

New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

Brett F. Woods, Ph. D.
Acting Cabinet Secretary

Daniel J. Sanchez
Acting Division Director
Oil Conservation Division



February 18, 2011

Mr. Barry Archer
20333 State Highway 249, Suite 310
Houston, TX 77070

e-mail: barcher@melroseenergy.com

Re: Melrose Operating Company, OGRID 184860
\$50,000 cash blanket bond
Humble State #5, 30-015-01888, \$7,483 single well surety bond #1029351
Mesa FAF State #1, 30-015-02023, \$7,700 single well surety bond #1029307
Mesa FAF State #2, 30-015-27352, \$8,000 single well surety bond #1029308

Dear Mr. Archer,

Melrose Operating Company (Melrose) is the operator of record in New Mexico for the three wells identified above. To secure the plugging of the wells and the restoration of the well sites, Melrose has posted a \$50,000 cash blanket plugging bond, and a single well surety bond for each well through Lexon Insurance Company.

According to Melrose's regulatory filings, the wellbore of each well was plugged over a year ago. Rule 19.15.25.10 NMAC provides, in relevant part:

D. As soon as practicable, but no later than one year after the completion of plugging operations, the operator shall:

- (1) level the location;
- (3)[sic] remove deadmen and other junk; and
- (4) take other measures necessary or required by the division to restore the location to a safe and clean condition.

E. The operator shall close all pits and below-grade tanks pursuant to 19.15.17 NMAC.

F. Upon completion of plugging and clean up restoration operations as required, the operator shall contact the appropriate division district office to arrange for an inspection of the well and location.

Within 30 days after completing the required restoration work, the operator must file a form C-103 to report the work and request an inspection. See 19.15.25.11.B NMAC. You can find a C-103 designed specifically for this purpose on the Oil Conservation Division (OCD) website under "Forms." Note that the OCD cannot approve the record of plugging, or release the



February 18, 2011

Page 2

financial assurances, until the operator has filed the necessary reports and the division has inspected and approved the location. 19.15.25.11.C NMAC.

Please complete the required restoration work and file C-103s to report the work and request an inspection. Once the OCD has inspected and approved the location, you may ask for the financial assurances to be released. Please make that request in writing to Dorothy Phillips, our financial assurance administrator. The request may be sent by e-mail (Dorothy.phillips@state.nm.us) or fax (505-476-3462).

If Melrose does not complete the work and file C-103s in 90 days, the OCD may file an application for hearing to obtain an order allowing the OCD to restore the sites and forfeit the applicable financial assurances.

Please contact me if you have any questions.

Sincerely,



Daniel Sanchez
Acting Director, Oil Conservation Division
(505) 476-3493

CC: Lexon Insurance Company,
900 S. Frontage Road, Suite 250
Woodridge, IL 60517

Ec: Gail MacQuesten, OCD Attorney
Randy Dade, Supervisor, District 2
Dorothy Phillips, Financial Assurance Administrator