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APR 29 2003

Oil Conservation Division

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

Case No. 13079

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interest owners from the base of the Wolfcamp formation to the base of the Morrow formation underlying the E $\frac{1}{2}$ of Section 16, Township 18 South, Range 32 East, N.M.P.M., Lea County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the E $\frac{1}{2}$ of Section 16, and has the right to drill a well thereon.

2. Applicant proposes to drill its Raven State Com. Well No. 1, at an orthodox gas well location in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section, to a depth sufficient to test the Morrow formation, and seeks to dedicate the E $\frac{1}{2}$ of Section 16 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 Lusk-Morrow Gas Pool and Undesignated Young-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other interest owners in the E $\frac{1}{2}$ of Section 16 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

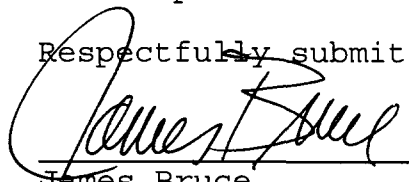
pooling all mineral interest owners in the E½ of Section 16, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the E½ of Section 16 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 interest owners in the E½ of Section 16 from the base of the Wolfcamp 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. Shortening the order's election period.

Respectfully submitted,



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Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 13079: Application of Chi Energy, Inc. for compulsory pooling, Lea 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 E½ of Section 16, Township 18 South, Range 32 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 Lusk-Morrow Gas Pool and Undesignated Young-Morrow Gas Pool. The unit is to be dedicated to applicant's Raven 16 State Com. Well No. 1, to be located at an orthodox well location in the NW¼SE¼ of Section 16. 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 unit is located approximately 7½ miles south of Maljamar, New Mexico.

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