

**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. 15133
ORDER NO. R-13914**

**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 June 26, 2014, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 21st day of October, 2014, 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 Operating, Inc. ("Chi" or "Applicant") seeks an order pooling all uncommitted interests in the Morrow formation, the Southeast Crow Flats-Morrow Gas Pool (**Pool Code 96840**) underlying the S/2 of Section 10, Township 17 South, Range 28 East, in Eddy County, New Mexico, to form a standard 320-acre gas spacing and proration unit ("the Unit").

(3) The Unit is to be dedicated to Applicant's Coal Train Fed. Com. Well No. **1 (API No. 30-015-30764)**, which has been drilled from a standard surface location 990 feet from the South and West lines (Unit letter M) of Section 10, Township 17 South, Range 26 East, NMPM, Eddy County, New Mexico.

(4) Spacing in the Southeast Crow Flats-Morrow Gas Pool is governed by statewide Rule 19.15.15.10.B NMAC, which provides for standard 320-acre gas units, each comprising any two contiguous quarter sections, with wells to be located no closer

than 660 feet to the outer boundary of the quarter section in which the well is located, and no closer than 10 feet to a quarter-quarter section line or subdivision inner boundary.

(5) Applicant appeared at the hearing through counsel and presented the following testimony:

(a) The Unit consists of federal Lease No. NM 012896, and the working interest owners are already subject to an operating agreement; therefore, no risk charges or overhead charges are being requested.

(b) At the time the well was drilled, Chi submitted a Communitization Agreement (CA) to the Bureau of Land Management (BLM) for approval. However, the BLM has no record of the Communitization Agreement, and is now requiring Chi Operating, Inc. to submit another CA for approval.

(c) The purpose of the application is to force pool the record title owners in the federal lease, and the working interest owners in the well unit for the purpose of obtaining the BLM approval of the Communitization Agreement.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) 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.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has drilled the well to a common source of supply within the Unit.

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

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

(11) Chi Operating, Inc. (**OGRID 4378**) should be designated the operator of the well and of the Unit.

(12) Because the only interests subject to this compulsory pooling order are non-expense bearing interests, there is no necessity to include provisions regarding

allocation of costs, overhead or risk charges in this Order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chi Operating, Inc., all uncommitted interests in the Morrow formation, the Southeast Crow Flats-Morrow Gas Pool (**Pool Code 96840**) underlying the S/2 of Section 10, Township 17 South, Range 28 East, in Eddy County, New Mexico, to form a standard 320 acre gas spacing and proration unit ("the Unit"), are hereby pooled.

(2) The Unit shall be dedicated to Applicant's Coal Train Fed. Com. Well No. 1 (API No. 30-015-30764), which has been drilled from a standard surface location 990 feet from the South and West lines (Unit letter M) of Section 10, Township 17 South, Range 26 East, NMPM, Eddy County, New Mexico.

(3) Upon final plugging and abandonment of the well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(4) Chi Operating, Inc. (**OGRID 4378**) is hereby designated the operator of the well and of the Unit.

(5) Because the only interests subject to this compulsory pooling order are non-expense bearing interests, there is no necessity to include provisions regarding allocation of costs, overhead or risk charges in this Order.

(6) All proceeds from production from the well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A-28, as amended).

(7) 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.

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

(9) This order is subject to approval of compulsory pooling of federal lands by the United States Bureau of Land Management.

(10) 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

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director