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September 20, 2006

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RECEIVED

SEP 25 2006

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Mr. Bill Carr
Holland & Hart Attys.
P. O. Box 2208
Santa Fe, NM 87504-2208

In Re: Chi Operating Inc. Application
for Approval of Off-Lease
Storage and Measurement,
Hagerman #1 and Allen #3,
SW $\frac{1}{4}$ Sec. 30, 22S/27E, NMPM,
Eddy County, NM.

(Undersigned is a Hagerman
royalty owner)

Dear Bill,

I have received your letter of August 30th, 2006, advising that a hearing was set for September 28th. Did not see a case number on any correspondence.

I have talked with Mr. Charles Hagerman several times in connection with this matter however I will not be able to attend the September 28th hearing.

It is the concern of Mr. Hagerman, as well as myself, that Chi did not place a separate meter on the Hagerman well when they began crossing the lease line with Hagerman #1 production.

Production started in November 2005, and at that time the Allen well had been producing since June of 2005, and there is still no way of knowing with any certain assurance if the Hagerman royalty owners and the Allen Royalty owners are getting their respective "fair share" of production.

Another point that bothered Mr. Hagerman was the Indemnifying Division Order that Navajo sent wherein the royalty owner agreed to indemnify and hold Navajo harmless for their reliance upon information provided by Chi.

Chi did file a C-107-B for surface commingling back in January 2006, which provided for metering, which Chi apparently did not do, and I imagine that the \$1,000.00 penalty Chi paid in July, 2006, for unauthorized surface commingling had something to do with failure to meter.

It has been 11 months since the Hagerman was placed on production and the Hagerman royalty owners, and possibly the Allen royalty owners, still have no idea as to who is getting what from what well.

I recognize that you are the attorney for Chi and of course under no obligation to pay any attention to an "off the record" Hagerman royalty owner, however do hope that you can help get this mess straight.

Best Regards,

R. M. Richardson

CC: Charles Hagerman
Catanach - OCD