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July 13, 2004

VIA FAX (505) 476-3462

Mr. Mark E. Fesmire, Director
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: NMOCD Case 13199
Application of Melrose Operating Company
To re-instate and amend Division Order
R-11720 for its Artesia Unit Waterflood Project

Dear Mr. Fesmire:

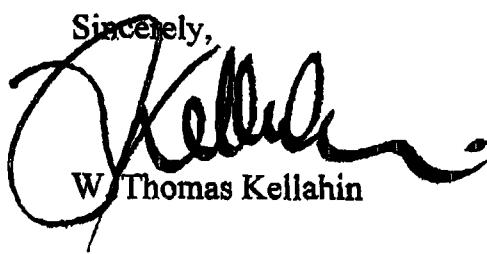
On behalf of Melrose Operating Company, on December 16, 2003, I filed the referenced case with the Division requesting a hearing on January 8, 2004 that was continued to January 22, 2004 docket.

On January 22, 2004, this case was presented to Mr. Stogner, the Division's hearing examiner, who requested a draft order that I submitted to him on February 16, 2004. Since then I have contacted Mr. Stogner on a number of occasions about the status of this order. Once again, today I talked with Mr. Stogner about the status of this order during which he advised me that he is required to give priority to the processing of administrative applications.

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Melrose had now waited six months for the Division to issue an order in this case while the Division issued orders for both hearing and administrative cases filed after the Melrose case. Such delays are detrimental to both Melrose and to New Mexico. At some point, Melrose will abandoned this project and take its money and invest it elsewhere. At some point, Melrose deserves a turn. Please advise me when that will happen.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name. The signature is stylized with a large, looping 'W' and a long, sweeping horizontal stroke at the end.

W. Thomas Kellahin

cc: Mr. Michael E. Stogner
Hearing Examiner
Melrose Operating Company
Attn: Tony Beilman
Attn: Robert Lee