

Melrose Operating Company

OGRID: 184860

ACQ-217 Closed: 2/27/08

NOV 1-07-08

 **Pendaflex**

 **Esselte**

Assembled in Mexico



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BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Case No. 14186 Exhibit No. 21

Submitted by:

McElvain Oil & Gas Properties, Inc.

Hearing Date: October 15, 2008



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Field Inspection Program

"Preserving the Integrity of Our Environment"

17-Aug-07

MELROSE OPERATING COMPANY

PO BOX 953

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

CONE JALMAT YATES POOL UNIT No.503				N-24-22S-35E	30-025-08641-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
08/15/2007	Complaint Response	Buddy Hill	Yes	No	11/18/2007	iLWH0722746181	
Violations							
Surface Leaks/Spills							
Comments on Inspection: PER TOMMY PEARSON,,2 LEAKS SOUTH EAST OF WELL,,HEAVY OIL STAIN ON BOTH SITES..ONE 40'X 200',,SECOND 50'X 35'..JUST COVERED W/ SAND..ALSO LARGE PILES OF OIL CONTAMINATED SOIL AT SWD STATION NORTH OF WELL NOT FROM THESE SPILLS, NOT ON PLASTIC,,TOOK PICTURES,,FIRST NOTICE							

JALMAT FIELD YATES SAND UNIT No.221				I-10-22S-35E	30-025-37240-00-00		
Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.	
08/15/2007	Complaint Response	Buddy Hill	Yes	No	9/12/2007	iLWH0722745350	
Violations							
Absent Well Identification Signs (Rule 103)							
Surface Leaks/Spills							
Comments on Inspection: No Well Sign (Rule 103)..OIL LEAK ON LOCATION COVERED UP, OIL STAIN RAN INTO TWO BUFFALO WALLOWS..TOMMY PEARSON..TOOK PICTURES,,FIRST NOTICE							

JALMAT FIELD YATES SAND UNIT No.219

B-14-22S-35E

30-025-37479-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722749154
Violations						
Absent Well Identification Signs (Rule 103)						
Emergency/Temporary Pits						

Comments on Inspection: No Well Sign (Rule 103)..DRILL PITS OPEN..NEEDS WELL SIGN, AND DRILL PITS CLOSED PER NMOC D RULE 50..FIRST NOTICE

JALMAT FIELD YATES SAND UNIT No.223

O-11-22S-35E

30-025-37492-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722748559
Violations						
Absent Well Identification Signs (Rule 103)						
Emergency/Temporary Pits						

Comments on Inspection: No Well Sign (Rule 103)..DRILL PITS OPEN..NEEDS WELL SIGN AND DRILL PITS CLOSED PER NMOC D RULES..FIRST NOTICE

JALMAT FIELD YATES SAND UNIT No.224

P-11-22S-35E

30-025-37498-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722748951
Violations						
Absent Well Identification Signs (Rule 103)						
Emergency/Temporary Pits						

Comments on Inspection: No Well Sign (Rule 103)..DRILL PITS OPEN..NEEDS WELL SIGN AND DRILLING PITS CLOSED PER NMOC D RULE 50..FIRST NOTICE

JALMAT FIELD YATES SAND UNIT No.226

P-10-22S-35E

30-025-37500-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722746788
Violations						
Emergency/Temporary Pits						

Comments on Inspection: Drilling Pit Open, NO FENCE..PITS NEED TO BE FENCED OR CLOSED..FIRST NOTICE

JALMAT FIELD YATES SAND UNIT No.227

O-10-22S-35E

30-025-37501-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722747167
Violations						
Emergency/Temporary Pits						

Comments on Inspection: Drilling Pit Open, NOT FENCED..PITS NEED TO BE FENCED OR CLOSED..FIRST NOTICE

JALMAT FIELD YATES SAND UNIT No.228

O-10-22S-35E

30-025-37502-00-00

Inspection Date	Type Inspection	Inspector	Violation?	*Significant Non-Compliance?	Corrective Action Due By:	Inspection No.
08/15/2007	Routine/Periodic	Buddy Hill	Yes	No	9/12/2007	iLWH0722746994
Violations						
Emergency/Temporary Pits						

Comments on Inspection: Drilling Pit Open, NO FENCE..PITS NEED TO BE FENCED OR CLOSED..FIRST NOTICE

11/14/2007 12:02 0833350775

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.

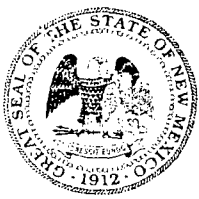
Sincerely,

J. W. 'Buddy' Hill

COMPLIANCE OFFICER

Hobbs 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.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Director

Oil Conservation Division

November 19, 2007

Melrose Operating Company
5813 N.W. Grand Blvd., Suite B
Oklahoma City, OK 73118

Certified Mail No.: 7005 3110 0002 2085 2466

NOTICE OF VIOLATION (1-07-08)

****Response Required – Deadline Enclosed****

Operator: Melrose Operating Co., OGRID 184860
Facility: Jalmat Field Yates Sand Unit #226, 30-025-37500
Jalmat Field Yates Sand Unit #228, 30-025-37502
Jalmat Field Yates Sand Unit #227, 30-025-37501
Jalmat Field Yates Sand Unit #220, 30-025-37174
Jalmat Field Yates Sand Unit #223, 30-025-37492
Jalmat Field Yates Sand Unit #224, 30-025-37498
Jalmat Field Yates Sand Unit #219, 30-025-37479
Violations: Rule 50.F [19.15.2.50.F NMAC]

Dear Operator:

Oil Conservation Division ("OCD") Deputy Oil and Gas Inspector Buddy Hill inspected the sites identified above, and made the following findings:

1. Melrose Operating Company, (Melrose) is the operator of record of the Jalmat Field Yates Sand Unit (JFYSU) wells #226, #228, #227, #220, #223, #224, and #219.

2. Melrose filed a C-101 Application for Permit to Drill the JFYSU #226, #227, and #228 on October 5, 2005, and applied for a permit for a drilling pit at the site to be constructed according to OCD guidelines. The OCD approved the application and pit permit on October 12, 2005.

3. Melrose filed a C-101 Application for Permit to Drill the JFYSU #224 on October 11, 2005, and applied for a permit for a drilling pit at the site to be constructed according to OCD guidelines. The OCD approved the application and pit permit on October 12, 2005.

4. Melrose filed a C-101 Application for Permit to Drill the JFYSU # 219 on September 29, 2005, and applied for a permit for a drilling pit at the site to be constructed according to OCD guidelines. The OCD approved the application and pit permit on October 3, 2005.

5. Melrose filed a C-101 Application for Permit to Drill the JFYSU # 223 on August 7, 2005, and applied for a permit for a drilling pit at the site to be constructed according to OCD guidelines. The OCD approved the application and pit permit on August 11, 2005.

6. Melrose filed a C-101 Application for Permit to Drill the JFYSU #220 on August 6, 2005, and applied for a permit for a drilling pit at the site to be constructed according to OCD guidelines. The OCD approved the application and pit permit on August 8, 2005.

7. Melrose reported that the JFYSU #224 was completed on February 1, 2006; reported that the JFYSU #219 was completed on October 4, 2005; reported that the JFYSU #223 was completed on January 22, 2006; and reported that the JFYSU #220 was completed on October 19, 2005.

8. Melrose constructed drill pits on site for wells JFYSU #226, #227, and #228, but never drilled these wells. Pits were never lined or fenced.

9. To date Melrose has not filed C-144 for an extension of time in which to close the pits, and has not filed plans for approved pit closures.

10. OCD Rule 50.F provides, in relevant part, that "a pit ... shall be properly closed within six months after cessation of use."

11. OCD Pit Guidelines provide a procedure for closure of pits.

12. Deputy Inspector Hill inspected the sites on August 15, 2007 and found the drilling pits at each of the identified well sites open and full of fluids and solids.

13. Deputy Inspector Hill issued a Letter of Violation to Melrose on August 17, 2007 notifying Melrose that the pits were in violation of Rule 50's requirement that pits be closed within six months of cessation of activity, and directed Melrose to take corrective action by September 12, 2007.

14. On November 7, 2007, Deputy Inspector Harvey re-inspected the sites for enforcement action follow-up and found all pits still open and full of solids.

Melrose violated Rule 50.F by failing to close the drilling pits within 6 months of cessation of drilling operations based on Melrose's reported completion dates for the wells. The violations were knowing and willful: Melrose was aware of the closure requirements because it applied for pit permits referencing the pit guidelines, which set out the closure requirements, and because Melrose failed to close the pits after being notified of the violation by letter dated August 17, 2007.

Melrose's misconduct warrants issuance of this Notice of Violation and assessment of civil penalties pursuant to NMSA 1978, §70-2-31(A) for the knowing and willful violation of Rule 50.F. Section 70-2-31(A) authorizes penalties of up to **one thousand dollars (\$1,000.00)** per day per violation for any knowing and willful violation of any provision of the Oil and Gas Act or any rule adopted pursuant to the Act.

Because the rule violations at issue are serious and occurred over a period of time, the OCD Artesia District Office believes at this time a **\$7,000 civil penalty** and a definite commitment to close the pits by a date certain are essential.


Please contact Daniel Sanchez within ten (10) days from the date of this letter at (505) 476-3493, to schedule an administrative conference to discuss this matter.

OCD legal counsel may be present for this conference, and you may bring legal counsel if you wish. The purpose of the administrative conference is to discuss the facts surrounding this notice of violation, and to determine if the matter can be resolved administratively through an agreed compliance order.

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.

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

Sincerely yours,



Daniel Sanchez

Compliance and Enforcement Manager

cc: Chris Williams, District I
Larry "Buddy" Hill, District I
Gail MacQuesten, OCD Assistant General Counsel
Theresa Duran-Saenz, OCD Legal Assistant