

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

NMOCD – ACOI- 174

IN THE MATTER OF CHESAPEAKE OPERATING, INC.,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 1227.E [19.15.14.1227(E) NMAC], the Director of the Oil Conservation Division ("OCD") and Chesapeake Operating, Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use the wells identified herein pursuant to the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

This Order replaces ACOI 159.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 14719 for the wells identified in Exhibit "A," attached.
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive."

5. The wells identified in Exhibit "A"
 - (a) have been continuously inactive for a period of one year plus 90 days (or within the next several months will become continuously inactive for a period of one year plus 90 days if no action is taken on the wells);
 - (b) are not plugged or abandoned under OCD Rule 202 [19.15.4.202 NMAC]; and
 - (c) are not on approved temporary abandonment status under OCD Rule 203 [19.15.4.203 NMAC].
6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly and willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-33(A) defines "person" in relevant part as
"any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are either out of compliance with Rule 201 [19.15.4.201 NMAC] or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with Rule 201 [19.15.4.201 NMAC].
4. Operator is a "person" as defined by NMSA 1978, Section 70-2-33(A) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring at least 13 of the wells identified in Exhibit "A" into compliance with OCD Rule 201 [19.15.4.201 NMAC] by March 15, 2008 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;

- (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) [19.15.4.202(B)(2) NMAC] and filing a C-103 describing the completed work; or
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203 [19.15.4.203 NMAC].
- 2. Operator shall file a written compliance report identifying each well returned to compliance, stating the date it was returned to compliance, and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status). Transfer of a well identified on Exhibit "A" to another operator does not count towards Operator's obligation to return wells to compliance under the terms of this Order, but does reduce the total number of wells for which Operator is responsible under the terms of this Order. Operator shall mail or e-mail the written compliance report to OCD's Compliance and Enforcement Manager so that it is received no later than March 15, 2008.
- 3. When the OCD receives a timely compliance report indicating that Operator has returned at least 13 wells to compliance and verifies the accuracy of that report, the OCD shall issue an amendment to this Order extending its terms for a additional six-month period, and require Operator to return 15 additional wells to compliance by that deadline. OCD shall provide a copy of that amendment to Operator at Operator's address of record provided pursuant to OCD Rule 100.C [19.15.3.100(C) NMAC]. If, in any six-month period, Operator returns more wells to compliance than the number required under this Order for that six-month period, the wells in excess of the number required will count towards the Operator's requirements for the next six-month period.
- 4. If Operator returns at least 15 wells to compliance in the second six-month period, OCD shall issue an amendment to this Order extending its term for a third six-month period. If Operator returns at least 15 wells to compliance in the third six-month period, OCD shall issue an amendment to this Order extending its term for a fourth six-month period. The total length of this Agreed Compliance Order, including the initial six-month period and any amendments, shall not exceed two years. At the end of two years, Operator and the OCD may negotiate a new agreed compliance order.
- 5. If Operator fails to bring the number of wells into compliance required in a six-month period covered by this Order or amendments issued to this Order, Operator agrees to pay a penalty of \$1000 times the number of wells it failed to bring into compliance under its schedule during the applicable six month period, subject to the terms of this Order. In the event Operator encounters unanticipated circumstances that prevent it from meeting its goal within any six-month period covered by this Order or amendments issued to this Order, Operator may apply for a waiver or reduction of the penalty by making the request in writing to the OCD's Compliance and Enforcement Manager no later than five days after the

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Chesapeake Operating, Inc.

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date the written compliance report is due for that period. If the Enforcement and Compliance Manager concurs with the Operator's request, the request for waiver or reduction of penalties may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, or fails to act on the request within ten days of receipt, Operator may file an application for hearing on the penalty issue. Any application for hearing on the issue of penalties must be filed no later than twenty days after the date the written compliance report is due for that period. Once Operator pays the penalty, requests an administrative reduction or waiver of penalties, or files an application for hearing on the issue of penalties, the OCD may, in its discretion, issue an amendment to this Order extending its terms for an additional six-month period.

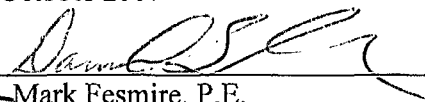
Example A: Operator X enters into an agreed compliance order under which it agrees to bring 5 wells into compliance in a six-month period. At the end of the six-month period, Operator X has brought only 3 wells into compliance. Operator X pays the \$2000 penalty. The OCD exercises its discretion to issue an amendment extending the term of the agreed compliance order for an additional six-month period, again requiring Operator X to bring at least 5 wells into compliance. During this additional six-month period, Operator brings only one well into compliance. Operator X pays a \$4000 penalty. Although Operator X pays the \$4000 penalty, the OCD exercises its discretion and declines to issue an amendment to extend the terms of the agreed compliance order for an additional six-month period.

Example B: Operator Y enters into an agreed compliance order under which it agrees to bring 10 wells into compliance in a six-month period. Although Y has made arrangements for plugging the 10 wells, due to adverse weather conditions and mechanical difficulties with the available plugging rig, Y is able to plug only 3 wells. Y applies for a waiver of the \$7000 penalty. The Compliance and Enforcement Manager does not agree to waive the full amount of the penalty, and the Operator files an application for hearing. The OCD exercises its discretion and issues an amendment to extend the terms of the agreed compliance order for an additional six-month period.

6. Thirty days after the expiration of the term of this Order and any amendments to this Order, any wells on Exhibit "A" not in compliance with OCD Rule 201 [19.15.4.201 NMAC] will appear on the inactive well list kept pursuant to OCD Rule 40.F [19.15.1.40(F) NMAC].
7. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance 13 of the wells identified in Exhibit "A" by March 15, 2008, and agrees to comply with the compliance deadlines set by any amendments to this Order;

- (c) agrees to submit a compliance report as required in Ordering Paragraph 2 and the deadline set by any amendments to this Order;
 - (d) agrees to pay penalties as set out in and limited by Ordering Paragraph 5 if it fails to return the required number of wells to compliance under the deadlines set by this Order or any amendments to this Order;
 - (e) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (f) agrees that the Order and amendments to the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
8. This Order applies only to the enforcement of OCD Rule 201 [19.15.4.201 NMAC] against those wells identified in Exhibit "A." Other wells operated by Operator out of compliance with OCD Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules. Wells identified in Exhibit "A" that are out of compliance with the Oil and Gas Act or OCD Rules other than Rule 201 [19.15.4.201 NMAC] may be subject to immediate enforcement action under the Oil and Gas Act and OCD Rules.
9. The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

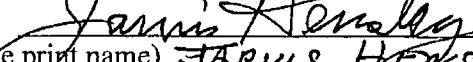
Done at Santa Fe, New Mexico this 18th day of October 2007

By: 
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Chesapeake Operating, Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Chesapeake Operating, Inc.

By: 
(Please print name) JARVIS HENSLEY
Title: DISTRICT MGR - N. PERMIAN
Date: 10/18/07

**Exhibit A
To Agreed Compliance Order
Chesapeake Operating, Inc.**

District	API	Well	ULSTR	Last Production
	1 30-025-20377	APPLESEED FEDERAL COM #001	H-17-20S-35E	Apr-05
	2 30-015-23073	BENSON SHUGART WATERFLOOD UNIT #008	A-35-18S-30E	Mar-03
	2 30-015-20526	BENSON SHUGART WATERFLOOD UNIT #009	A-26-18S-30E	Feb-06
	2 30-015-21426	BENSON SHUGART WATERFLOOD UNIT #026	I-25-18S-30E	Jul-04
	1 30-025-05978	BERTHA J BARBER #012	A-7 -20S-37E	Apr-05
	1 30-025-06027	BERTHA J BARBER #013Y	E-8 -20S-37E	Apr-90
	1 30-025-26356	BOBBI #001Y	J-20-18S-36E	Jan-82
	1 30-025-27566	BOBBI #004	L-20-18S-36E	May-91
	1 30-025-11796	CARLSON B 26 #004	I-26-25S-37E	Jan-06
	1 30-025-11809	CARLSON B 27 #002	I-27-25S-37E	Jan-05
	2 30-015-26622	CAVINESS PAINE #004	J-15-23S-28E	Dec-03
	1 30-025-20756	CUSTER MOUNTAIN UNIT #001	K-9 -24S-35E	Jan-06
	1 30-025-00029	DIAMONDBACK STATE #001	C-25-10S-32E	May-05
	1 30-025-22983	E W WALDEN #008	K-15-22S-37E	May-05
	1 30-025-31354	FEDERAL 31 G #002	B-31-19S-33E	Jan-05
	2 30-015-32575	FEDERAL AA #002	F-17-22S-26E	Jan-06
	1 30-025-34347	FEDERAL USA L #009Y	M-14-19S-33E	Apr-05
	1 30-025-07736	FRED TURNER #001	P-6 -20S-38E	May-04
	1 30-025-22198	GALLAGHER 8 STATE #002	M-8 -17S-34E	Mar-87
	1 30-025-27725	HERMAN #002	K-8 -20S-38E	Jul-02

1 30-025-35598	HILBURN #003	D-13-16S-35E	Jan-06
2 30-015-20937	HONDO FEDERAL GAS COM #001	J-27-17S-27E	Jul-04
1 30-025-33980	HOOVER 32 #006	P-32-17S-35E	Jul-04
1 30-025-04455	J A AKENS #001	L-3 -21S-36E	Jan-05
1 30-025-20110	J A AKENS #007	K-3 -21S-36E	Apr-98
1 30-025-26741	J A AKENS #011	J-3 -21S-36E	Mar-05
1 30-025-29872	J A AKENS #014	O-3 -21S-36E	Sep-00
1 30-025-20030	J A AKENS A OIL COM #001	M-3 -21S-36E	May-05
1 30-025-35246	JONES ROBINSON	O-19-20S-39E #001	Aug-02
1 30-025-21318	KEMNITZ LOWER WOLFCAMP EAST UNIT #002	K-22-16S-34E	Sep-00
1 30-025-20604	KEMNITZ LOWER WOLFCAMP EAST UNIT #003	O-22-16S-34E	Aug-94
1 30-025-20605	KEMNITZ LOWER WOLFCAMP EAST UNIT #004	A-28-16S-34E	Feb-87
1 30-025-20222	KEMNITZ LOWER WOLFCAMP EAST UNIT #005	C-27-16S-34E	Jul-94
1 30-025-25140	LA RICA FEDERAL #001	L-13-19S-33E	Jul-04
1 30-025-26545	LANGLEY GRIFFIN #001	J-28-22S-36E	Jul-01
1 30-025-27888	LOVINGTON PLAINS 2 STATE #001	7-2 -16S-34E	Apr-06
1 30-025-27629	MCCALLISTER #002	D-8 -20S-38E	Feb-05
1 30-025-27740	MCKAMEY FEDERAL #001Y	L-25-19S-32E	Feb-05
1 30-025-28506	MESA STATE #001	J-14-16S-35E	May-03
1 30-025-03379	MEXICO W #001	P-2 -21S-35E	Apr-05
1 30-025-03400	MEXICO W #005	J-2 -21S-35E	Apr-05
1 30-025-36353	NEUHAUS 14 FEDERAL #004	G-14-20S-35E	Dec-05
1 30-025-30566	O G STATE #001	K-9 -11S-33E	Sep-04
2 30-015-21958	OLD INDIAN DRAW UNIT #015	B-18-22S-28E	Dec-98
2 30-015-22103	OLD INDIAN DRAW UNIT #023	7-7 -22S-28E	Dec-98
2 30-015-22182	OLD INDIAN DRAW UNIT #035	I-7 -22S-28E	May-96
1 30-025-33548	OLLIE J BOYD #008	E-23-22S-37E	May-01

1 30-025-04679	PECH STATE #001	L-32-21S-36E	Feb-06
1 30-025-04680	PECH STATE #002	K-32-21S-36E	Feb-06
1 30-025-04662	PECH STATE #003	L-32-21S-36E	Feb-06
2 30-005-60635	RUTTER FEDERAL #001	O-14-10S-29E	May-03
1 30-025-04678	SHELL STATE #001	N-32-21S-36E	Feb-05
1 30-025-20224	SHIPP A #001	G-17-17S-37E	Nov-04
1 30-025-33395	STATE BG COM #001	B-19-17S-35E	Jul-05
2 30-015-23202	STATE IC #001	C-7 -24S-25E	May-03
1 30-025-29543	SUNBURST SHOGRIN FEDERAL #001	J-22-19S-34E	Dec-05
1 30-025-33883	SV BIG BERTHA #001	F-11-16S-36E	Nov-05
1 30-025-33806	SV CHIPSHOT #002	M-11-16S-36E	Nov-05
1 30-025-00922	TONTO FEDERAL #001	D-27-19S-32E	Jul-05
1 30-025-36685	TRES PAPALOTES 4 #003	I-4 -15S-34E	Mar-05
1 30-025-35817	TRINITY BURRUS ABO UNIT #004	I-22-12S-38E	Apr-06
1 30-025-12464	W B MAVEETY #005	G-35-19S-36E	Feb-05
1 30-025-35131	WAREHOUSE 10 #002	B-10-16S-36E	May-04
1 30-025-30508	WYNELL FEDERAL #001	I-15-19S-33E	May-02

Chesapeake Operating, Inc.

By:

Date:

James H. Hendley
10/17/07