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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Response Required - Deadline Enclosed

30.015.0254/

18-Jun-09

MELROSE OPERATING COMPANY
1000 W. WILSHIRE BLVD. SUITE 223
OKLAHOMA CITY OK 73116-

LOV NO. 02-09-026

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

ARTESIA UNIT No.001

30-015-01564-00-00

Active Injection - (All Types)

L-26-17S-28E

Test Date: 6/9/2009

Permitted Injection PSI: **394**

Actual PSI: 1150

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

ARTESIA UNIT No.053

30-015-01788-00-00

Active Injection - (All Types)

J-3-18S-28E

Test Date: 6/9/2009

Permitted Injection PSI: **436**

Actual PSI: 920

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

ARTESIA UNIT No.054

30-015-01801-00-00

Active Injection - (All Types)

K-3-18S-28E

Test Date: 6/9/2009

Permitted Injection PSI: **434**

Actual PSI: 1000

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

STATE 14 B No.003

30-015-01855-00-00

Active Injection - (All Types)

F-14-18S-28E

Test Date: 6/9/2009

Permitted Injection PSI:

Actual PSI: 510

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Tubing

FAIL CAUSE:

Comments on MIT: Operator reported a hole in the tubing.

ARTESIA UNIT No.046

30-015-02541-00-00

Active Injection - (All Types)

F-3-18S-28E

Test Date: 6/9/2009

Permitted Injection PSI: 850

Actual PSI: 1050

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit. Raised from 425 to 850 by IP1-301 on 6/30/2008.

CONOCO 7 STATE No.006

30-015-23921-00-00

Active Injection - (All Types)

C-7-19S-29E

Test Date: 6/9/2009

Permitted Injection PSI: 435

Actual PSI: 500

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

GUAJALOTE STATE No.002

30-015-24930-00-00

Active Salt Water Disposal Well

O-5-19S-29E

Test Date: 6/9/2009

Permitted Injection PSI: 455

Actual PSI: 600

Test Reason: Annual IMIT

Test Result: F

Repair Due: 9/12/2009

Test Type: Bradenhead Test

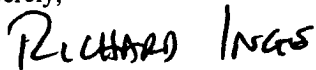
FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit 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,



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.