



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Cabinet Secretary

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Director

Oil Conservation Division

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

30-015-30764

06-Apr-06

CHI OPERATING INC

PO 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

COAL TRAIN FEDERAL COM No.001

M-10-17S-28E

30-015-30764-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
04/06/2006	Routine/Periodic	Chris Beadle	Yes	No	5/26/2006	iCLB0609634294

Violations

Tank Battery Equipment (Rules 114, 115)

Surface Leaks/Spills

Comments on Inspection: A release of produced fluids has occurred from the tank battery on the northwest side of the location from an apparent hole in the eastern stock tank. Standing fluids and saturated soils on location between wellhead and tank battery with an area 30 x 60 feet of standing fluids and saturated soils south and east of wellhead. Area close to tank battery (appx 15 x 45 feet) has heavy hydrocarbon impact, light to moderate hydrocarbons in other areas.

Mesquite Services crew and Crain Hot Oil truck on location attending to stock tank and remaining fluids in the tank.

No notice of release has been received by the OCD District 2 Office as of the time of this inspection. The OCD estimates that this release is greater than 25 bbl based on the impacted area and standing fluids present and therefore a violation of OCD Rule 19.15.3.116 [NMAC] for no immediate verbal notification for a release greater than 25 bbls of produced fluids.

Referred to BLM for remediation oversight. Submit Form C-141 (Notice of Release and Corrective Action) to the OCD District 2 Office prior to April 21, 2006. Once BLM required remediation is completed submit Final Report C-141 with actions taken and results of samples showing levels of Benzene, BTEX, TPH and chlorides in the impacted areas.

If remediation is not completed prior to May 26, 2006, then the operator is required to submit a report on remediation activity conducted and a work plan to the OCD District 2 Office.

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.