



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

12/3/2007

Chi Operating Inc.
PO Box 1799
Midland, TX 79702

Roadrunner Environmental
PO Box 1238
Carlsbad, NM 88220

Gentlemen;

This office is in receipt of the Remediation Work Plans for the following wells. These plans are approved with the stipulations as indicated for each well.

Chi 16 State No. 1

- Notify the district office of the division (Artesia) of the date the remediation is begun.
- Upon completion of the remediation, samples are to be taken and laboratory tested (Hydrocarbons and Chlorides), and the results provided in writing to the Artesia District Office.

Shugart West 24 B Federal No. 5

- After excavation of soil, and prior to other remediation, samples are to be taken, laboratory tested (Hydrocarbons and Chlorides), and the results submitted to Artesia District Office for approval.
- Upon completion of the remediation, samples are to be taken and laboratory tested, and the results provided in writing to the Artesia District Office.
- Notify the district office of the division (Artesia) of the date the remediation is begun.

Munchkin Federal No. 5Q

- Notify the district office of the division (Artesia) of the date the remediation is begun.
- After excavation of soil, and prior to other remediation, samples are to be taken, laboratory tested (Hydrocarbons and Chlorides), and the results submitted to Artesia District Office for approval.
- Upon completion of the remediation, samples are to be taken and laboratory tested (Hydrocarbons and Chlorides), and the results provided in writing to the Artesia District Office.

Munchkin Federal No. 6

- **Ensure** there are no breaches in the liner. If a breach appears in the liner, prior to other remediation, samples are to be taken, laboratory tested (Hydrocarbons and Chlorides), and the results submitted to Artesia District Office for approval.

Munchkin Federal No. 10

- **Ensure** there are no breaches in the liner. If a breach appears in the liner, prior to other remediation, samples are to be taken, laboratory tested (Hydrocarbons and Chlorides), and the results submitted to Artesia District Office for approval.

Heavy Harry State No. 1

- After excavation of soil, and prior to other remediation, samples are to be taken, laboratory tested (Hydrocarbons and Chlorides), and the results submitted to Artesia District Office for approval.
- Notify the district office of the division (Artesia) of the date the remediation is begun.

As each remediation project is completed a final report will be submitted to the Artesia District Office with a copy to the Division Compliance Officer in Santa Fe. This report must contain the step by step remediation process and the results.

If I may be of further service, please contact me.

Gerry Guye
Compliance Officer
NMOCD District II, Artesia
(505) 748-1283 ext 105
Cell (505) 626-0843
e-mail: gerry.guye@state.nm.us

cc: Sonny Swazo, OCD Consul

**Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220**

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0727732024
Chi Operating Inc.
HEAVY HARRY STATE COM No.001

Roadrunner Env. Is submitting a plan to remediate the area around the tank battery

- 1st) Patch holes in first tank up catwalk (currently out of service)
- 2nd) Sand blast and coat bottom and 2ft up sides
- 3rd) Transfer all liquids to reconditioned tank
- 4th) Take leaking tank out of service and disconnect all piping
- 5th) Excavate 3ft of soil at back side of tank at release area
- 6th) Sample bottom of excavation area
- 7th) Saturate the excavation site with "ELIMINATOR" microbial cleaner
- 8th) Backfill with clean soil and roto-till
- 9th) Saturate the ground a second time with "ELIMINATOR"
- 10th) Once every 6 days, for the next 3 weeks, spray the area with clean well water, to aid the bugs in growth and help with the digestion of the hydrocarbons

All contaminated material will be hauled off and disposed of at a properly licensed disposal facility in accordance with OCD and BLM requirements.

Please feel free to contact me if you have any questions or concerns that I have not covered.

Thank you,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0728241852
Chi Operating Inc.
USA 9 FEDERAL COM No.002Q

Roadrunner Env. Is submitting a plan to remediate the area around the tank battery

- 1st) Patch pinholes on first tank up catwalk, south side
- 2nd) Replace metal containments at the end of the load lines and replace with plastic covered type
- 3rd) Steam clean entire battery and piping
- 4th) Saturate the ground inside the firewall with "ELIMINATOR" microbial cleaner and roto-till
- 5th) Saturate the ground a second time with "ELIMINATOR"
- 6th) Once every 6 days, for the next 3 weeks, spray the area with clean well water, to aid the bugs in growth and help with the digestion of the hydrocarbons

Please feel free to contact me if you have any questions or concerns that I have not covered

Thank you,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0728241362
Chi Operating Inc.
REMINGTON FEDERAL No.001

Roadrunner is submitting a plan of action to remediate the area inside the firewalls surrounding the tank battery.

- 1st) Steam clean tanks and all piping on battery
- 2nd) Roto-till the area inside of the firewalls
- 3rd) Saturate the area with "ELIMINATOR" microbial cleaner
- 4th) Roto-till area a second time
- 5th) Once every 6 days, spray gravel with clean well water to ensure the growth of the microbes
- 6th) Continue to spray with well water for 3 weeks

Please feel free to contact me if you have any questions or concerns.

Thank You,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

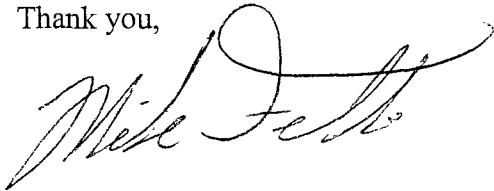
Attention: Mr. Ron Harvey
Inspection No. iREH0728245214
Chi Operating Inc.
ARCO FEDERAL No.001

Roadrunner Env. Is submitting a plan to remediate the area around the tank battery

- 1st) Install new well sign with company name, API number, and proper legal description
- 2nd) Back drag location – clearing of weeds and mesquite
- 3rd) Chop all weeds around well, stack pack, separator, tank, and piping
- 4th) Pick up all debris, trash, and junk from location
- 5th) Dispose of at properly licensed landfill

Please feel free to contact me if you have any questions or concerns that I have not covered.

Thank you,

A handwritten signature in black ink, appearing to read "Mike Felkins", with a stylized, flowing script.

Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0727843786
Chi Operating Inc.
MUNCHKIN FEDERAL NO.010

Roadrunner is submitting a plan of action to remediate the area inside the firewalls surrounding the tank battery.

This battery is built on top of a 20 mill liner that runs under the tanks and over the firewalls. I believe the liner has held the hydrocarbons on location as designed.

- 1st) Steam clean tanks and all piping on battery
- 2nd) Carefully shovel all contaminated gravel from top of liner
- 3rd) Wash down liner with clean well water and suck up with vac truck
- 4th) Spread clean gravel over liner

All contaminated material picked up on location will be hauled to a properly licensed disposal facility and disposed of in accordance with O.C.D. and B.L.M. requirements.

Please feel free to contact me if you have any questions or concerns.

Thank You,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0727842262
Chi Operating Inc.
MUNCHKIN FEDERAL NO.006

Roadrunner is submitting a plan of action to remediate the area inside the firewalls surrounding the tank battery.

This battery is built on top of a 20 mill liner that runs under the tanks and over the firewalls. I believe the liner has held the hydrocarbons on location as designed.

- 1st) Tighten all bolts, piping, and capping any open ended pipes to stop all seepage
- 2nd) Steam clean tanks and all piping on battery
- 3rd) Carefully shovel all contaminated gravel from top of liner
- 4th) Wash down liner with clean well water and suck up with vac truck
- 5th) Spread clean gravel over liner

All contaminated material picked up on location will be hauled to a properly licensed disposal facility and disposed of in accordance with O.C.D. and B.L.M. requirements.

Please feel free to contact me if you have any questions or concerns.

Thank You,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0727843167
Chi Operating Inc.
MUNCHKIN FEDERAL NO.OO5Q

Roadrunner is submitting a plan of action to remediate the area surrounding the tank battery and the areas through the firewalls to the south and east sides of battery.

- 1st) Steam clean tanks and all piping on battery
- 2nd) Excavate all-obvious signs of hydrocarbons around tank area
- 3rd) Take soil samples of area, see attached diagram
- 4th) Take soil samples outside of firewall, see attached diagram
- 5th) Deliver soil samples to an accredited lab for hydrocarbon analyses
- 6th) Upon results of samples: A) excavate until limits are acceptable B) move to step 7
- 7th) Saturate area with "ELIMINATOR" microbial cleaner, add layer of clean soil and roto-till
- 8th) Saturate area a second time with "ELIMINATOR", add a final layer of soil to bring to original grade and roto-till
- 9th) Once every 6, days sprinkle the area with clean fresh well water to aid in growth of the microbes and help with digestion of the hydrocarbons
- 10th) Continue to spray with well water for 6 weeks

All contaminated material picked up on location will be hauled to a properly licensed disposal facility and disposed of in accordance with O.C.D. and B.L.M. requirements.

Please feel free to contact me if you have any questions or concerns.

Thank You,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

Sample Points

A thru E inside Firewall

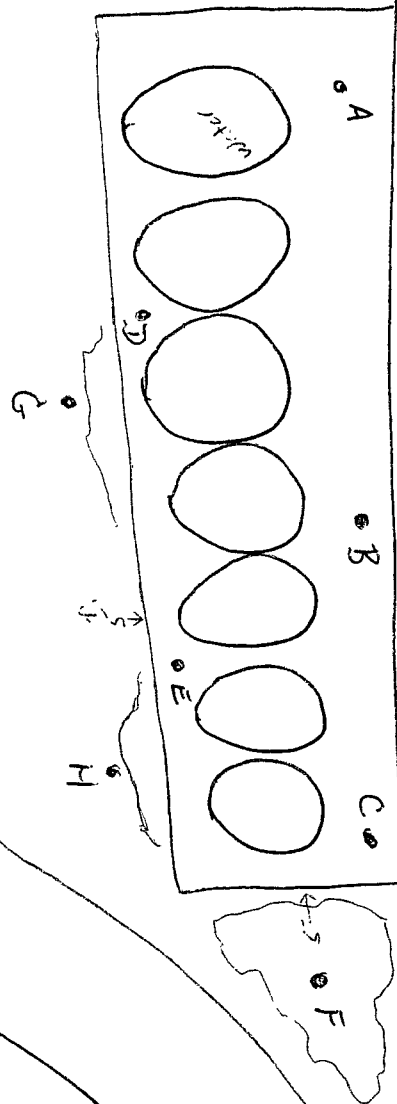
G-H South of Fence 5'

F East of Fence 5'

Chi Operating

Munckin Fed #0059

Heater
Treater



Well
pump

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

Attention: Mr. Ron Harvey
Inspection No. iREH0727835186
Chi Operating Inc.
SHUGART WEST 24 B FEDERAL No.005

Roadrunner is submitting a plan to remediate the area surrounding the tanks battery and approximately 8ft outside the firewall on the south side.

- 1st) Steam clean tanks and all piping on battery
- 2nd) Excavate the top 1 ft of gravel and soil around the battery
- 3rd) Excavate the top 1ft of topsoil on the south side of firewall
- 4th) Take soil sample of area, see attached diagram.
- 5th) Saturate the ground inside the firewalls with "ELIMINATOR" roto-till the area.
- 6th) Bring in 1ft of clean topsoil to bring back to original grade
- 7th) Saturate with "ELIMINATOR", roto-till into soil for a second time.
- 8th) Once every 6, days sprinkle the area with clean fresh well water to aid in growth of the microbes and help with digestion of the hydrocarbons.
- 9th) Continue to spray with well water for 6 weeks
- 10th) The area south of the firewall will be dug out to expectable limits and replaced with clean material.

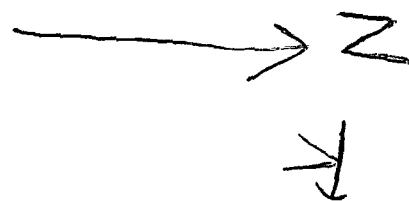
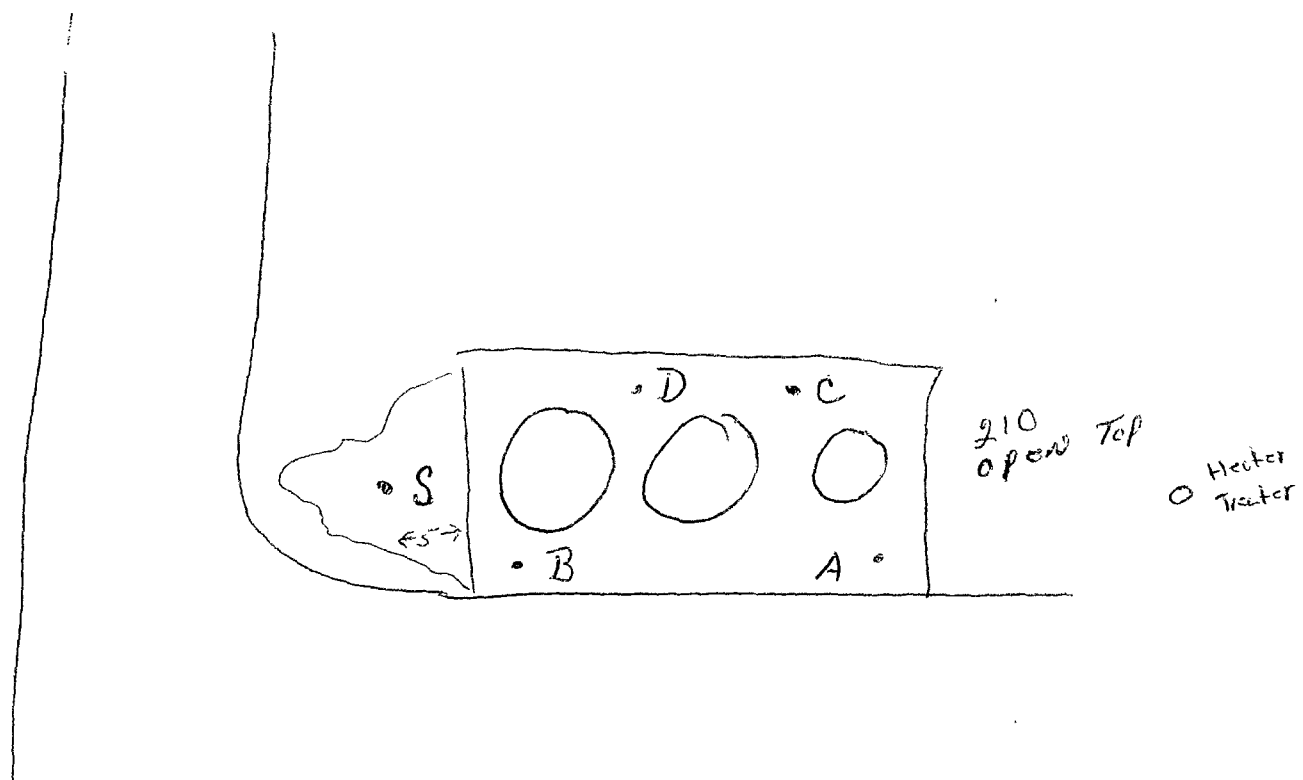
All contaminated material picked up on location will be hauled to a properly licensed disposal facility and disposed of in accordance with O.C.D. and B.L.M. requirements.

Please feel free to contact me if you have any questions or concerns.

Thank You,

A handwritten signature in black ink, appearing to read "Mike Felkins". The signature is fluid and cursive, with a large loop at the end.

Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774



Chi Operating
 Skugart west 24 B Fed #5

Sample Points
 A-B-C-D, Inside Fire Wall

S - South side of Battery
 5' from fence

Roadrunner Environmental
P.O. Box 1238
Carlsbad N.M. 88220

Oil Conservation Division
1301 W. Grand
Artesia N.M. 88210

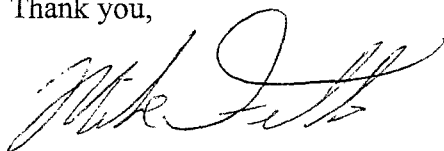
Attention: Mr. Ron Harvey
Inspection No. iREH0727847895
Chi Operating Inc.
CHI 16 STATE No.001

Roadrunner Env. Is submitting a plan to remediate the area around the tank battery

- 1st) Tighten all piping to stop seepage at the joints
- 2nd) Remove metal containments at the end of the load lines and replace with plastic.
- 3rd) Steam clean entire battery
- 4th) Saturate the ground inside the firewall with "ELIMINATOR" microbial cleaner and roto-till
- 5th) Saturate the ground a second time with "ELIMINATOR"
- 6th) Once every 6 days, for the next 3 weeks, spray the area with clean well water, to aid the bugs in growth and help with the digestion of the hydrocarbons.

Please feel free to contact me if you have any questions or concerns that I have not covered.

Thank you,



Mike Felkins
Roadrunner Env.
Off. 505-887-6067
Cell. 505-361-2774

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.

Ext to Dec 30
Sonny Swazz

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

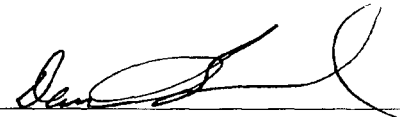
by November 30, 2007, or by any date agreed to by OCD in the case of time extensions, OCD will pursue further enforcement action against Operator.

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: _____

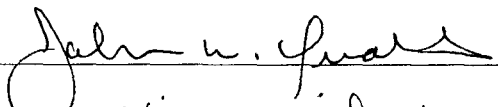

Mark Fesmire, PE, Director
Oil Conservation Division

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: Vice president

Date _____

11-15-07



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Greg

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

*Oil Conservation Division
"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 Report
10/03/2007

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 Violations Emergency/Temporary Pits	Ron Harvey	Yes	No	11/3/2007	iREH0727646263

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

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*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

*Division of the Department of Energy, Minerals and Natural Resources
"Protecting the 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

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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

*Protect, preserve and conserve
New Mexico's energy and natural resources*

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 western 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 burn 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

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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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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	Ron Harvey	Yes	No	11/10/2007	iREH0728244523
Violations 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	Ron Harvey	Yes	No	11/10/2007	iREH0728241852
Violations 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	Ron Harvey	Yes	No	11/10/2007	iREH0728249197
Violations 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

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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 Report

Oil Conservation Division

03-Oct-07

CHI OPERATING INC

P. O. BOX 1799

MIDLAND TX 79702

LETTER OF VIOLATION - Inspection

Dear Operator:

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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

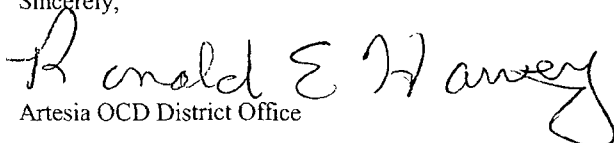
30-015-34112-00-00

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

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

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