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July 1, 2003

Via Hand Delivery

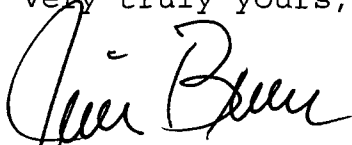
Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

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 July 24, 2003 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,



James Bruce

Attorney for Chi Energy, Inc.

**RECEIVED**

JUL 1 2003

Oil Conservation Division

*Case 13118*

PARTIES BEING POOLED

Steve Murray  
c/o Dan Zeidman  
260 East Chase Avenue  
El Cajon, California 92020

Steve Murray  
1434 Monument Hill Road  
El Cajon, California 92020

Mike Murray  
1434 Monument Hill Road  
El Cajon, California 92020

Cheryl Rae Wilson  
20939 East County Road 157  
Altus, Oklahoma 73521

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JUL 1 2003

Oil Conservation Division

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

Case No. 13118

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E½ of Section 31, Township 22 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 E½ of Section 31, and has the right to drill a well thereon.

2. Applicant has proposed its Allen Com. Well No. 2, at an orthodox location in the SE¼NE¼ of the section, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The NE¼ of Section 31 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 E½ of Section 31 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 South Carlsbad-Strawn and Gas Pool South Carlsbad-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the E½ of Section 31 for the purposes set forth herein.

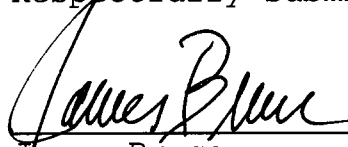
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the E½ of Section 31, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the E½ of Section 31, 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 E½ of Section 31 from the surface 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", 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.