

**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. 12879
ORDER NO. R-11826**

**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 August 1, 2002, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 3rd day of September, 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) Chi Energy, Inc., ("Applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying Lots 3 and 4, S/2 NW/4 and SW/4 [W/2 equivalent] of Section 4, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, in the following manner:

Lots 3 and 4, S/2 NW/4 and SW/4 [W/2 equivalent], forming a standard 319.28-acre gas spacing and proration unit (the 319.28-acre "Unit") for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Southeast Crow Flats-Morrow Pool.

The SW/4, forming a standard 160-acre spacing and proration unit (the "SW/4 Unit") for all formations or pools spaced on 160 acres within this vertical extent.

Lots 3 and 4 and S/2 NW/4 [NW/4 equivalent], forming a standard 159.28-acre spacing and proration unit (the "NW/4 Unit") for all formations or pools spaced on 160 acres within this vertical extent.

(3) The 320-acre Unit and the SW/4 Unit are to be dedicated to Applicant's Heavy Harry State Com Well No. 1 (**API No. 30-015-30963**), located at a standard well location 850 feet from the South line and 1980 feet from the West line (Unit N) of Section 4.

(4) The 320-acre Unit and the NW/4 Unit are to be dedicated to Applicant's Heavy Harry State Com Well No. 2 (**API No. 30-015-31089**), located at a standard well location 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 4.

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

(6) Applicant is an owner of an oil and gas working interest within each of the Units. Applicant has the right to drill and has drilled its Heavy Harry State Com Well No. 1 and its Heavy Harry State Com Well No. 2 (the "wells") to a common source of supply at standard well locations within the W/2 of Section 4.

(7) All of the working interest in the Units has been voluntarily pooled. However, there are owners of overriding royalty interests in each of the proposed units that have not agreed to pool their interests.

(8) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units 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 Units.

(9) Pursuant to the request of Applicant, Chi Operating, Inc. should be designated the operator of the wells and of the Units.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Energy, Inc., all uncommitted overriding royalty interests from the surface to the base of the Morrow formation underlying Lots 3 and 4, S/2 NW/4 and SW/4 [W/2 equivalent] of Section 4, Township 17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, are hereby pooled, as follows:

- (a) Lots 3 and 4, S/2 NW/4 and SW/4 [W/2 equivalent], forming a standard 319.28-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent which presently include but are not necessarily limited to the Southeast Crow Flats-Morrow Pool.
- (b) The SW/4, forming a standard 160-acre spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent.
- (c) Lots 3 and 4 and S/2 NW/4 [NW/4 equivalent], forming a standard 159.28-acre spacing and proration unit (the "NW/4 Unit") for all formations or pools spaced on 160 acres within this vertical extent.

The 320-acre Unit and the SW/4 Unit shall be dedicated to Applicant's Heavy Harry State Com Well No. 1 (**API No. 30-015-30963**), located at a standard well location 850 feet from the South line and 1980 feet from the West line (Unit N) of Section 4.

The 320-acre Unit and the NW/4 Unit shall be dedicated to Applicant's Heavy Harry State Com Well No. 2 (**API No. 30-015-31089**), located at a standard well location 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 4.

(2) Pursuant to the request of Applicant, Chi Operating, Inc. is hereby designated the operator of the wells and of the Units.

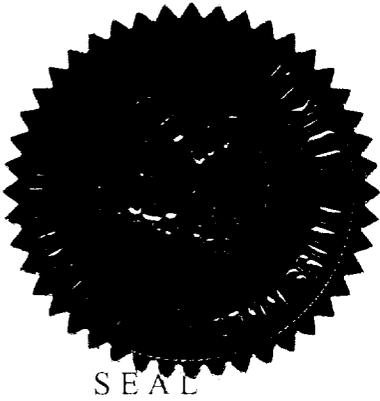
(3) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within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

(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