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June 28, 2016

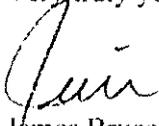
Case 15521

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

Dear Florene:

Enclosed for filing, on behalf of Chi Operating, Inc., is an application for compulsory pooling, together with a proposed advertisement. Please set this matter for the August 4, 2016 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Chi Operating, Inc.

Parties Being Notified

Florence M. Dooley
address unknown

EOG Resources, Inc.
P.O. Box 2267
Midland, Texas 79702

The Roger T. and Holly L. Elliott
Family Limited Partnership
3907 Crestgate
Midland, Texas 79707

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

2016 JUN 28 A 10: 38

Case No. 15521

APPLICATION

Chi Operating, Inc. applies for an order pooling all mineral interests from the surface to 5000 feet subsurface underlying the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 13, Township 18 South, Range 30 East, N.M.P.M., Eddy County, New Mexico, and in support thereof, states:

1. Applicant is an operator in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 13, and has the right to drill or recomplete a well thereon.

2. Applicant has drilled its Shugart West 13 Fed. Well No. 1, at an orthodox location, and it initially tested the Bone Spring formation. Applicant now seeks to dedicate the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 13 to the well to form a standard 40 acre oil spacing and proration unit for any formations and/or pools developed on 40 acre spacing as to depths from the surface 5000 feet subsurface.

3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 13 for the purposes set forth herein.

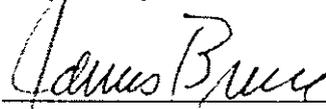
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 13, from the surface to 5000 feet subsurface, pursuant to NMSA 1978 §70-2-17.

5. The pooling of all mineral interests underlying the SW¼SE¼ of Section 13, from the surface to 5000 feet subsurface, 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 SW¼SE¼ of Section 13 from the surface to 5000 feet subsurface;
- B. Designating applicant as operator of the well.
- C. Considering the cost of drilling and completing, or recompleting, 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, or recompleting, 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 Operating, Inc.

PROPOSED ADVERTISEMENT

Case No. 15521:

Application of Chi Operating, Inc. for compulsory pooling, Eddy County, New Mexico. Chi Operating, Inc. seeks an order pooling all mineral interests from the surface to 5000 feet subsurface underlying the SW/4SE/4 of Section 13, Township 18 South, Range 30 East, NMPM, to form a standard 40 acre oil spacing and proration unit for all pools or formations developed on 40 acre spacing within that vertical extent. The unit is dedicated to the Shugart West 13 Fed. Well No. 1, located at an orthodox location in the SW/4SE/4 of Section 13. Also to be considered will be the cost of drilling and completing, or recompleting, the well and the allocation of the cost thereof, actual operating costs and charges for supervision, designation of applicant as operator of the well, and setting a 200% charge for the risk involved in drilling and completing, or recompleting, the well. The unit is located approximately 6 miles south-southeast of Loco Hills, New Mexico.

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