

May 21, 2009

Energy, Minerals and Natural Resources Department  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Attention: Mr. Will Jones

**VIA E-MAIL & HAND DELIVERED**

Re: Request to Alter Injection Pattern  
Cone Jalmat Yates Pool Unit No. 130  
API No. 30-025-38918  
610' FSL & 2015' FWL (Unit N) Section 13, T-22 South, R-35 East, NMPM,  
Lea County, New Mexico

Dear Mr. Jones:

By Order No. WFX-853 dated May 6, 2009 the Division authorized Melrose Operating Company ("Melrose") to utilize its Cone Jalmat Yates Pool Unit ("CJYPU") No. 130 as an injection well within the Cone Jalmat Yates Pool Unit Waterflood Project. The CJYPU No. 130, which has not yet been drilled, was to be a replacement well for the CJYPU Well No. 9 (API No. 30-025-08609) located 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 13. The CJYPU No. 130 was to complete a 40-acre five spot injection pattern within Section 13.

The CJYPU No. 9 was drilled in September, 1956 and was plugged by SDX Resources, Inc. in January, 1997. The well file indicates that the well was plugged from a depth of 550' to surface. As a result of recent expansions of waterflood operations within the Jalmat Field Yates Sand Unit and the Cone Jalmat Yates Pool Unit Waterflood Projects, Melrose agreed to re-enter the CJYPU No. 9 and re-plug the well. Division Orders No. WFX-852 dated April 13, 2009, which order approved twenty-three (23) injection wells within the Jalmat Field Yates Sand Unit Waterflood Project, and WFX-853 dated May 6, 2009, which order approved ten (10) injection wells within the Cone Jalmat Yates Pool Unit Waterflood Project, both contained a requirement that Melrose re-enter and re-plug the CJYPU No. 9 prior to commencing injection operations into any of the injection wells approved by these orders.

The CJYPU No. 9 was drilled in 1957 to a total depth of 3,980'. The well was cased, cemented and completed as a producing well in the Cone Jalmat Yates Pool Unit Waterflood Project in the following manner, and was later converted to an injection well:

Surface Casing: 8 5/8" set @ 285', cemented w/150 Sx.  
Cement circulated to surface.

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Production Casing: 5 1/2" set @ 3,975', cemented w/900 Sx.  
Cement circulated to surface

Perforations: 3,700'-3,862'; Jalmat (Tansill-Yates-Seven Rivers) Oil Pool

The well file for the CJYPU No. 9 indicates that the top and the base of the salt occurs in the wellbore at depths of 1,890' and 3,513', respectively, and that the top of the Yates formation occurs at a depth of 3,692'.

Recently, Melrose commenced re-entry and re-plugging operations on the CJYPU No. 9. Plugging operations have been ongoing and Melrose has spent a considerable amount of money in its attempt to reach the bottom of the well. Due to mechanical circumstances in the wellbore, Melrose has been unable thus far to get below a depth of 800'. After consultation with the OCD Hobbs District Office, Melrose has decided to plug the well from a depth of 800' to surface. Due to the fact that the well will be plugged from that depth, the OCD Hobbs District Office has recommended that Melrose not utilize the CJYPU No. 130 as an injection well. However, the Hobbs District Office, after further discussion with Melrose, has stated that it would support the use of the CJYPU No. 130 as a producing well, and that by doing so, there would be no further restrictions on injection in the immediate area of the CJYPU No. 9.

By utilizing the CJYPU No. 130 as a producing well, and effectively a pressure sink, there is virtually no chance that fluid migration will occur into other formations within the wellbore of the CJYPU No. 9.

Prior to commencing final plugging operations on the CJYPU No. 9, Melrose hereby requests formal Division approval:

- (a) to change the injection pattern within the CJYPU Waterflood Project, thereby allowing Melrose to utilize the CJYPU No. 130 as a producing well instead of an injection well;
- (b) to plug the CJYPU No. 9 from a depth of 800' to the surface in accordance with a plugging program approved by the OCD Hobbs District Office;
- (c) to continue injection operations in the immediate area of the CJYPU No. 9; and,
- (d) to amend Division Orders No. WFX-852 and WFX-853 to relieve Melrose of any further stipulations that pertain to the CJYPU Well No. 9.

If the CJYPU No. 130 is shut-in for any reason in the future, Melrose will discontinue injection operations into any injection well located within 1/2 mile of that well until production operations resume.

I am enclosing a wellbore diagram of the CJYPU No. 9, and a waterflood

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pattern map. Plugging operations on the CJYPU No. 9 will commence after the Division has approved Melrose's request to alter the injection pattern within the Cone Jalmat Yates Pool Unit Waterflood Project.

Due to the circumstances, Melrose respectfully requests an expedited review and decision by the Division. If additional information is necessary, please contact me at (505) 690-9453.

Sincerely,



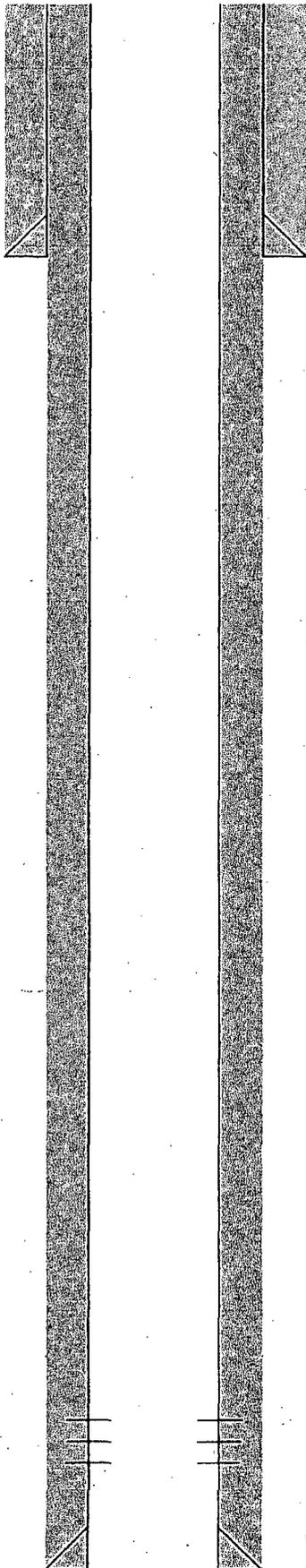
David Catanach  
Regulatory Agent  
Melrose Operating Company  
1000 W. Wilshire.  
Suite 223  
Oklahoma City, Oklahoma 73116

Xc Via-E-Mail:           OCD-Hobbs  
                                  Mr. Tony Beilman



SDX Resources, Inc.  
Cone Jalmat Yates Pool Unit No. 009  
API No. 30-025-08609  
660' FSL & 1980' FWL, Unit N  
Section 13, T-22S, R-35E

Drilled: 9/56  
Plugged: 1/97  
Re-plugged: 5/09



12 1/4" Hole; 8 5/8" Csg. Set @ 285'.  
Cemented w/150 Sx. Cement  
circulated to surface.

10/87: Found casing leak @ 570'-635'.  
Bradenhead squeezed w/200 Sx. Casing tested  
okay. Resumed injection.

7/85: Found casing leak 927'-951'. Set retainer  
@ 860' & squeeze cemented w/200 Sx. Casing  
tested okay. Resumed injection.

**Re-entered well May, 2009. Got down to a  
depth of approximately 800'. Melrose will  
plug the well from a depth of 800' to surface  
in accordance with a Division approved  
plugging program.**

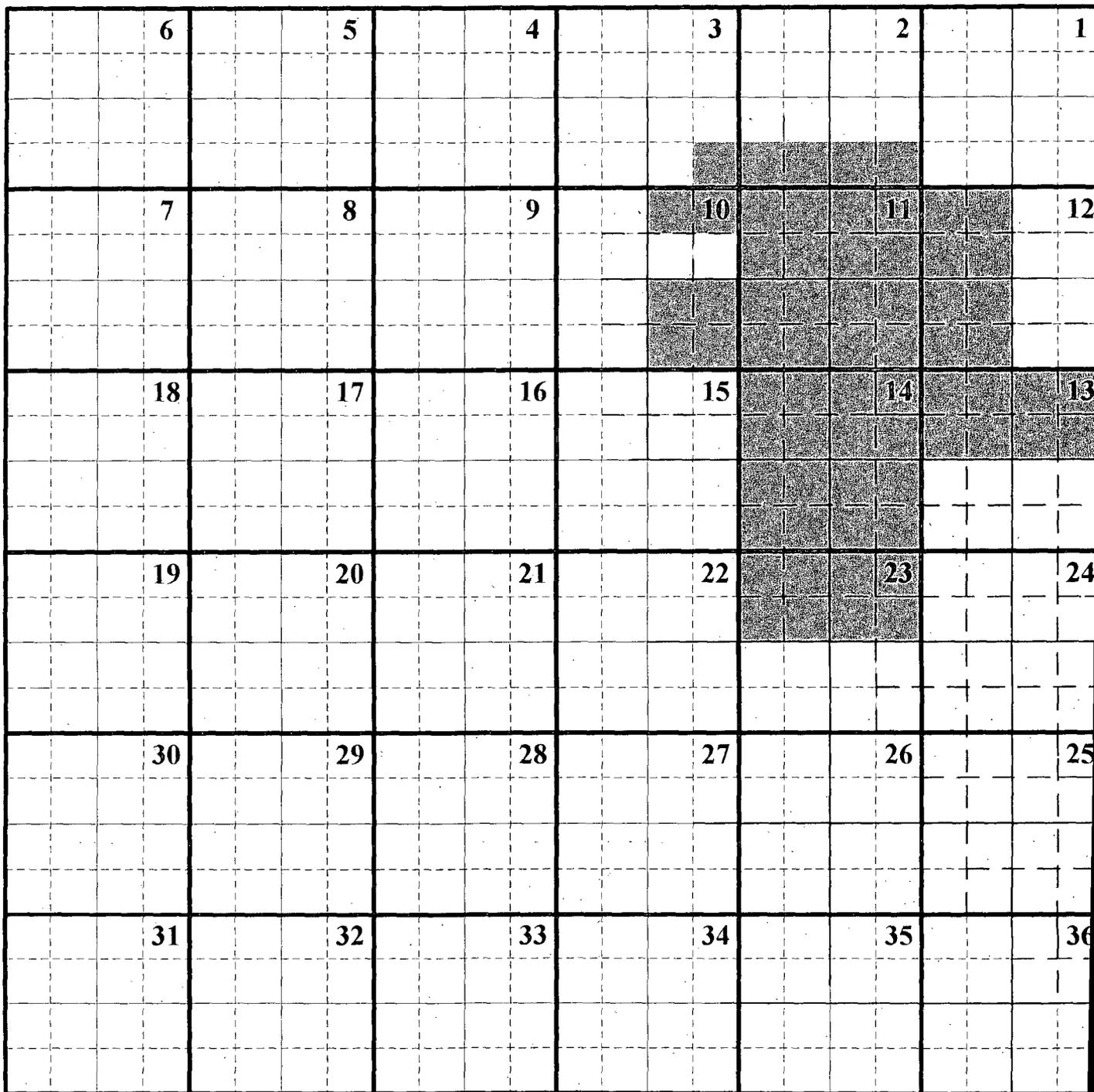
Perforations: 3,700'-3,862'

7 7/8" Hole; 5 1/2" Csg. Set @ 3975'.  
Cemented w/900 Sx. Calculated TOC  
@ surface.

T.D. 3,980'

35 East

22S



Cone Jalmat Yates Pool Unit Area



Jalmat Field Yates Sand Unit Area

Melrose Operating Company