

August 29, 2006

HAND-DELIVERED

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13788

2006 AUG 29 PM 3 58

Re: Application of Chi Operating Inc. for approval of off-lease storage and measurement, Eddy County, New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of Chi Operating Inc. in the above-referenced case as well as a copy of the legal advertisement for this case. Chi Operating Inc. requests that this matter be placed on the docket for the September 28, 2006 examiner hearings.

Very truly yours,



William F. Carr

Enclosures

cc: Mr. John W. Qualls
Chi Operating Inc.

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

**IN THE MATTER OF THE APPLICATION
OF CHI OPERATING INC. FOR APPROVAL
OF OFF-LEASE STORAGE AND MEASUREMENT,
EDDY COUNTY, NEW MEXICO.**

2006 AUG 29 PM 5:58
CASE NO. 13788

APPLICATION

CHI OPERATING INC. ("Chi") through its undersigned attorneys, hereby makes application pursuant to the provisions of Oil Conservation Division Rule 303.B for an order authorizing the Off-Lease Storage and Measurement of production from the Delaware formation, South Carlsbad-Delaware Pool, and in support of its applications states:

1. Chi Operating Inc. is the operator of the Hagerman Well No. 1 located at a point 1650 feet from the South line and 2200 feet from the West line of Section 30, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico. Chi also operates the Allen Well No. 3, which offsets the Hagerman location, on a different oil and gas lease, at a point 660 feet from the North line and 1980 feet from the East line of Section 31, Township 22 South, Range 27 East. Both wells are located on fee lands and each produces oil from the Delaware formation, South Carlsbad-Delaware Pool.

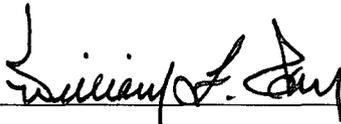
2. Chi has placed separate storage tanks and measurement facilities for the Hagerman Well No. 1 at the Allen Well No. 3 location and by administrative application dated August 2, 2006, sought Division approval for off-lease storage and measurement of the production from the Hagerman Well. No. 1. Chi filed its administrative application for approval of Off-Lease Storage and Measurement on Division Form C-107 and provided notice to all interest owners as required by Division Rule 1207. Thereafter, John de B. Hagerman, a royalty owner in the Hagerman Well No. 1, filed an objection with the Division. Therefore, this application must be set for hearing.

4. Approval of this application will result in efficient production storage and measurement operations for the subject well and is otherwise in the best interest of conservation the prevention of waste and the protection of correlative rights.

WHEREFORE, Chi Operating Inc. requests that this application be set for hearing before an examiner of the Oil Conservation Division on September 28, 2006 and, after notice and hearing, this application be approved.

Respectfully submitted,

HOLLAND & HART LLP

By:  _____

WILLIAM F. CARR
OCEAN MUNDS-DRY
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR CHI OPERATING
INC.

CASE 13788: Application of Chi Operating Inc. for approval of off-lease storage and measurement, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order pursuant to the provisions of Oil Conservation Division Rule 303.B authorizing the Off-Lease Storage and Measurement of Delaware production, South Carlsbad-Delaware Pool, from its Hagerman Well No. 1 located at a point 1650 feet from the South line and 2200 feet from the West line of Section 30, Township 22 South, Range 27 East, NMPM, at the well site of its Allen Well No. 3, which is located at a point 660 feet from the North line and 1980 feet from the East line of Section 31, Township 22 South, Range 27 East, NMPM. The Hagerman well is located 1650 feet inside the Carlsbad, New Mexico, city limits on the southeastern border of the city.



August 30, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Charles de B. Hagerman
Post Office Box 1327
Santa Fe, New Mexico 87504

Re: Application of Chi Operating Inc. for approval of off-lease storage and measurement, Eddy County, New Mexico.

Dear Mr. Hagerman:

This letter is to advise you that Chi Operating Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order pursuant to the provisions of Oil Conservation Division Rule 303.B authorizing the Off-Lease Storage and Measurement of Delaware production, South Carlsbad-Delaware Pool, from its Hagerman Well No. 1 located at a point 1650 feet from the South line and 2200 feet from the West line of Section 30, Township 22 South, Range 27 East, NMPM, at the well site of its Allen Well No. 3, which is located at a point 660 feet from the North line and 1980 feet from the East line of Section 31, Township 22 South, Range 27 East, NMPM.

This application has been set for hearing before a Division Examiner on September 28, 2006. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-Hearing Statement with the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, four days in advance of a scheduled hearing, but at least on the Thursday preceding the hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

William F. Carr

ATTORNEY FOR CHI OPERATING INC.

cc: Mr. John W. Qualls