac{1}{4}$ to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent. The units are to be dedicated to applicant's Porter House 32 State Com. Well No. 1, located at an orthodox location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 32. 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 charge for the risk involved in drilling and completing the well. The units are located approximately 9 miles southeast of Loco Hills, New Mexico.

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