

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

NMOCD - ACOI 122-A

IN THE MATTER OF MELROSE OPERATING COMPANY,

Respondent.

**AMENDED
AGREED COMPLIANCE ORDER**

Pursuant to Ordering Paragraphs 3 and 6 of Agreed Compliance Order 122, the Director of the Oil Conservation Division (“OCD”) hereby amends that order as follows:

FINDINGS

1. Agreed Compliance Order 122 (“ACOI 122” or “Order”) requires Melrose Operating Company (“Operator”) to return to compliance with OCD Rule 201 at least 16 of the wells identified in Exhibit A to the Order by September 20, 2006, and file a compliance report by that date. The Order defines compliance to include the filing of the appropriate paperwork.

2. ACOI 122 further provides that if Operator returns to compliance with OCD Rule 201 at least 16 of the wells identified in Exhibit A to the Order by September 20, 2006, and files a timely compliance report, the OCD shall issue an amendment extending the terms of ACOI 122 for an additional six-month period, requiring Operator to return to compliance by that date 6 additional wells identified in Exhibit A to the Order.

3. ACOI 122 further provides that if Operator fails to return to compliance 16 of the wells identified in the Order by September 20, 2006, Operator is subject to penalties. Operator may, however, request a waiver or reduction of penalties, and request an amendment extending the terms of the Order.

4. Operator filed a timely compliance report including the wells identified below. The Oil Conservation Division (“OCD”) has verified that its records show that Operator returned the following wells identified in Exhibit A to compliance:

- | | |
|-------------------------------------|--------------|
| • Cone Jalmat Yates Pool Unit #103 | 30-025-08604 |
| • Cone Jalmat Yates Pool Unit #108 | 30-025-08608 |
| • Cone Jalmat Yates Pool Unit #303 | 30-025-08645 |
| • Cone Jalmat Yates Pool Unit #605 | 30-025-08654 |
| • Jalmat Field Yates Sand Unit #103 | 30-025-08580 |
| • Jalmat Field Yates Sand Unit #106 | 30-025-08595 |

- Jalmat Field Yates Sand Unit #116 30-025-08601
- Jalmat Field Yates Sand Unit #121 30-025-08588
- Jalmat Field Yates Sand Unit #132 30-025-08611
- Jalmat Field Yates Sand Unit #134 30-025-08613
- Jalmat Field Yates Sand Unit #136 30-025-08622
- Jalmat Field Yates Sand Unit #139 30-025-08629
- State 14 C #010 30-015-02020
- State 647 AC 711 #068 30-015-02046

5. Operator reported that it performed remedial work on three additional wells and returned them to injection. However, those three wells were not identified in Exhibit A to the Order.

CONCLUSIONS

1. Operator failed to meet its goal of returning 16 of the wells identified in Exhibit A to compliance by September 20, 2006, falling short by two wells.

2. Operator has demonstrated good faith efforts to meet its 16-well goal under the Order by returning 14 wells to compliance and by returning to injection three additional wells not included in Exhibit A.

3. The OCD should waive the \$2,000 penalty otherwise due under the terms of the Order.

4. The OCD should amend ACOI 122 to extend its terms for an additional six-month period, and require Operator to return to compliance by that date 6 wells identified in the Order that are not identified in Findings Paragraph 4, above .

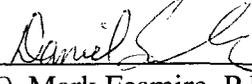
ORDER

1. Operator shall return to compliance by March 20, 2007 6 wells from Exhibit A to ACOI 113 not identified in Findings Paragraph 4, above.

3. Operator shall file a compliance report by March 20, 2007 using the Oil Conservation Division's web-based on-line application.

4. The terms of ACOI 122 otherwise remain in effect.

Done at Santa Fe, New Mexico this 26th day of September, 2006

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