

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

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

CASE NO. 12980
ORDER NO. R-

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 19, 2002 at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this ____ 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 base of the Wolfcamp formation to the base of the Morrow formation underlying the S½ of Section 32, Township 18 South, Range 31 East, N.M.P.M., 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, including the Undesignated North Shugart-Atoka Gas Pool and Undesignated Shugart-Morrow Gas Pool.

The Unit is to be dedicated to applicant's KC Strip State Com. Well No. 1 located 660 feet from the South line and 660 feet from the East line (Unit O) of Section 32.

(3) Two or more separately owned tracts are embraced within the Unit, and/or there are 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 oil and gas working interests within the Unit and has commenced drilling its KC Strip State Com. Well No. 1. The well will be drilled to a depth sufficient to test the Undesignated Shugart-Morrow Gas Pool.

(5) All of the working interests in the Unit have voluntarily joined in the drilling of the well. However, the following record title owners of State of New Mexico oil and gas leases have not agreed to pool or communitize their interests: Chambers & Kennedy, Fina Oil and Chemical Company, Exxon Mobil Corporation, and Burlington Resources Oil & Gas Company.

(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 the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Energy, Inc., all uncommitted record title interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the S½ 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, including the Undesignated North Shugart-Atoka Gas Pool and Undesignated Shugart-Morrow Gas Pool.

The Unit is to be dedicated to applicant's KC Strip State Com. Well No. 1 located 660 feet from the South line and 660 feet from the East line (Unit O) of Section 32.

PROVIDED HOWEVER THAT the operator of the units shall commence drilling operations on the KC Strip State Com. Well No. 1 on or before the 31st day of December, 2002, and shall thereafter continue the drilling of 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 operations on the well on or before the 31st day of December, 2002, Ordering Paragraph No. (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 abandonment, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not

be rescinded.

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

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

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

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

[Seal]

LORI WROTENBERY
Director