

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TEXAS 79702

August 17, 2006

RECEIVED

AUG 21 2006

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

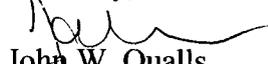
David Catanach
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505

**Re: Off Lease Storage and Measurement
Allen #3
Hagerman #1
Eddy County, New Mexico**

Mr. Catanach:

Enclosed is the Application for Off Lease Storage for the above referenced wells. This was sent to Gail MacQuesten back in early August. Thanks and please call should you have any questions.

Sincerely,


John W. Qualls

JWQ/fh

District I
1625 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original application to the Santa Fe office with one copy to the appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Chi Operating, Inc.

OPERATOR ADDRESS: P. O. Box 1799, Midland, Texas 79702

APPLICATION TYPE:

Pool Commingling Lease Commingling Pool and Lease Commingling Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: Fee State Federal

Is this an Amendment to existing Order? Yes No If "Yes", please include the appropriate Order No. _____

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling

Yes No

(A) POOL COMMINGLING

Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production		Calculated Value of Commingled Production	Volumes

(2) Are any wells producing at top allowables? Yes No

(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No.

(4) Measurement type: Metering Other (Specify)

(5) Will commingling decrease the value of production? Yes No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING

Please attach sheets with the following information

(1) Pool Name and Code.

(2) Is all production from same source of supply? Yes No

(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No

(4) Measurement type: Metering Other (Specify)

(C) POOL and LEASE COMMINGLING

Please attach sheets with the following information

(1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT

Please attached sheets with the following information

(1) Is all production from same source of supply? Yes No

(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)

Please attach sheets with the following information

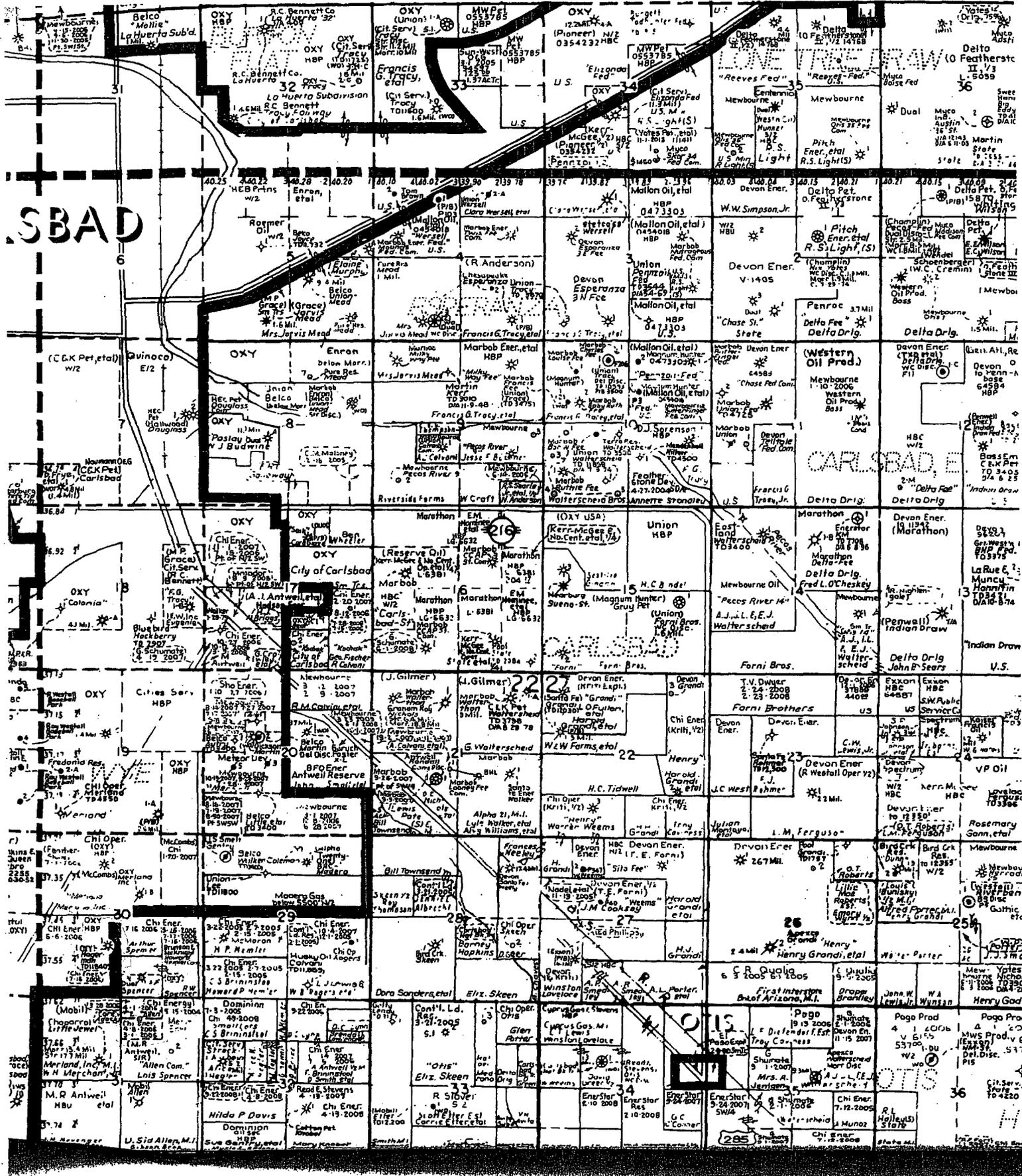
(1) A schematic diagram of facility, including legal location.

(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.

(3) Lease Names, Lease and Well Numbers, and API Numbers.

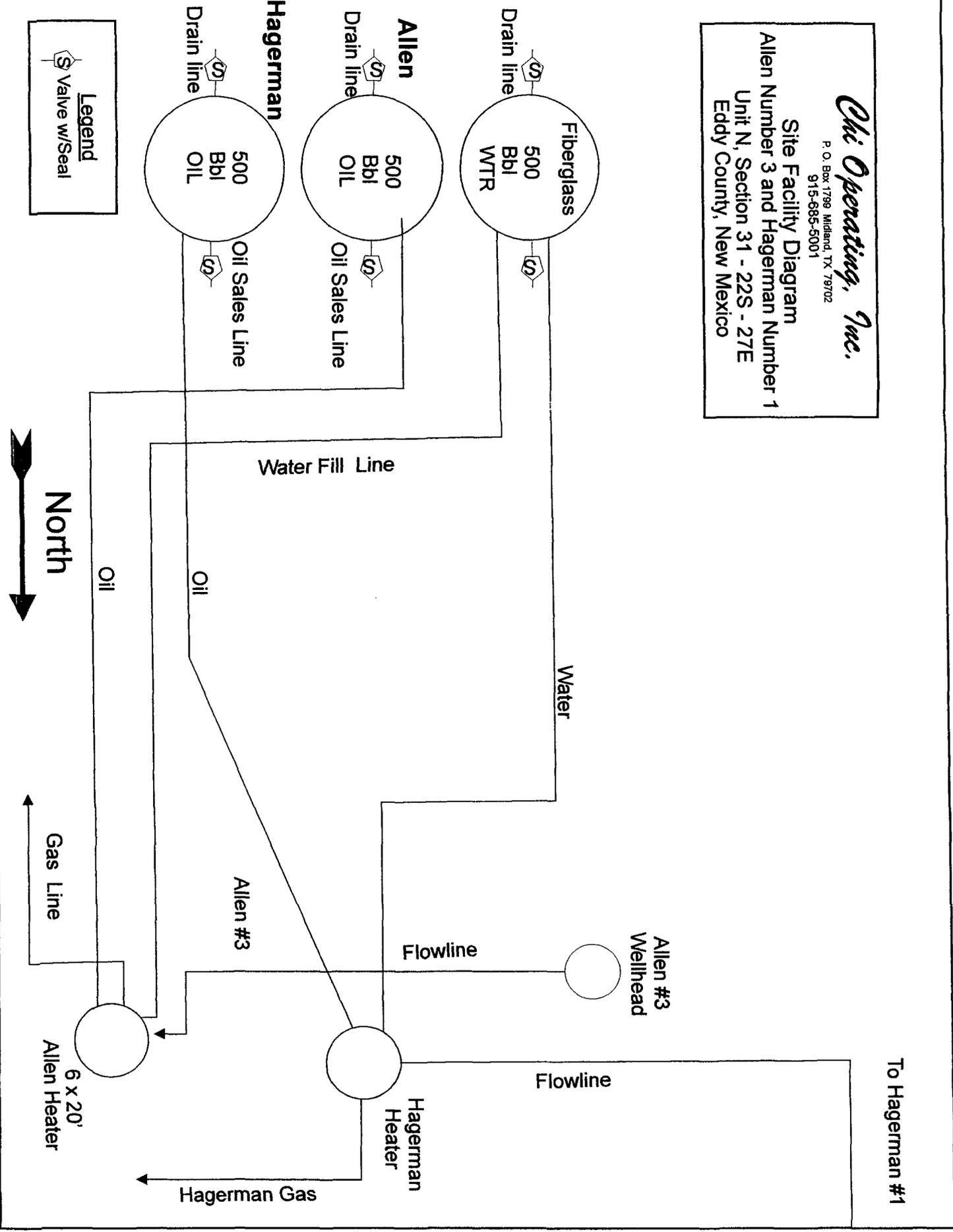
I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: John W. Qualls TITLE: V.P. DATE: 8-2-06
TYPE OR PRINT NAME: John W. Qualls TELEPHONE NO.: 432-685-5001
E-MAIL ADDRESS: johnq@chienergyinc.com



Hagerman #1 1650' FSL & 2200' FWL Section 30-T-22S-R-27E 30-015-29007
 Allen #3 660' FNL & 1980' FEL Section 31-T22S-R-27E 30-015-33788
 Eddy County, New Mexico

Chil Operating, Inc.
 P. O. Box 1799 Midland, TX 79702
 915-685-5001
Site Facility Diagram
 Allen Number 3 and Hagerman Number 1
 Unit N, Section 31 - 22S - 27E
 Eddy County, New Mexico



Legend
 ⚡ Valve w/Seal