

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

NMOCD - ACOI 193-B

IN THE MATTER OF MELROSE OPERATING COMPANY,

Respondent.

**SECOND AMENDED
AGREED COMPLIANCE ORDER**

Pursuant to Ordering Paragraph 4 of Agreed Compliance Order 193, the Director of the Oil Conservation Division ("OCD") hereby amends that order as follows:

FINDINGS

1. Agreed Compliance Order 193 ("ACOI 193" or "Order") required Melrose Operating Company ("Operator") to return to compliance with OCD Rule 201 at least six of the wells identified in the Order by November 10, 2008, and file a compliance report by that date.

2. ACOI 193 provides when the OCD receives a timely compliance report indicating that Operator has returned at least six wells to compliance and verifies the accuracy of that report, and verifies that Operator is in compliance with OCD's financial assurance requirements, the OCD would issue an amendment to the Order extending its terms for an additional six-month period.

3. ACOI 193 provides if Operator fails to meet its compliance goal for an applicable six-month period, Operator is subject to a penalty of \$1,000 for each well it fell short of its goal by and the OCD may exercise discretion in issuing an amendment extending the Order an additional six months.

4. Operator filed a timely compliance report for the first period, and the OCD verified that the following four wells were returned to compliance in the first period:

- | | | |
|---|---------------------------|--------------|
| ● | CLOSSON B FEDERAL No. 034 | 30-025-29746 |
| ● | GUAJALOTE STATE No. 002 | 30-015-24930 |
| ● | STATE 14 A No. 003 | 30-015-01857 |
| ● | STATE E 1288 No. 081 | 30-015-02049 |

5. Because Operator missed its compliance goal for the first period by two wells, Operator was subject to a \$2,000 penalty. However, because Operator made a good-faith effort to comply with the Order, the OCD waived the penalties. The OCD exercised its discretion and amended ACOI 193 to extend its terms by six months,

requiring Operator to bring at least six additional wells identified in the Order into compliance by May 10, 2009.

6. Operator has filed a timely compliance report for the second period, and OCD records indicate that Operator has returned the following seven wells identified in the Order to compliance.

- CLOSSON B FEDERAL NO. 011 30-025-09098
- DUNN B FEDERAL No. 012 30-015-01808
- NORTHEAST PEARL QUEEN UNIT No. 016 30-025-03195
- NORTHEAST PEARL QUEEN UNIT No. 019 30-025-03199
- NORTHEAST PEARL QUEEN UNIT No. 022 30-025-20219
- MESA FAF STATE No. 001 30-015-02023
- MESA FAF STATE No. 002 30-015-27352

CONCLUSIONS

1. Operator has returned seven wells to compliance, exceeding its goal of returning six of the wells identified in the Order to compliance by May 10, 2009, by one well.

2. The OCD should amend ACOI 193 to extend its terms through November 10, 2009 and require Operator to return to compliance by that date five additional wells from the Order not identified in Findings Paragraphs 4 and 6, above, to complete its goal of returning six wells to compliance in that period.

ORDER

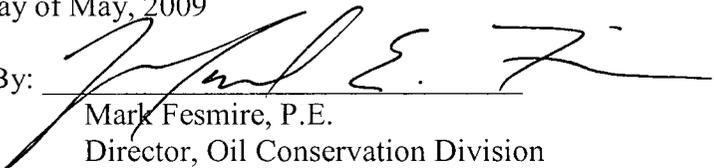
1. Operator shall return to compliance by November 10, 2009 at least five wells identified in the Order that are not identified in Findings Paragraphs 4 and 6, above.

2. Operator shall file a written compliance report by November 10, 2009 identifying the wells returned to compliance in the third period, identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, approved temporary abandonment status). The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager (email: daniel.sanchez@state.nm.us) and Assistant General Counsel Sonny Swazo (email: sonny.swazo@state.nm.us) so that it is received by the compliance deadline of November 10, 2009.

3. The terms of ACOI 193 otherwise remain in effect.

Done at Santa Fe, New Mexico this 5th day of May, 2009

By: _____


Mark Fesmire, P.E.

Director, Oil Conservation Division