

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

2006 JUN 8 AM 11 51

NMOCD - ACOI- 131

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"), the Director of the Oil Conservation Division ("OCD") and Chi Operating Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 4378 for the following wells in New Mexico:

Atlantic State #001	30-015-28825
Carbon Valley 15 Federal #001	30-015-31281
Henry #003	30-015-32876
Land Rush 12 Federal Com #001	30-015-30297
Little Toot 9 State #001	30-015-31331
Pardue Farms 21 #001	30-015-23809
Point Judith State Com #001	30-015-32235
Silver Streak State Com #001	30-015-30664

4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:

"A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.

B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....

....

(3) a period of one year in which a well has been continuously inactive.”

5. The wells identified in Findings Paragraph 3 are currently out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if no action is taken on the wells.
6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
7. NMSA 1978, Section 70-2-3(A) defines “person” in relevant part as
“any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Findings Paragraph 3 are either out of compliance with Rule 201 or will fall out of compliance with Rule 201 in the next several months if they are not returned to production or other beneficial use, plugged and abandoned, or placed on approved temporary abandonment status.
3. As operator of the wells identified in Findings Paragraph 3, Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a “person” as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring the wells identified in Findings Paragraph 3 into compliance with OCD Rule 201 by November 20, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;

- (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.
- 2. If Operator fails to bring all of the wells identified in Findings Paragraph 3 into compliance by November 20, 2006, Operator agrees to pay a penalty of \$1000 times the number of wells identified on Findings Paragraph 3 that it failed to bring into compliance by November 20, 2006. In the event the Operator encounters unanticipated circumstances that prevent it from bringing all the wells identified in Findings Paragraph 3 into compliance by November 20, 2006, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing.
- 3. On November 21, 2006, any wells identified in Findings Paragraph 3 not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
- 4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance the wells identified in Findings Paragraph 3 by November 20, 2006;
 - (c) agrees to pay penalties as set out in Ordering Paragraph 2 if it fails to return the wells identified in Findings Paragraph 3 to compliance by November 20, 2006;
 - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (e) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
- 5. This Order applies only to those wells identified in Findings Paragraph 3. Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
- 6. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Findings Paragraph 3 and forfeit

the applicable financial assurance if the well poses an immediate environmental threat.

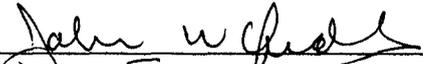
Done at Santa Fe, New Mexico this 8th day of June, 2006

By: 
for Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

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

Chi Operating Inc.

By: 
(Please print name): John W. Qualls
Title: Vice-president
Date: 5-24-06