

**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. 12980
ORDER NO. R-11884**

**APPLICATION OF CHI OPERATING, 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 December 19, 2002, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 20th 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) Chi Energy, Inc., ("Applicant") seeks an order pooling all uncommitted mineral interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Section 32, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit (the "Unit") for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated North Shugart-Atoka Gas Pool and the Undesignated Shugart-Morrow Gas Pool.

(3) The Unit is to be dedicated to Applicant's KC Strip State Com. Well No. 1 (API No. 30-015-32538), now being drilled at a standard gas well location 660 feet from the South line and 660 feet from the East line (Unit P) of Section 32.

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

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has commenced drilling its KC Strip State Com. Well No. 1 ("the well") to a common source of supply at a standard well location within the SE/4 SE/4 of Section 32.

(6) There are interest owners in the Unit that have not agreed to pool their interests.

(7) To 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 interests, whatever they may be, in the oil and gas within the Unit.

(8) Pursuant to the request of Applicant, Chi Operating, Inc. should be designated the operator of the proposed well and of the Unit.

(9) Applicant presented evidence demonstrating that the Unit consists entirely of State of New Mexico oil and gas leases and that all of the owners of operating rights in the Unit have voluntarily agreed to pool their interests. This case was instituted solely to pool the interests of owners of record title who own no operating rights, and accordingly have no liability for costs and no right to share in proceeds of production.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Energy, Inc., all uncommitted interests, whatever they may be, in the oil and gas from the base of the Wolfcamp formation to the base of the Morrow formation underlying the S/2 of Section 32, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, are hereby pooled, forming a standard 320-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 Undesignated North Shugart-Atoka Gas Pool and the Undesignated Shugart-Morrow Gas Pool.

The Unit shall be dedicated to Applicant's KC Strip State Com. Well No. 1 (API No. 30-015-32538), to be drilled at a standard gas well location 660 feet from the South line and 660 feet from the East line (Unit P) of Section 32.

(2) Should the well not be drilled to completion, or be 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.

(3) Pursuant to the request of Applicant, Chi Operating, Inc. is hereby designated the operator of the proposed well and of the Unit.

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery

LORI WROTENBERY
Director