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September 16, 2003

Hand Delivered

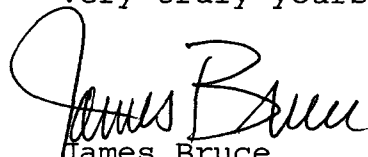
Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 October 9, 2003 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,


James Bruce

Attorney for Chi Energy, Inc.

RECEIVED

SEP 16 2003

Oil Conservation Division

Case 13156

PARTIES BEING POOLED

Chisos, Ltd.
Suite 1200
1221 Lamar Street
Houston, Texas 77010

Attention: Greg Bonaguerio

Pure Energy Group, Inc.
Suite 220
153 Treeline Park
San Antonio, Texas 78209-1880

Attention: Larry Cochran

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

Case No. 13156

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Oil Conservation Division

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interest owners from the surface to the base of the Morrow formation underlying the S $\frac{1}{2}$ of Section 30, 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 S $\frac{1}{2}$ of Section 30, and has the right to drill a well thereon.

2. Applicant proposes to drill its Spencer A Well No. 2, at an orthodox well location in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 30, to a depth sufficient to test the Morrow formation (approximately 12,000 feet subsurface), and seeks to dedicate the S $\frac{1}{2}$ of Section 30 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-Morrow Gas Pool and South Carlsbad-Strawn 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 30 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

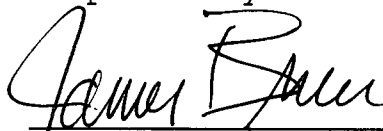
dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the S½ of Section 30, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the S½ of Section 30 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 S½ of Section 30 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; and
- E. Setting a charge 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,



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

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 13156: 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 S½ of Section 30, Township 22 South, Range 27 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 South Carlsbad-Morrow Gas Pool and South Carlsbad-Strawn Gas Pool. The unit is to be dedicated to applicant's Spencer A Well No. 2, to be located at an orthodox well location in the NW¼SW¼ of Section 30. 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 4 miles south of Carlsbad, New Mexico.

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