



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

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Director

Oil Conservation Division

13-Jul-07

MELROSE OPERATING COMPANY

PO BOX 953

MIDLAND TX 79702-0000

LOV NO. 6276907

LETTER OF VIOLATION and SHUT-IN DIRECTIVE
Failed Mechanical Integrity Test

Dear Operator:

The following test(s) were performed on the listed dates on the following well(s) shown below in the test detail section.

The test(s) indicates that the well or wells failed to meet mechanical integrity standards of the New Mexico Oil Conservation Division. To comply with guidelines established by the U.S. Environmental Protection Agency, the well(s) must be shut-in immediately until it is successfully repaired. The test detail section which follows indicates preliminary findings and/or probable causes of the failure. This determination is based on a test of your well or facility by an inspector employed by the Oil Conservation Division. Additional testing during the repair operation may be necessary to properly identify the nature of the well failure.

Please notify the proper district office of the Division at least 48 hours prior to the date and time that the well(s) will be retested so the test may be witnessed by a field representative.

MECHANICAL INTEGRITY TEST DETAIL SECTION

GUAJALOTE STATE No.002

30-015-24930-00-00

Active Salt Water Disposal Well

O-5-19S-29E

Test Date: 7/12/2007

Permitted Injection PSI:

Actual PSI:

Test Reason: Post Workover Test

Test Result: F

Repair Due: 10/15/2007

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Well was idle for more than 1 year. Authority to inject has been revoked. Advised operator by phone call on 7/11/07 to submit form C-108 to Santa Fe requesting re-instatement of authority to inject. Well must remain shut-in.

In the event that a satisfactory response is not received to this letter of direction by the "Repair Due:" date shown above, or if the well(s) are not immediately shut-in, 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,

Handwritten signature of Richard Inge in black ink.

Artesia OCD District Office

Note: Pressure Tests are performed prior to initial injection, after repairs and otherwise, every 5 years; Bradenhead Tests are performed annually. Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data. "Failure Type" and "Failure Cause" and any Comments are not to be interpreted as a diagnosis of the condition of the wellbore. Additional testing should be conducted by the operator to accurately determine the nature of the actual failure. * Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.