



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

March 5, 2003

Melrose Operating Company
5813 NW Grand Blvd.
Suite B
Oklahoma City, Oklahoma 73118

Attention: Mr. Michael J. Corjay

Re: Division Order No. R-11720
Artesia Unit Waterflood Project
Eddy County, New Mexico

Dear Mr. Corjay:

By Division Order No. R-11720 dated February 5, 2002, the Division authorized Melrose Operating Company to expand its Artesia Unit Waterflood Project by converting an additional fourteen (14) wells to injection. Injection was to occur into the Queen-Grayburg-San Andres interval of the Artesia Queen-Grayburg-San Andres Pool, Pursuant to the provisions of this order, injection into any of the fourteen (14) injection wells was not to occur until such time as the thirty-four (34) area-of-review wells, identified on Exhibits No. B, C, D and E of Order No. R-11720 were re-plugged, re-cemented, or otherwise demonstrated to the satisfaction of the Division that the wells were adequately cased and cemented so as not to serve as conduits for fluid to escape from the injection formation.

An examination of Division Form C-115's shows that injection into the Artesia Unit Well No. 44 (API No. 30-015-01796) re-commenced in April, 2002. A further examination of Division files, and a conversation with Mr. Tim Gum, the supervisor of the Division's Artesia District Office, demonstrates that no remedial work has yet been conducted on the thirty-four (34) area-of-review wells.

In addition, Ordering Paragraph No. (4) states that injection into the Artesia Unit Well No. 44 was not to commence until such time as the production casing in the well was cemented from the existing cement top to the surface. An examination of the well file for this well shows that this work has not been done.

It appears that Melrose Operating Company is injecting into the Artesia Unit Well No. 44 in violation of Division Order No. R-11720.

Injection into the Artesia Unit Well No. 44 shall immediately cease until such time as the requirements set forth in Division Order No. R-11720 are complied with.

If work has been performed on the Artesia Unit Well No. 44, or on any of the area-of-review wells described in Order No. R-11720, please forward this information to the Santa Fe Office of the Division.

In addition, Order No. R-11720 contains a provision whereby the injection authority for the subject wells terminates one year after the issue date of the order if the operator has not commenced injection operations, or if the operator has not requested an extension of the permit. It appears therefore, that the injection authority for the Artesia Unit Wells No. 2, 3, 10, 11, 12, 13, 16, 17, 18, 19, 46, 54 and 57 has expired. In order to obtain injection authority for these wells, a new Form C-108 (Application to Inject) must be filed with the Division.

Please advise the Santa Fe Office of the Division of the date the Artesia Unit Well No. 44 was shut in, and any plans Melrose has to comply with the requirements set forth in Order No. R-11720.

If you should have any questions regarding this notice, please contact Mr. David Catanach at (505) 476-3466.

Sincerely,



David Catanach
Engineer

Xc: Ms. Lori Wrotenbery
File-Case No. 12709
Mr. Tim Gum