

**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. 15521
ORDER NO. R-14226**

**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 September 1, 2016, at Santa Fe, New Mexico, before Examiner Richard Ezeanyim.

NOW, on this 24th day of October, 2016, 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. ("Applicant"), seeks an order pooling all uncommitted interests from the surface to 5000 feet subsurface within the SW/4 SE/4 of Section 13, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit (the "Unit") for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to the Undesignated Shugart; Yates-7RS-QU-Grayburg Pool (Pool Code 56439) and the Undesignated Leo; Queen-Grayburg Pool (Pool Code 38000).

(3) The Unit is to be dedicated to Applicant's Shugart West 13 Federal Well No. 1 ("subject well"; API No. 30-015-33577), a vertically drilled well located 578 feet from the South line and 1667 feet from the East line (Unit O) of Section 13.

(4) Applicant appeared at hearing through counsel and presented evidence, by affidavit, that:

- (a) Applicant seeks to recompleate the subject well from the Shugart; Bone Spring, North Pool to the Grayburg formation at approximately depths from 3840 to 3850 feet;
 - (b) The formation expected at the planned recompleation depth is the Grayburg.
 - (c) Notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit; and
 - (d) Applicant provided notice of this application by publication before hearing in a newspaper of general circulation in Eddy County, New Mexico, the county in which the property is located, for the unlocatable interests.
- (5) No other party appeared at the hearing, or otherwise opposed the granting of this application.
- (6) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to recompleate and proposes to recompleate the subject well to the Grayburg formation within the Unit.
- (7) There are interest owners in the Unit 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 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.
- (9) Chi Operating, Inc. should be designated the operator of the subject well and of the Unit.
- (10) Any pooled 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% thereof as a reasonable charge for the risk involved in drilling the well.
- (11) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month while drilling (recompleting) and \$500 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

- (1) Pursuant to the application of Chi Operating, Inc., all uncommitted interests, whatever they may be, in the oil and gas from the surface to 5000 feet

subsurface in the SW/4 SE/4 of Section 13, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico, are pooled to form a standard 40-acre oil spacing and proration unit (the "Unit") for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated Shugart; Yates-7RS-QU-Grayburg Pool (Pool Code 56439) and the Undesignated Leo; Queen-Grayburg Pool (Pool Code 38000).

(2) The Unit shall be dedicated to Applicant's Shugart West 13 Federal Well No. 1 (the "subject well"; API No. 30-015-33577), a vertically drilled well located 678 feet from the South line and 1667 feet from the East line (Unit O) of Section 13.

(3) The operator of the Unit shall commence re-completing the well on or before September 30, 2017, and shall thereafter continue well operations with due diligence to test the Grayburg formation or any oil producing formation spaced on 40-acres at depths no greater than 5000 feet.

(4) In the event the operator does not commence re-entering the subject well on or before September 30, 2017, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the subject well not be re-entered and recompleted within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for recompletion of the well for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of the proposed 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.

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

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this Order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of actual well costs is furnished, any pooled 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 as hereinafter provided, 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. Pooled working interest owners who elect not to pay their

share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following recompletion of the subject 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 deemed to be the reasonable well costs. 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.

(11) Within 60 days following determination of reasonable well costs, any pooled 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 the amount of estimated well costs it has paid that exceed its share of reasonable well costs.

(12) 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; and
- (b) as a charge for the risk involved in recompleting the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month while drilling (recompleting) and \$500 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is 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 pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) above, all proceeds from production from the proposed 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 1978 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 7-8A-31, as amended).

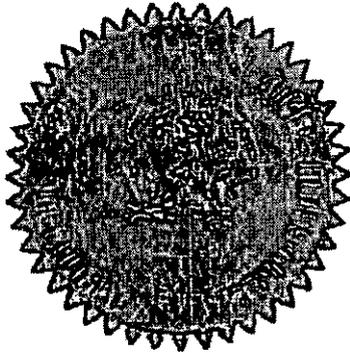
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) 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.

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

(19) 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

A handwritten signature in cursive script, reading "David R. Catanach".

DAVID R. CATANACH
DIRECTOR