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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

Response Required – Deadline Enclosed

05-Nov-08

CHESAPEAKE OPERATING, INC.

PO Box 190

HOBBS NM 88241-0000

LOV NO. 2-08-166

LETTER OF VIOLATION and SHUT-IN DIRECTIVE Failed Mechanical Integrity Test

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail section.

The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

Please notify the proper district office of the Division at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

MECHANICAL INTEGRITY TEST DETAIL SECTION

OLD INDIAN DRAW UNIT No.002

30-015-21391-00-00

Active Injection - (All Types)

O-18-22S-28E

Test Date: 10/29/2008

Permitted Injection PSI: 800

Actual PSI: 870

Test Reason: Annual IMIT

Test Result: F

Repair Due: 2/1/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

OLD INDIAN DRAW UNIT No.004

30-015-21505-00-00

Active Injection - (All Types)

I-18-22S-28E

Test Date: 10/29/2008

Permitted Injection PSI: 800

Actual PSI: 880

Test Reason: Annual IMIT

Test Result: F

Repair Due: 2/1/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

OLD INDIAN DRAW UNIT No.010

30-015-21843-00-00

Active Injection - (All Types)

C-18-22S-28E

Test Date: 10/29/2008

Permitted Injection PSI: 800

Actual PSI: 870

Test Reason: Annual IMIT

Test Result: F

Repair Due: 2/1/2009

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Fluid coming from casing. Guage shows 1000 psi on casing. Injection pressure over limit

OLD INDIAN DRAW UNIT No.011**30-015-21844-00-00****Active Injection - (All Types)****A-19-22S-28E**

Test Date: 10/29/2008 Permitted Injection PSI: **800** Actual PSI: 880
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Permit Violation FAIL CAUSE:
Comments on MIT: Injection pressure over limit

OLD INDIAN DRAW UNIT No.016**30-015-21959-00-00****Active Injection - (All Types)****M-7-22S-28E**

Test Date: 10/29/2008 Permitted Injection PSI: **800** Actual PSI: 870
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Permit Violation FAIL CAUSE:
Comments on MIT: Injection pressure over limit

OLD INDIAN DRAW UNIT No.021**30-015-22101-00-00****Active Injection - (All Types)****O-7-22S-28E**

Test Date: 10/29/2008 Permitted Injection PSI: **800** Actual PSI: 1100
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Permit Violation FAIL CAUSE:
Comments on MIT: Pressure over the guage max of 1000. Pressure at 1100+. Injection pressure over limit

CULEBRA BLUFF SWD No.001**30-015-22754-00-00****Active Salt Water Disposal Well****E-2-23S-28E**

Test Date: 10/29/2008 Permitted Injection PSI: **860** Actual PSI: 950
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Permit Violation FAIL CAUSE:
Comments on MIT: Guage needle bouncing between 900 and 1000. Injection pressure over limit

GOVERNMENT D No.010**30-015-25346-00-00****Active Salt Water Disposal Well****A-12-21S-27E**

Test Date: 10/29/2008 Permitted Injection PSI: **581** Actual PSI: 645
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Permit Violation FAIL CAUSE:
Comments on MIT: Injection pressure over limit

EAST LOVING SWD No.001**30-015-26764-00-00****Active Salt Water Disposal Well****A-15-23S-28E**

Test Date: 10/29/2008 Permitted Injection PSI: Actual PSI: 900
Test Reason: Annual IMIT Test Result: F Repair Due: 2/1/2009
Test Type: Bradenhead Test FAIL TYPE: Other Internal Failure FAIL CAUSE:
Comments on MIT: Blow from casing valve. Did not blow down while we were watching it. Also unable to open bradenhead valve.

In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, 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,

RICHARD INGE

Artesia OCD District Office

Note: Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually. Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. * Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.