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December 16, 2003

Hand Delivered

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


Re: Case 13193

Dear Florene:

Enclosed are an original and one copy of an amended application for compulsory pooling, together with a proposed advertisement, filed on behalf of Chi Energy, Inc. Please set this matter for the January 8, 2004 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce".

James Bruce

Attorney for Chi Energy, Inc.

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DEC 16 2003

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

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

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

Case No. 13193

AMENDED APPLICATION

Chi Energy, Inc. applies for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S½ of Section 3, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the S½ of Section 3, and has the right to drill a well thereon.

2. Applicant proposes to drill its West Carlsbad 3 Well No. 2, at an orthodox location in the SW¼SW¼ of Section 3, to test the Morrow formation, and seeks to dedicate the following acreage to the well:

(a) The SW¼SW¼ of Section 3 to form a standard 40 acre oil spacing and proration unit for any and all formations and/or pools developed on 40 acre spacing within that vertical extent;

(b) The SW¼ of Section 3 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

(c) The S½ of Section 3 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 Happy Valley-Strawn Gas

Pool, Undesignated Happy Valley-Atoka Gas Pool, and Undesignated Happy Valley-Morrow Gas Pool.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S½ of Section 3 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 3, pursuant to NMSA 1978 §70-2-17.

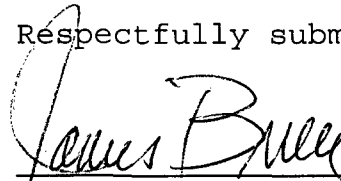
5. The pooling of all mineral interests underlying the S½ of Section 3, as set forth above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, Applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in the S½ of Section 3 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 of cost plus 200% 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,

A handwritten signature in cursive script, appearing to read "James Bruce", written over a horizontal line.

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

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case 13193: 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 following described acreage in Section 3, Township 22 South, Range 26 East, NMPM, and in the following manner: The S½ 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 Happy Valley-Strawn Gas Pool, Undesignated Happy Valley-Atoka Gas Pool, and Undesignated Happy Valley-Morrow Gas Pool; the SW¼ 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 the SW¼SW¼ to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent. The units are to be dedicated to applicant's West Carlsbad 3 Well No. 2, to be located at an orthodox location in the SW¼SW¼ of Section 3. 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 cost plus 200% charge for the risk involved in drilling and completing the well. The units are located approximately 3 miles west of Carlsbad, New Mexico.

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