

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

NMOCD - OGA 50-A

2006 JUN 8 AM 11 51

IN THE MATTER OF CHI OPERATING INC.

Respondent.

AMENDED 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"), the Director of the Oil Conservation Division ("OCD") and Chi Operating Inc. ("Operator") enter into this amendment to Agreed Compliance Order 50 under which Operator agrees to an assessment of penalties for violating the terms of Agreed Compliance Order 50.

FINDINGS

1. Operator and the OCD entered into Agreed Compliance Order 50 (ACO-50) on December 9, 2004.
2. ACO-50 required Operator to bring certain identified wells into compliance with OCD Rule 201 [19.15.4.201 NMAC] under a compliance schedule at a rate of 4 wells per month, and provided for penalties if Operator failed to meet that schedule:

"If, at the end of any month, the total number of wells the Operator has plugged, temporarily abandoned or restored to production or other beneficial use is less than the number required under the schedule, Operator shall have a one-month grace period in which to become current. If at the end of that one-month grace period, Operator has not become current under the schedule, Operator shall pay a penalty of \$1000 times the number of wells it is short of the total required for the current month. 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 appropriate district office with the next month's report. Penalties are calculated, and payable, each month."

3. The compliance schedule set by ACO-50 required Operator to bring 84 of the identified wells into compliance by the end of April 2006.

4. Operator returned 55 of the identified wells to compliance by the end of April 2006. Operator is therefore 29 wells short of its compliance goal under ACO-50.
5. Operator did not pay penalties with its monthly compliance reports, as required by ACO-50.
6. Operator kept the OCD informed of its progress under ACO-50 by filing written compliance reports as required under ACO-50.
7. Operator encountered difficulties in obtaining pulling units to keep to its compliance schedule under ACO-50, and notified the OCD of its difficulties in its written compliance reports.
8. At a compliance conference conducted on May 12, 2006, Operator informed the OCD that it is in the process of transferring the wells identified in ACO-50 to another operator.

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Operator has failed to comply with the schedule set out in ACO-50, and is subject to penalties as provided in ACO-50.

ORDER

1. Taking into account Operator's return of 55 wells to compliance, Operator's compliance with the reporting requirements of ACO-50, and Operator's difficulties in obtaining a pulling unit to meet its compliance goals, Operator is hereby assessed a penalty of \$10,000 (ten thousand dollars) for failing to meet the compliance schedule set out in ACO-50 through April 2006.
2. The \$10,000 civil penalty shall be paid at the time Operator executes this Order. Payment shall be made by check 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. If the wells identified in ACO-50 are transferred to another operator by July 31, 2006, Operator shall not be responsible for additional penalties under ACO-50 if it fails to comply with the schedule set out in ACO-50 for May, June and July, 2006.
4. If the wells identified in ACO-50 are not transferred to another operator by July 31, 2006, the terms of ACO-50 will remain in full force and effect. Operator may, however, negotiate with the OCD to amend the terms of ACO-50.

ACO-50-A

Chi Operating, Inc.

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5. By signing this amendment to ACO 50, Operator expressly:

- (a) acknowledges the correctness of the Findings and Conclusions set forth in this amendment;
- (b) agrees to the \$10,000 penalty assessed in Ordering Paragraph 1;
- (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 amendment or to an appeal from this amendment; and
- (f) agrees that this amendment may be enforced by Division or Oil Conservation Commission order, 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.

Done at Santa Fe, New Mexico this 8th day of June, 2006

By: _____

Mark Fesmire, P.E.

Director, Oil Conservation Division

ACCEPTANCE

Chi Operating Inc. hereby accepts the foregoing amendment to ACO-50, and agrees to all of the terms and provisions set forth in that amendment to ACO-50.

Chi Operating Inc

By: _____

(please print name): _____

Title: _____

Date: _____

John W. Qualls

Vice - president

5-24-06