



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

July 19, 2006

LETTER OF VIOLATION (2-06-20)

Chesapeake Operating Inc.
P. O. Box 11050
Midland, Texas 79702

Re: *Facility:* Littlefield Federal SWD #1, API No. 30-015-10259
Violations: OCD Rule 703 [19.15.9.703 NMAC]
OCD Rule 704 [19.15.9.704 NMAC]
OCD Rule 1103 [19.15.13.1103 NMAC]

Dear Operator:

Oil Conservation Division ("OCD") Rule 703 [19.15.9.703 NMAC] requires injection wells to be "equipped, operated, monitored, and maintained to facilitate periodic testing and to assure continued mechanical integrity which will result in no significant leak in the tubular goods and packing materials used and no significant fluid movement through vertical channels adjacent to the well bore." To assure continued mechanical integrity of these wells, OCD Rule 704.A(2) requires that every five years the well be tested.

On October 26, 2005, OCD Deputy Oil and Gas Inspector Gerry Guye inspected the Chesapeake Operating, Inc. ("Chesapeake") injection well identified above. The well failed the required mechanical integrity test ("MIT"). At the time of failure and pursuant to OCD Rule 703.E, Inspector Guye gave verbal instruction to the Chesapeake representative on location to immediately shut in the well; it was to remain shut in until the well had been brought into compliance.

As formalization of the verbal instruction, the OCD sent Chesapeake a letter dated October 31, 2005, confirming that the well had failed inspection and identifying the nature of the failure. Chesapeake was instructed to repair the failure by January 29, 2006, so the well could be re-tested.

On December 16, 2005, a copy of Form 3160-5 (Federal) Sundry Notices and Reports on Wells was received indicating the repair of this well had been completed and the well retested. The OCD letter dated October 31, 2005 required notification to the "proper district office of the Division at least 48 hours prior to the date and time that the well will be retested so the test may be witnessed by a field representative."

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Because Chesapeake retested the well without prior notification to the OCD, Chesapeake must perform a new MIT on the impacted well so that the OCD may witness the test.

Until then, the well **shall be shut in** immediately pending receipt by this office of an approved MIT test. Your office **must** contact me within ten (10) days of the date of this letter at (505) 748-1283, ext. 105, to schedule a witnessed casing integrity pressure test on this well.

If this matter cannot be resolved administratively, the OCD may take further enforcement action, which may include an enforcement hearing before an OCD hearing examiner seeking an Order requiring that the wells be plugged and abandoned pursuant to NMSA 1978, § 70-2-14(B). That statute provides:

"If any of the requirements of the Oil and Gas Act or the rules promulgated pursuant to that act have not been complied with, the oil conservation division, after notice and hearing, may order any well plugged and abandoned by the operator or surety or both in accordance with division rules. If the order is not complied with in the time period set out in the order, the financial assurance shall be forfeited."

In an attempt to forestall other issues that may arise, the OCD uses this opportunity to bring to your attention a letter it sent to you on June 2, 2006. The letter advised Chesapeake that the State of New Mexico has primacy on injection and Salt Water Disposal wells. It reminded Chesapeake that any sundry notices prepared for these wells must be submitted to the OCD on Form C-103 (State), and that original charts must accompany the form. A copy of the letter is attached.

Thank you for your assistance in this matter. If you have any questions please do not hesitate to call.

Sincerely yours,



Gerry Guye
Deputy Field Inspector
District II - Artesia

cc: Bureau of Land Management
Daniel Sanchez, OCD Compliance Manager
Gail MacQuesten, OCD Assistant General Counsel
Cheryl O'Connor, OCD Assistant General Counsel