

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

NMOCD-06-137
154

IN THE MATTER OF CHESAPEAKE OPERATING, INC.,

Respondent.

**AGREED ORDER DIRECTING COMPLIANCE
AND ASSESSING CIVIL PENALTY**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), and the regulations promulgated under the Act, the Director of the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico ("OCD") issues this Order to **CHESAPEAKE OPERATING, INC.** ("**CHESAPEAKE**") directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. **CHESAPEAKE** is a for profit corporation doing business in New Mexico, SCC # 1510668. **CHESAPEAKE** is an active entity, with a principal and mailing address at 1616 West Bender, Hobbs, New Mexico 88241. **CHESAPEAKE** has been assigned OGRID # 147179.
3. **CHESAPEAKE** is the operator of the Benson Shugart Waterflood Unit # 34 Unit Letter K, Section 30, Township 18 S, Range 31 E, API # 30-015-10369, in Eddy County, New Mexico.
4. On September 9, 2005, OCD Deputy Oil and Gas Inspector Gerry Guye performed a mechanical integrity test (hereinafter, "MIT") on the Benson Shugart Waterflood Unit # 34. The well flowed behind the casing.
5. The well failed the requirements of the pressure MIT test.
6. By letter dated September 22, 2005, **CHESAPEAKE** was notified of the flow and the failed pressure test, i.e., MIT test. **CHESAPEAKE** was instructed to repair the well bore and contact the OCD at least twenty-four hours prior to the date and time that the well would be retested. As of July 13, 2006, **CHESAPEAKE** had not repaired the well or contacted the OCD to reschedule the MIT test.
7. OCD Rule 203 [19.15.4.203 NMAC] requires "[i]f the well fails the mechanical integrity

test required herein, the well shall be plugged and abandoned in accordance with these rules or the casing problem corrected and the casing retested within ninety (90) days."

8. **CHESAPEAKE** knowingly and willfully violated OCD Rule 203 by failing to repair the well after having been given both written and verbal notice to do such.
9. As a result, on July 13, 2006, the OCD issued Notice of Violation (2-06-3) to Chesapeake alleging one violation of OCD Rule 203.
10. **CHESAPEAKE** admits that they failed to bring the well into compliance within the time frame set out in the September 22, 2005 Letter of Violation.
11. During the Administrative Conference on July 25, 2006, Chesapeake agreed they had failed to bring the well into compliance reported plugging operations were currently in progress.

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. **CHESAPEAKE** is a person as defined by NMSA 1978, § 70-2-33(A) that may be subject to civil penalties under NMSA 1978, §70-2-31(A).
3. **CHESAPEAKE** is subject to civil penalties under NMSA 1978, § 70-2-31(A) at the Benson Shugart Waterflood Unit # 34 for one knowing and willful violation of OCD Rule 203.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **One Thousand Dollars (\$1,000.00)** against **CHESAPEAKE** for one violation of OCD Rule 203 (failing to repair or plug a well after failing a mechanical integrity test).
2. The civil penalty shall be paid upon execution of this Order. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505.
3. **CHESAPEAKE** shall have the Benson Shugart Waterflood Unit # 34 into physical compliance and all associated paperwork filed on or September 1, 2006. This time may be extended for good cause shown by Chesapeake, who shall request such extension in writing to the OCD Artesia District Office. Such request shall not be unreasonably denied by the OCD.
4. By signing this Order, **CHESAPEAKE** expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;

- b. agrees to comply with Ordering paragraphs 2 and 3;
- c. waives any right pursuant to the Oil and Gas Act or otherwise to a hearing either prior or subsequent to the entry of this Order, or to an appeal from this Order; and
- d. agrees that if it fails to comply with this Order, the Order may be enforced by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended).

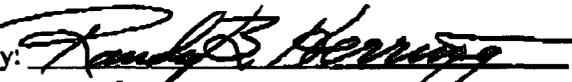
Done at Santa Fe, New Mexico this 27 ^{Nov} day of September 2006.

By: 
 Mark Fesmire, PE, Director
 Oil Conservation Division

ACCEPTANCE

CHESAPEAKE OPERATING, INC. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth therein.

CHESAPEAKE OPERATING, INC.

By: 
 Title: Gen. Asst. Manager
 Date: 11/27/06

OFFICIAL CHECK



BANK OF OKLAHOMA N.A.

P.O. Box 2300, Tulsa, Oklahoma 74192

805639636

10-86/220

Date 10-19-2006

Pay to the Order of New Mexico Oil Conservation Division

\$*****1,000.00

BANK OF OKLAHOMA N.A. OKLAHOMA

Chesapeake Operating, Inc. Reference # NMCCD-06-154 Remitter

Drawer: BANK OF OKLAHOMA, N.A.



Security Features

Authorized Signature [Signature] SENIOR VP & CONTROLLER

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