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RECEIVED

MAR 31 2003

Oil Conservation Division

March 31, 2003

Hand Delivered

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

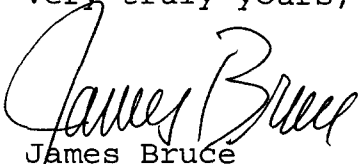
Case 13059

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 April 24, 2003 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

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

Attention: Duke Roush

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MAR 31 2003

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

Oil Conservation Division

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

Case No. 13059

APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interest owners from the top of the Wolfcamp formation to the base of the Morrow formation underlying the N½ 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 N½ of Section 32, and has the right to drill a well thereon.

2. Applicant proposes to drill its Porter House State Com. Well No. 1, at an orthodox gas well location in the NE¼NE¼ of the section, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N½ 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 N½ 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

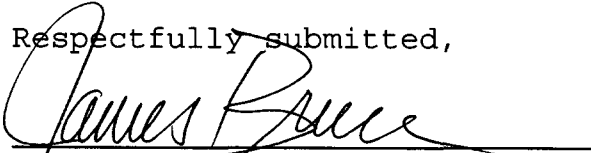
pooling all mineral interest owners in the N½ of Section 32, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the N½ of Section 32 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 N½ of Section 32 from the top 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,


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

Attorney for Chi Energy, Inc.