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**RECEIVED**

June 1, 2004

JUN - 1 2004

Hand Delivered

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

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

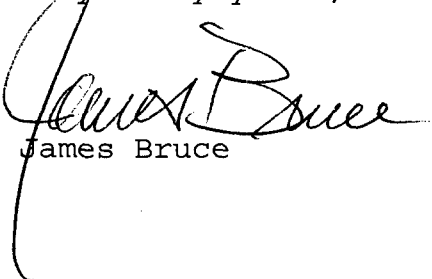
*Case 13282*

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 June 24, 2004 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,



James Bruce

PARTIES BEING POOLED

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

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

Oil Conservation Division  
1227 S. St. Francis Drive  
Santa Fe, NM 87505

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

Case No. 13282

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 N½ of Section 25, Township 19 South, Range 29 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 25, and has the right to drill a well thereon.

2. Applicant proposes to drill its Peackeeper State Com. Well No. 1, at an orthodox well location in the NE¼NE¼ of Section 25, to a depth sufficient to test the Morrow formation, and seeks to dedicate the N½ of Section 25 to the well 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 Turkey Track-Atoka Gas Pool and Undesignated Turkey Track-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N½ of Section 25 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

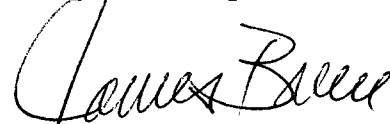
dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the N½ of Section 25, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the N½ of Section 25 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 25 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 200% 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,



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

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 13282: 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 N½ of Section 25, Township 19 South, Range 29 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 Turkey Track-Atoka Gas Pool and Undesignated Turkey Track-Morrow Gas Pool. The unit is to be dedicated to applicant's Peacekeeper State Com. Well No. 1, to be located at an orthodox well location in the NE¼NE¼ of Section 25. 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 200% charge for the risk involved in drilling and completing the well. The unit is located approximately 13 miles south-southwest of Loco Hills, New Mexico.

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