

**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:**

**CASE NO. 12959
ORDER NO. R-11866**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 14, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 2nd day of December, 2002, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Chi Energy, Inc., seeks an order pooling all uncommitted mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying Lots 1-4 and the E/2 W/2 [W/2 equivalent] of Section 30, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming a non-standard 301.68-acre gas spacing and proration unit ("the Unit") for all formations or pools spaced on 320 acres within this vertical extent, which presently include the Undesignated North Shugart-Atoka and North Hackberry-Morrow Gas Pools.

The Unit is to be dedicated to the applicant's Big Red Federal Com Well No. 1 located at a standard well location 660 feet from the South line and 1830 feet from the West line (Unit N) of Section 30.

(3) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(4) Chi Energy, Inc. is an owner of an oil and gas working interest within the Unit and has the right to drill and has drilled its Big Red Federal Com Well No. 1 to a depth sufficient to test the North Hackberry-Morrow Gas Pool.

(5) All of the working interest in the Unit has been voluntarily pooled. However, there are owners of overriding royalty interests within the Unit that have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the Unit.

(7) Pursuant to the request of the applicant, Chi Operating, Inc. should be designated the operator of the well and of the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Energy, Inc., all uncommitted overriding royalty interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying Lots 1-4 and the E/2 W/2 [W/2 equivalent] of Section 30, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, are hereby pooled forming a non-standard 301.68-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include the Undesignated North Shugart-Atoka and North Hackberry-Morrow Gas Pools.

The Unit shall be dedicated to the applicant's Big Red Federal Com Well No. 1 located at a standard well location 660 feet from the South line and 1830 feet from the West line (Unit N) of Section 30.

(2) Pursuant to the request of the applicant, Chi Operating, Inc. is hereby designated the operator of the subject well and of the Unit.

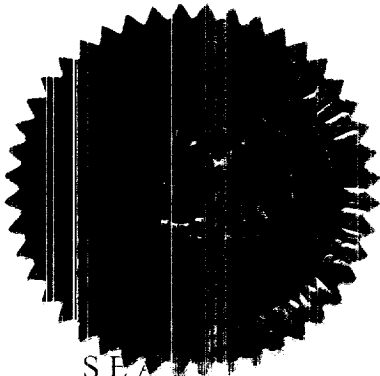
(3) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within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

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

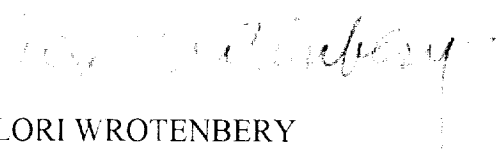
(5) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director