

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
PAUL R. OWEN
KATHERINE M. MOSS
JACK M. CAMPBELL
OF COUNSEL

12157

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: ccbspa@ix.netcom.com

July 14, 1999

via HAND-DELIVERY

Mr. Michael Stogner
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

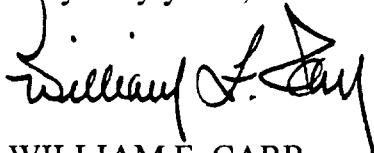
Re: *Oil Conservation Division Case No. 12157 and Case No. 12158*
(consolidated)
Chi Energy, Inc.'s Proposed Order of the Division

Dear Mr. Stogner:

Enclosed herewith is an original of Chi Energy, Inc.'s Proposed Order of the Division for your consideration. A disk containing the Proposed Order is also enclosed.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



WILLIAM F. CARR

cc: W. Thomas Kellahin, Esq. (w/ enclosure)
John Qualls
Joe Hammond

Enclosures

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

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

**APPLICATION OF CHI ENERGY, INC.
FOR AN UNORTHODOX GAS WELL
LOCATION OR IN THE ALTERNATIVE
FOR NON-STANDARD SUBSURFACE
GAS WELL LOCATION/PRODUCING
AREA, LEA COUNTY, NEW MEXICO.**

**CASE NO. 12157
CASE NO. 12158
(CONSOLIDATED)**

ORDER NO. R-_____

**CHI ENERGY, INC.'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on April 15, 1999 and June 10, 1999 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of July, 1998, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
 - (2) In Case No. 12157, the applicant, Chi Energy, Inc. ("Chi"), seeks an order pooling all mineral interests in all formations from the top of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 19, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, including but not necessarily limited to the Undesignated West Lynch-Morrow Gas Pool or the Undesignated Quail Ridge-Morrow Gas Pool, with these pooled units to be dedicated to the Greenstone Federal Com. Well No. 1.
 - (3) In Case No. 12158, the applicant, Chi Energy, Inc. seeks an unorthodox gas well location for its Greenstone Federal Com. Well No. 1 to be drilled in the E/2 of Section 19, Township 20 South, Range 34 East, NMPM, as either a straight hole at a location 480 feet from the South line and 1650 feet from the East line (Unit O) or , in the alternative, directionally drill from this surface location to an unorthodox gas well bottomhole location/producing area to be applicable to either the undesignated West Lynch-Morrow Gas Pool or the Undesignated Quail Ridge-Morrow Gas Pool, no closer than 760 feet to the South line nor more than 1650 feet from the East line (not closer than 990 feet to the western boundary of the dedicated spacing unit).
 - (4) Since the cases involve the same well and spacing or proration unit, the cases were consolidated at the time of hearing.
 - (5) Santa Fe Energy Resources, Inc. appeared at the hearing and presented evidence in opposition to the proposed unorthodox well location. Since that time however, Santa Fe through its attorney, has withdrawn its opposition to this application.
- COMPULSORY POOLING:**
- (6) Applicant is an interest owner within the subject spacing units, and therefore has the right to drill for and develop the minerals underlying these units.
 - (7) At this time, however, Chi represents 99.25% of the working interest in the subject spacing and proration units and the remaining owners of working interest in these units have not agreed to pool their interests.
 - (8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbon production in any pool resulting

from this order, the application of Chi Energy, Inc. in Case 12157 should be approved by pooling all mineral interests, whatever they may be, from the top of the Wolfcamp Formation to the base of the Morrow formation within the E/2 of said Section 20.

(9) Chi Energy, Inc. requested that Louis Dreyfus Natural Gas Corporation, another interest owner in the proposed units, be designated operator of the well and units.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(11) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6000.00 per month while drilling and \$749.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(15) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the owner thereof upon demand and proof of ownership.

(16) If the operator of the pooled units fails to commence drilling the well on or before November 1, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to this order, this order should become null and void, unless extended by the Director for good cause shown.

(17) The operator of the well and units should notify the Director in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of his order.

UNORTHODOX WELL LOCATION:

(18) Chi testified that it would have preferred to drill at a standard location, but that the unorthodox well location is necessary for the well is located in the potash enclave. and must be drilled on a designated drilling island.

(19) Chi presented geological evidence which showed that a well at the proposed location should result in a commercial well for it is upstructure from the producing well in offsetting Section 30 and, because of separation in the Morrow channel, should be in a separate reservoir from offset producing wells.

(20) Chi's engineering evidence established that to directionally drill the well will unnecessarily increase the cost of the well without significantly improving the chance of hitting the channel and encountering commercial reserves.

(21) The application of Chi Energy, Inc. in Case No. 12158 for an unorthodox gas well location for either (a) as a straight hole at an unorthodox location 480 feet from the South line and 1650 feet from the East line of Section 19, or (b) in the alternative, as a directionally drilled well from this unorthodox surface location to an unorthodox bottomhole gas well location no closer than 760 feet to the South line nor farther than 1650 feet from the East line (not closer than 990 feet to the western boundary of the dedicated E/2 spacing unit for the well) of said Section 19, should be approved.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in all formations from the top of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 19, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard spacing and proration unit for any formations and/or pools within this pooled interval developed on 320-acre spacing which includes but is not limited to the Undesignated West Lynch-Morrow Gas Pool or the Undesignated Quail Ridge-Morrow Gas Pool. Said spacing and proration units are to be dedicated to the Greenstone Federal Com. Well No. 1 to be drilled in (Unit O) of said Section 19.

PROVIDED HOWEVER THAT, the operator of said units shall commence the drilling of said well on or before the first day of November, 1999, and shall thereafter continue the drilling of said well with diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of November 1999, Ordering Paragraph No. (1) of this order

shall be of no further effect, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) An unorthodox well location in any formations developed on 320-acre spacing for the Greenstone Federal Com. Well No. 1 is hereby approved for the well drilled (a) as either a straight hole at an unorthodox well location 480 feet from the South line and 1650 feet from the East line (Unit O) of said Section 19 or, (b) in the alternative, as a directionally drilled well from this unorthodox surface location to an unorthodox bottomhole gas well location no closer than 760 feet to the South line nor farther than 1650 feet from the East line of said Section 19. Township 20 South, Range 34 East, NMPM, Lea County, New Mexico

(3) Louis Dreyfus Natural Gas Corporation is hereby designated operator of the subject well and units.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date of receipt of the schedule of estimated well costs, any non-consent working interest owners shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

(a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days after receiving the schedule of estimated well costs; and

(b) as a charge for the risk involved in drilling the well, an additional 200 percent of such costs.

(9) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(10) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$749.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order.

(12) Any well costs or charges that are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interest.

(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Case No. 12157 and 12158 (Consolidated)

Order No. R-_____

Page 7

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

SEAL