

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

RECEIVED

2007 NOV 21 PM 1 32

ACO No. 209

IN THE MATTER OF CHI 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 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 (hereinafter, "OCD") issues this Order to **Chi Operating, Inc.** (hereinafter, "Operator"); directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Operator is a foreign for-profit corporation authorized to do business in New Mexico under SCC 1399054. Operator operates wells within New Mexico under OGRID 4378. Operator's address is P.O. Box 1799; Midland, Texas 79702.
3. Operator is the operator of record for the Allen No. 003 well (API No. 30-015-33788) (Unit Letter B, Section 31, Township 22S, Range 27E); the Otis 33 No. 003 well (API No. 30-015-33943) (Unit Letter B, Section 33, Township 22S, Range 27E); and the OXY Ribeye Federal No. 001 well (API No. 30-015-30173) (Unit Letter F, Section 34, Township 19S, Range 28E). All three wells are located in Eddy County, New Mexico.
4. OCD Rule 19.15.2.50(F)(1) NMAC ("Rule 50") states a pit "shall be properly closed within six months after cessation of use."
5. On May 9, 2007, OCD Deputy Oil and Gas Inspector Gerry Guye observed an open drilling pit during his inspection of the Allen No. 003 well site. According to OCD records, the Allen No. 003 well was completed on May 26, 2005. OCD approved Operator's C-144 pit closure form for the pit on November 16, 2005. Under Rule 50, the pit was required to have been closed by November 26, 2005.
6. On May 9, 2007, Inspector Guye sent Operator a Letter of Violation (LOV No. 0212007) informing Operator of the Rule 50 pit violation for the Allen No. 003 well. Inspector Guye asked Operator to remedy the pit violation by June 30, 2007.

7. On June 22, 2007, Operator filed a C-144 pit closure form for the pit for the Allen No. 003 well. On July 2, 2007, Operator filed another C-144 pit closure form for the pit for the Allen No. 003 well. Because of a change in ranking for the pit, Inspector Guye extended Operator's deadline to remedy the pit violation to August 31, 2007.
8. On February 19, 2007, OCD Deputy Oil and Gas Inspector Ron Harvey observed an open drilling pit during his inspection of the Otis 33 No. 003 well site. According to OCD records, the Otis 33 No. 3 well was completed on August 5, 2005. Under Rule 50, the pit was required to have been closed by February 5, 2006.
9. On February 20, 2007, Inspector Harvey sent Operator a Letter of Violation (LOV No. 021207) informing Operator of the Rule 50 pit violation for the Otis 33 No. 003 well. Inspector Harvey asked Operator to remedy the pit violation by March 20, 2007.
10. On June 28, 2007, Operator filed a C-144 Form to close the pit for the Otis 33 No. 3 well.
11. On March 28, 2007, Inspector Harvey observed an open drilling pit during his inspection of the Oxy Ribeye Federal No. 001 well site. According to OCD records, the Oxy Ribeye Federal No. 001 well was completed on July 26, 1998. Under Rule 50, the pit was required to have been closed by June 30, 2005.
12. On March 28, 2007, Inspector Harvey sent Operator a Letter of Violation (LOV No. 028707) advising Operator of the Rule 50 pit violation for the Oxy Ribeye Federal No. 001. Inspector Harvey asked Operator to remedy the pit violation by April 30, 2007.
13. On June 28, 2007, Operator filed a C-144 Form to close the pit for the Oxy Ribeye Federal No. 001 well.
14. When Operator failed to close the pits as requested, OCD issued Notice of Violation ("NOV") No. 02-07-22 against Operator on September 14, 2007. In NOV No. 02-07-22 OCD alleged that Operator knowingly and willfully violated Rule 50 by not closing the pits for the three wells even after being advised to do so by OCD. OCD proposed assessing a \$7,000.00 civil penalty against Operator for knowingly and willfully violating Rule 50. The \$7,000.00 civil penalty was based on one violation of Rule 50 for each year that each pit continued to remain open (two years for the Allen No. 003, two years for the Otis 33 No. 003, and three years for the Oxy Ribeye Federal No. 001).
15. On October 23, 2007, an administrative conference was held at the OCD's Artesia District Office. John Qualls, Gary Womack, and Bill Sweatt appeared for Operator. Mr. Qualls is Operator's Vice-President. Mr. Womack is Operator's engineer. Mr. Sweatt is a dirt contractor. Appearing for OCD was Daniel Sanchez, Tim Gum, Gerry Guye, Mike Bratcher, Ron Harvey, and Sonny Swazo.
16. At the conference Mr. Qualls said the pit for the Oxy Ribeye Federal No. 001 well is closed. Mr. Qualls said the soil for the Allen No. 003 well and the Otis 33 No. 3 well has been hauled off but the soil has not yet been tested. The soil was going to be tested on Thursday or Friday. Mr. Qualls said the letters of violation for each pit never got to his desk. He said they were having issues with an employee at the time and they found out about the letters after the employee matter was resolved. The letters were in the

employee's desk.

17. During the conference OCD spoke with Operator about the violations in Attachment A (OCD gave Operator a copy of Attachment A). OCD and Operator agreed that the violations in Attachment A would be remedied by November 30, 2007. Operator agreed that if it needed additional time to remedy the violations, it would request additional time from OCD by November 15, 2007.
18. NMSA 1978, Section 70-2-31(A) provides that any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars for each violation, and that in the case of a continuing violation, each day of violation shall constitute a separate violation.
19. NMSA 1978, Section 70-2-33(A) defines "person" to mean "any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity."

II. CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator is a "person" as defined by Section 70-2-33(A), that may be subject to civil penalties under Section 70-2-31(A).
3. Operator is subject to civil penalties under Section 70-2-31(A) for a knowing and willful violation of Rule 50.

III. ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling **Seven Thousand Dollars (\$7,000.00)** against Operator. The \$7,000.00 penalty is based on one violation of OCD Rule 50 for each year that each pit continued to remain open (two years for the Allen No. 003, two years for the Otis 33 No. 003, and three years for the Oxy Ribeye Federal No. 001).
2. The assessed **Seven Thousand Dollars (\$7,000.00)** 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. Operator shall close the pits for the Allen No. 003 well and the Otis 33 No. 003 well by November 30, 2007.
4. Operator shall remedy the violations in Attachment A by November 30, 2007. If Operator is unable to remedy the violations in Attachment A by November 30, 2007, Operator shall ask OCD for an extension of time to remedy the violations. The request for additional time shall be made by November 15, 2007. If Operator fails to remedy the violations in Attachment A

by November 30, 2007, or by any date agreed to by OCD in the case of time extensions, OCD will pursue further enforcement action against Operator.

5. By signing this Order, Operator expressly:

- a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- b. agrees to comply with the Order;
- 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 28th day of November 2007.

By: _____

m

Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Chi Operating, Inc., hereby accepts the foregoing Order, and agrees to all of the terms and provisions as set forth therein.

CHI OPERATING, INC.

By: _____

Title: _____

Date _____

John W. Fesmire
Vice president
11-15-07



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Garza

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

*Field Inspection Program
"Preserving the Integrity of Our Environment"*

10-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

MENTAL FLOSS 18 FEDERAL No.001

G-18-16S-27E

30-015-35229-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/10/2007	Routine/Periodic	Ron Harvey	Yes	No	11/11/2007	iREH0728344042
Violations						
Emergency/Temporary Pits						
Comments on Inspection: Well active still listed as "N". TB located on NW corner of location. Drilling pit on south side of location still open and full of liquids/solids. Pit fence ok. Pit liner breached on west wall, violation of Rule 50. Photos taken.						

Attachment A

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Copy

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

*Field Inspection Program
"Preserving the Integrity of Our Environment"*

03-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

HENRY No.003				N-22-22S-27E	30-015-32876-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727647412	
		Violations					
		Emergency/Temporary Pits					
Comments on Inspection:		Well completed 2/5/04. Location completely overgrown with weeds. No wellsign violation of Rule 103. Drilling pit located east of location still open and full of solids. Liner breached on east pit wall, violation of Rule 50. Photos taken.					

ALLEN No.003				B-31-22S-27E	30-015-33788-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727640484	
		Violations					
		Emergency/Temporary Pits					
Comments on Inspection:		Well has been producing since 2005. Approval to close drilling pit was given in 2005 and again on 7/13/07. Pit is still not closed, violation of Rule 50. Also wellsign on location has wrong well name, violation of Rule 103.					

HENRY GRANDI No.001

I-26-22S-27E

30-015-34112-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727646263
Violations						
Emergency/Temporary Pits						

Comments on Inspection: location needs attention. Equipment OK. Drilling pit north of location. Some work has been done to close pit but is still open. Well was completed 11/4/05. Violation of Rule 50. Photos taken.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Field Inspection Program
"Preserve the Integrity of Our Environment"

04-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

STATE 23 A No.001				L-23-19S-29E	30-015-22814-00-00	
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/04/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727750989
Violations						
Absent Well Identification Signs (Rule 103)						
Comments on Inspection:		Well sign does not list API number and lists wrong section number. Violation of Rule 103. Photo taken.				

GIBLET STATE No.001				3-1-19S-29E	30-015-30513-00-00	
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/04/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727748362
Violations						
Absent Well Identification Signs (Rule 103)						
Comments on Inspection:		Well sign does not indicate API number. Violation of Rule 103. Photo taken.				

HEAVY HARRY STATE COM No.001

N-4-17S-28E

30-015-30963-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/04/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727732024
Violations Surface Leaks/Spills						

Comments on Inspection: Location ok. Fresh release from back side of tank battery (east tank). Violation of Rule 116. Release needs to be remediated immediately. Operator will prove OCD with remediation plan. Samples will be collected and analytical data provided to OCD. Photos taken.

BEAVERTAIL STATE COM No.001

O-36-16S-28E

30-015-32856-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/04/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727737809
Violations Absent Well Identification Signs (Rule 103)						

Comments on Inspection: No wellsign on or near location, violation of Rule 103.

CROZIER 28 FEDERAL No.001

B-33-21S-26E

30-015-35573-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/04/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727745605
Violations Absent Well Identification Signs (Rule 103)						

Comments on Inspection: Well sign does not indicate API number and lists wrong section number. Violation of Rule 103.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.
*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Copy

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Field Inspection Program
"Preserving the Integrity of Our Environment"

05-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

CHI 16 STATE No.001				D-16-21S-29E	30-015-31673-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727847895	
		Violations					
		Surface Leaks/Spills					
Comments on Inspection:		Contamination on ground in from of most westernly tank in tank battery, violation of Rule 116. Operator needs to submit remediation plan to OCD for approval prior to remediation. Photos taken.					

SHUGART WEST 24 B FEDERAL No.005				B-24-18S-30E	30-015-32130-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727835186	
		Violations					
		Surface Leaks/Spills					
Comments on Inspection:		Fresh contamination on backside of tank battery inside burm area. Open top tank looks like it has overflowed in the past. Operator needs to remediate area ASAP and submit a remediation plan to include sample collection and analytical data to OCD. Violation of Rule 116. Photos taken.					

WIZARD FEDERAL No.003

J-1-19S-30E

30-015-32210-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727840912
Violations Emergency/Temporary Pits						

Comments on Inspection: Drilling pit open. Pit has been excavated but is not closed or the surface contoured. Violation of Rule 50. Photos taken. Well was completed on 4/15/03.

SHUGART WEST 13 FEDERAL No.001

O-13-18S-30E

30-015-33577-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727834719
Violations Absent Well Identification Signs (Rule 103)						

Comments on Inspection: No well sign on or near location, violation of Rule 103.

MUNCHKIN FEDERAL No.005Q

F-12-19S-30E

30-015-33725-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727843167
Violations Surface Leaks/Spills						

Comments on Inspection: Tanks in battery have evidence of overflow. Contamination in and outside of TB berm area, violation of Rule 116. Operator needs to remediate area ASAP. Operator must provide remediation plan to OCD and provide results of samples taken. Photos taken.

MUNCHKIN FEDERAL No.006

D-12-19S-30E

30-015-33881-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727842262
Violations Surface Leaks/Spills						

Comments on Inspection: Area inside tank battery berm has recent contamination. Two inside tank in battery have evidence of overflow. Violation of Rule 116. Area needs to be remediated ASAP. Operator is to provide OCD with a remediation plan prior to conducting remediation. Operator must also provide OCD with collected sample analytical data. Photos taken.

MUNCHKIN FEDERAL No.010

H-11-19S-30E

30-015-35085-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/05/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007	iREH0727843786
Violations Surface Leaks/Spills						

Comments on Inspection: Contamination inside tank battery berm area, violation of Rule 116. Operator needs to provide remediation plan to OCD for approval prior to conducting remediation. Samples will need to be collected and analytical data provided to OCD. Photos taken.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.
*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

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

Field Inspection Program
"Preserving the Integrity of Our Environment"

09-Oct-07

CHI OPERATING INC
P. O. BOX 1799
MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

ARCO FEDERAL No.001				E-34-19S-28E	30-015-20912-00-00
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By: Inspection No.
10/09/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007 iREH0728245214
Violations Absent Well Identification Signs (Rule 103)					
Comments on Inspection: Location needs attention. Equipment OK. Well sign is not readable and has wrong operator name, violation of Rule 103. Photo taken.					
REMINGTON FEDERAL No.001				M-3-20S-28E	30-015-27222-00-00
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By: Inspection No.
10/09/2007	Routine/Periodic	Ron Harvey	Yes	No	11/10/2007 iREH0728241362
Violations Surface Leaks/Spills					
Comments on Inspection: Evidence of tank overflow in tank battery. Contamination around tanks. Violation of Rule 116. Operator needs to submit remediation plan to OCD for approval prior to conducting clean up. Photos taken.					

WINCHESTER FEDERAL No.004

C-3-20S-28E

30-015-28007-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/09/2007	Routine/Periodic Violations	Ron Harvey	Yes	No	11/10/2007	iREH0728244523

Absent Well Identification Signs (Rule 103)

Comments on Inspection: Well sign does not indicate API number, violation of rule 103. Photo taken.

USA 9 FEDERAL COM No.002Q

A-9-20S-28E

30-015-32202-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/09/2007	Routine/Periodic Violations	Ron Harvey	Yes	No	11/10/2007	iREH0728241852

Surface Leaks/Spills

Comments on Inspection: Evidence of tank overflow in battery. Contamination throughout tank battery berm area. Area needs to be remediated ASAP, violation of Rule 116. Operator needs to submit remediation plan to OCD for approval prior to conducting clean up. Photos taken.

FOOTJOY 14 STATE No.001

A-14-19S-27E

30-015-33721-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/09/2007	Routine/Periodic Violations	Ron Harvey	Yes	No	11/10/2007	iREH0728249197

Emergency/Temporary Pits

Comments on Inspection: Drilling pit still open and full of fluids/solids. Pit fence ok. Pit liner breached on NE corner of pit, violation of Rule 50. Photos taken.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Field Inspection Program

"Preserving the Integrity of Our Environment"

03-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

HENRY No.003				N-22-22S-27E	30-015-32876-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727647412	
		Violations					
		Emergency/Temporary Pits					
Comments on Inspection:		Well completed 2/5/04. Location completely overgrown with weeds. No wellsign violation of Rule 103. Drilling pit located east of location still open and full of solids. Liner breached on east pit wall, violation of Rule 50. Photos taken.					

ALLEN No.003				B-31-22S-27E	30-015-33788-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727640484	
		Violations					
		Emergency/Temporary Pits					
Comments on Inspection:		Well has been producing since 2005. Approval to close drilling pit was given in 2005 and again on 7/13/07. Pit is still not closed, violation of Rule 50. Also wellsign on location has wrong well name, violation of Rule 103.					

HENRY GRANDI No.001

I-26-22S-27E

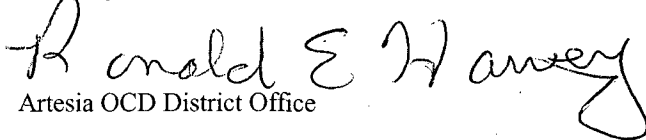
30-015-34112-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
10/03/2007	Routine/Periodic	Ron Harvey	Yes	No	11/3/2007	iREH0727646263
	Violations					
	Emergency/Temporary Pits					

Comments on Inspection: location needs attention. Equipment OK. Drilling pit north of location. Some work has been done to close pit but is still open. Well was completed 11/4/05. Violation of Rule 50. Photos taken.

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well. Such a hearing may result in imposition of CIVIL PENALTIES for your violation of OCD rules.

Sincerely,


Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.
*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.