

**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. 13788
ORDER NO. R-12652**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 28, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 26th day of October, 2006, 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 its subject matter.

(2) The applicant, Chi Operating, Inc. ("Chi" or "applicant"), seeks approval, pursuant to the provisions of Division Rule 19.15.5.303(D) to transport and store, prior to measurement, Delaware production from its Hagerman Well No. 1 (API No. 30-015-29007) located 1650 feet from the South line and 2200 feet from the West line (Unit K) of Section 30, Township 22 South, Range 27 East, NMPM, at a storage facility located at Chi's Alien Well No. 3 (API No. 30-015-33788) located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 31, Township 22 South, Range 27 East, both in Eddy County, New Mexico.

(3) Mr. Charles de B. Hagerman ("Mr. Hagerman"), an interest owner in the Hagerman Well No. 1, appeared at the hearing through legal counsel but presented no evidence in this case.

(4) This application was originally filed for administrative approval by Chi on August 21, 2006. By letter received by the Division on July 28, 2006, Mr. Hagerman

objected to the application and the application was subsequently set to hearing before a Division examiner.

(5) Division records and evidence presented by Chi demonstrate that:

- (a) the Hagerman Well No. 1 was originally drilled by Oxy USA, Inc. in 1996 to test the Morrow, Strawn and Delaware formations. After testing non-commercial, the well was subsequently plugged and abandoned. In 2005, Chi re-entered and completed the well in the Wye-Delaware Pool;
- (b) Chi drilled and completed its Alien Well No. 3 in the Wye-Delaware Pool in 2005;
- (c) the Hagerman Well No. 1 is located within the city limits of Carlsbad, New Mexico; and
- (d) the Allen Well No. 3 is located just outside the city limits of Carlsbad, New Mexico.

(6) Chi seeks approval to measure and store Delaware production from the Hagerman Well No. 1 at the wellsite of the Alien Well No. 3 in order to avoid having to construct a tank battery facility for the Hagerman Well No. 1 within the city limits of Carlsbad.

(7) The interest ownership between the Hagerman Well No. 1 and the Alien Well No. 3 is not common.

(8) Chi has constructed a tank battery facility at the wellsite of the Alien Well No. 3. Chi proposes that the production from the Hagerman Well No. 1 and the Alien Well No. 3 be processed, stored and measured at the facility in accordance with the following procedure:

- (a) the Hagerman Well No. 1 and the Alien Well No. 3 will each be equipped with a production separator, oil meter, gas meter and water meter;
- (b) oil produced by the Hagerman Well No. 1 and the Alien Well No. 3 will be stored in separate 500 barrel oil tanks;
- (c) water production from the Hagerman Well No. 1 and the Alien Well No. 3 will be combined, after separate measurement, and stored in a single 500 barrel water tank; and

- (d) gas production, if any, from the Hagerman Well No. 1 and the Alien Well No. 3 will be metered separately before being sold through a gas sales meter.

(9) According to further evidence presented, after the Hagerman Well No. 1 and the Alien Well No. 3 were completed, Chi stored the production from these wells, for a period of several months, at the wellsite of the Alien Well No. 3. Chi acted in this regard without Division authorization, and without separately metering the production from each well.

(10) The objection to this application by Mr. Hagerman appears to be limited to Chi's action with regards to producing these wells for a period of time without separate measurement, and the issue of whether or not production tests conducted on these wells during that period will be sufficient to accurately allocate production from each of these wells. According to Chi's legal counsel, Mr. Hagerman does not object to Chi's current proposal, provided that production from the wells is accurately metered.

(11) According to the Division's legal counsel, the violation of Division rules by Chi, and the issue of production allocation from the Hagerman Well No. 1 and the Alien Well No. 3 during the time that they were produced, is the subject of a current and ongoing investigation by the Division's Compliance Manager.

(12) The Division should only consider, in the immediate case, Chi's request for off-lease measurement and storage of production from the Hagerman Well No. 1.

(13) The evidence presented by Chi demonstrates that approval of the application will result in less surface disturbance within the City of Carlsbad, will allow the applicant to continue to economically produce the subject wells, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

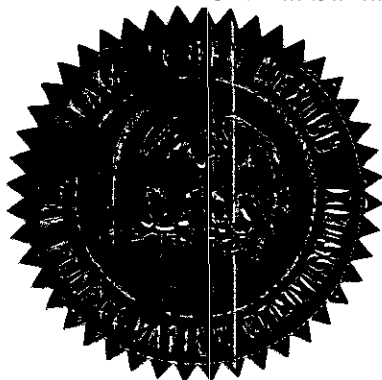
(1) The applicant, Chi Operating, Inc. is hereby authorized, pursuant to the provisions of Division Rule 19.15.5.303(D), to transport and store, prior to measurement, Delaware production from its Hagerman Well No. 1 (API No. 30-015-29007) located 1650 feet from the South line and 2200 feet from the West line (Unit K) of Section 30, Township 22 South, Range 27 East, NMPM, at a storage facility located at its Alien Well No. 3 (API No. 30-015-33788) located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 31, Township 22 South, Range 27 East, both in Eddy County, New Mexico.

(2) Production from the Hagerman Well No. 1 and the Alien Well No. 3 shall be processed, stored and measured at the facility in accordance with the following procedure:

- (a) the Hagerman Well No. 1 and the Alien Well No. 3 shall each be equipped with a production separator, oil meter, gas meter and water meter;
- (b) oil produced by the Hagerman Well No. 1 and the Alien Well No. 3 shall be stored in separate 500 barrel oil tanks;
- (c) water production from the Hagerman Well No. 1 and the Alien Well No. 3 may be combined, after separate measurement, and stored in a single 500 barrel water tank; and
- (d) gas production, if any, from the Hagerman Well No. 1 and the Alien Well No. 3 shall be metered separately before being sold through a gas sales meter.

(3) Jurisdiction is hereby 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, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director