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New Mexico Energy, Minerals and Natural Resources Department

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01-May-09

MERIT ENERGY COMPANY, LLC
13727 NOEL ROAD, SUITE 500
DALLAS TX 75240-

LOV NO. 02-09-01730-015-05459

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**H E WEST A No.007****30-015-05066-00-00**

Active Injection - (All Types)

A-4-17S-31E

Test Date: 4/29/2009 Permitted Injection PSI:
Test Reason: Annual IMIT Test Result: F
Test Type: Bradenhead Test FAIL TYPE: Other Internal Failure
Comments on MIT: Continuous blow of fluid from casing valve. Well shut-in.

Actual PSI:
Repair Due: 8/2/2009
FAIL CAUSE:

J L KEEL B No.023**30-015-05086-00-00**

Active Injection - (All Types)

N-6-17S-31E

Test Date: 4/28/2009 Permitted Injection PSI: 1676
Test Reason: Annual IMIT Test Result: F
Test Type: Bradenhead Test FAIL TYPE: Permit Violation
Comments on MIT: Injection pressure over limit. Shut-in.

Actual PSI: 1800
Repair Due: 8/1/2009
FAIL CAUSE:

J L KEEL B No.024**30-015-05087-00-00**

Active Injection - (All Types)

F-6-17S-31E

Test Date: 4/28/2009 Permitted Injection PSI: 1702
Test Reason: Annual IMIT Test Result: F
Test Type: Bradenhead Test FAIL TYPE: Permit Violation
Comments on MIT: Injection pressure over limit. Shut-in.

Actual PSI: 1850
Repair Due: 8/1/2009
FAIL CAUSE:

J L KEEL A No.003

	Active Injection - (All Types)	30-015-05091-00-00 N-7-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI:
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Tubing
Comments on MIT:	Continuous blow of fluid from casing valve. Shut-in.	Actual PSI: Repair Due: 8/1/2009 FAIL CAUSE:

J L KEEL A No.004

	Active Injection - (All Types)	30-015-05092-00-00 K-7-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI: 1640
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1740 Repair Due: 8/1/2009 FAIL CAUSE:

J L KEEL A No.011

	Active Injection - (All Types)	30-015-05099-00-00 H-7-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI: 1862
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1960 Repair Due: 8/1/2009 FAIL CAUSE:

J L KEEL B No.003

	Active Injection - (All Types)	30-015-05104-00-00 N-8-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI: 1665
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1800 Repair Due: 8/1/2009 FAIL CAUSE:

J L KEEL B No.005

	Active Injection - (All Types)	30-015-05106-00-00 L-8-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI: 1703
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1850 Repair Due: 8/1/2009 FAIL CAUSE:

J L KEEL B No.007

	Active Injection - (All Types)	30-015-05108-00-00 C-8-17S-31E
Test Date:	4/28/2009	Permitted Injection PSI:
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Tubing
Comments on MIT:	Continous blow of fluids from casing valve. Shut-in.	Actual PSI: 1770 Repair Due: 8/1/2009 FAIL CAUSE:

H E WEST B No.014

	Active Injection - (All Types)	30-015-05123-00-00 K-10-17S-31E
Test Date:	4/29/2009	Permitted Injection PSI:
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Other Internal Failure
Comments on MIT:	Continuous blow of fluid from casing valve. Shut-in.	Actual PSI: 2000 Repair Due: 8/2/2009 FAIL CAUSE:

TURNER B No.030

	Active Injection - (All Types)	30-015-05186-00-00 P-17-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1401
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1500 Repair Due: 7/31/2009 FAIL CAUSE:

TURNER A No.003

	Active Injection - (All Types)	30-015-05211-00-00 K-18-17S-31E
Test Date:	4 27 2009	Permitted Injection PSI: 1652
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in	Actual PSI: 1800
		Repair Due: 7 31 2009
		FAIL CAUSE:

TURNER A No.011

	Active Injection - (All Types)	30-015-05215-00-00 P-18-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1630
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1700
		Repair Due: 7/31/2009
		FAIL CAUSE:

TURNER A No.013

	Active Injection - (All Types)	30-015-05216-00-00 I-18-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1628
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1700
		Repair Due: 7/31/2009
		FAIL CAUSE:

TURNER A No.012

	Active Injection - (All Types)	30-015-05238-00-00 A-19-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1683
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1800
		Repair Due: 7/31/2009
		FAIL CAUSE:

TURNER B No.043

	Active Injection - (All Types)	30-015-05314-00-00 M-20-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1721
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1800
		Repair Due: 7/31/2009
		FAIL CAUSE:

MAX FRIESS MA No.001

	Active Injection - (All Types)	30-015-05459-00-00 B-30-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1612
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit Shut-in.	Actual PSI: 1750
		Repair Due: 7/31/2009
		FAIL CAUSE:

TURNER B No.053

	Active Injection - (All Types)	30-015-05472-00-00 I-30-17S-31E
Test Date:	4/27/2009	Permitted Injection PSI: 1692
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Permit Violation
Comments on MIT:	Injection pressure over limit. Shut-in.	Actual PSI: 1800
		Repair Due: 7/31/2009
		FAIL CAUSE:

H E WEST B No.030

	Active Injection - (All Types)	30-015-10705-00-00 K-9-17S-31E
Test Date:	4/29/2009	Permitted Injection PSI:
Test Reason:	Annual IMIT	Test Result: F
Test Type:	Bradenhead Test	FAIL TYPE: Other Internal Failure
Comments on MIT:	Continuous blow of fluid from casing valve. Shut-in.	Actual PSI: 2000
		Repair Due: 8/2/2009
		FAIL CAUSE:

TURNER B No.079

	Active Injection - (All Types)	30-015-20109-00-00 K-20-17S-31E
Test Date: 4.27.2009	Permitted Injection PSI: 1835	Actual PSI: 1900
Test Reason: Annual IMIT	Test Result: F	Repair Due: 7/31/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL B No.031

	Active Injection - (All Types)	30-015-25247-00-00 G-6-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1712	Actual PSI: 1830
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL B No.034

	Active Injection - (All Types)	30-015-25447-00-00 H-6-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1720	Actual PSI: 1850
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL B No.038

	Active Injection - (All Types)	30-015-25919-00-00 I-6-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1838	Actual PSI: 1900
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL B No.042

	Active Injection - (All Types)	30-015-25974-00-00 K-6-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1707	Actual PSI: 1850
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL B No.045

	Active Injection - (All Types)	30-015-26066-00-00 G-5-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1859	Actual PSI: 1950
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL A No.028

	Active Injection - (All Types)	30-015-28231-00-00 J-7-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1690	Actual PSI: 1800
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

J L KEEL A No.030

	Active Injection - (All Types)	30-015-28306-00-00 O-7-17S-31E
Test Date: 4/28/2009	Permitted Injection PSI: 1760	Actual PSI: 1760
Test Reason: Annual IMIT	Test Result: F	Repair Due: 8/1/2009
Test Type: Bradenhead Test	FAIL TYPE: Permit Violation	FAIL CAUSE:
Comments on MIT: Injection pressure over limit. Shut-in.		

May 1, 2009

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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

Sincerely,

A handwritten signature in black ink that reads "Richard Inge". The signature is written in a cursive, slightly slanted style.

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.