

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. 12245  
ORDER NO. R-11263*

**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 October 7, 1999 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 20th day of October, 1999, 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 its subject matter.

(2) The applicant, Chi Energy, Inc., seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following acreage in Section 10, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico:

- (a) the S/2 to form a standard 320-acre lay-down gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Empire-Pennsylvanian Gas Pool, Undesignated Empire-Atoka Gas Pool, Undesignated Southeast Crow Flats-Morrow Gas Pool, and Undesignated Aid-Morrow Gas Pool;

- (b) the SW/4 to form a standard 160-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent, including the Undesignated Vandagriff-Keys (Queen) Gas Pool; and
- (c) the SW/4 SW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated East Empire-Yates-Seven Rivers Pool, Undesignated Red Lake-Seven Rivers Pool, Undesignated South Red Lake-Seven Rivers Pool, Red Lake-Queen-Grayburg-San Andres Pool, and Red Lake-Upper Pennsylvanian Pool.

NOTE: After pooling, uncommitted working interest owners are referred to as “non-consenting working interest owners.”

(3) Chi Energy, Inc. controls 100 percent of the working interest underlying the SW/4 of Section 10 and thus it is not necessary to force pool those formations and/or pools spaced on 160 and 40 acres.

(4) The remaining 320-acre unit is to be dedicated to the applicant's proposed Coal Train Federal Com. Well No. 1 (**API No. 30-015-30764**) to be drilled at a standard gas well location 990 feet from the South and West lines (Unit M) of Section 10.

(5) The applicant at the time of the hearing further requested that Chi Operating, Inc., a wholly owned subsidiary who operates the various wells owned by Chi Energy, Inc., be designated as operator of the subject well and unit.

(6) The applicant is an interest owner within the proposed standard 320-acre gas spacing and proration unit that comprises the S/2 of Section 10 and as such has the right to drill for and develop the minerals underlying the unit. At this time, not all of the working interests in the above-described 320-acre unit have agreed to pool their interests.

(7) No affected party appeared at the hearing and/or objected to this application.

(8) To avoid the drilling of unnecessary wells, protect correlative rights, prevent

waste and afford to the owner of each interest in the 320-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within this unit.

(9) Chi Operating, Inc. should be designated the operator of the subject well and unit.

(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 \$6,000.00 per month while drilling and \$ 749.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." 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 true owner thereof upon demand and proof of ownership.

(16) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before January 15, 2000, or if all the parties to this forced pooling

reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

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

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Energy, Inc., all uncommitted mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the S/2 Section 10, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled thereby forming a standard 320-acre lay-down gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Empire-Pennsylvanian Gas Pool, Undesignated Empire-Atoka Gas Pool, Undesignated Southeast Crow Flats-Morrow Gas Pool, and Undesignated Aid-Morrow Gas Pool. This 320-acre unit is to be dedicated to the proposed Coal Train Federal Com. Well No. 1 (**API No. 30-015-30764**) to be drilled at a standard gas well location 990 feet from the South and West lines (Unit M) of Section 10.

NOTE: After pooling, uncommitted working interest owners are referred to as “non-consenting working interest owners.”

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before January 15, 2000, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before January 15, 2000, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) The portion of this application seeking to pool all formations and/or pools spaced on 160 and 40 acres from the surface to the base of the Morrow formation underlying the SW/4 and SW/4 SW/4 of Section 10, respectively, is hereby **dismissed**.

(3) Chi Operating, Inc. is hereby designated the operator of the subject well and unit.

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

(5) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner 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 not be liable for risk charges.

(6) The operator shall furnish the Division and each known non-consenting 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 from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above 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, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." 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 interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

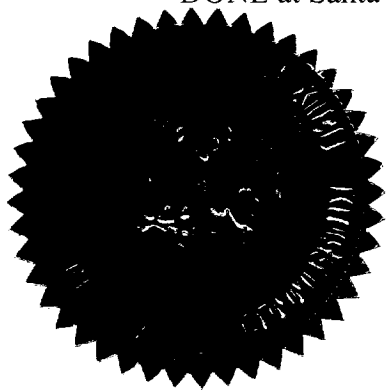
(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within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

(14) 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.

(15) 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.

(16) 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.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Lori Wrotenbery*  
LORI WROTENBERY  
Director