

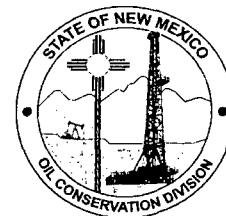


New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



April 30, 2009

Mr. David Catanach as agent
Mr. Tony Beilman
Melrose Operating Company
1000 W. Wilshire
Suite 223
Oklahoma City, OK 73116

Re: Administrative Order WFX-850

Jalmat Field Yates Sand Unit (JFYSU) Well No. 249 (API No: 30-025-38922)
2030 FSL, 330 FEL, Sec 11, T22S, R35E, NMPM, Lea County

This date you have submitted a request on behalf of Melrose Operating Company to:

- a) to change the injection pattern within the JFYSU Waterflood Project, thereby allowing Melrose to utilize the JFYSU No. 249 as a producing well instead of an injection well;
- b) to plug the JFYSU Well No. 115 (API No. 30-025-08586) from a depth of 2,261 to the surface in accordance with a plugging program approved by the OCD Hobbs District Office; and
- c) to continue injection operations in the immediate area of the JFYSU Well No. 115.

It appears that:

- a) Melrose has to-date made a valid attempt to re-enter the JFYSU Well No. 115 so as to plug it from the total depth, the Hobbs district office is aware of or has witnessed these operations, and this well will be either impossible to re-enter below 2261 feet or this operation would be prohibitly expensive;
- b) The JFYSU Well No. 249 was approved in WFX-850 in January of 2009, as an injection well. This planned injector is very close to this JFYSU Well No. 115, but Melrose has now agreed to use this well only as an oil producer, thereby forming a pressure sink in the vicinity of the JFYSU Well No. 115;
- c) This pressure sink will only happen while this producer is producing, so the permission for this action should be contingent on that; and
- d) The Division's Hobbs district is aware of this request and has agreed.



The Division hereby grants Melrose's request with the added stipulation that all injection wells within 1/2 mile of this location remain inactive during time periods when the JFYSU Well No. 249 is not under active artificial lift. The Division's intention is for Melrose to inject in surrounding wells only during time periods when an active pressure sink exists at this location.

As such, Melrose's request is in the interest of conservation and will prevent waste and protect the environment.

The Division hereby grants Melrose's request with the above added stipulation.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", with a long horizontal flourish extending to the right.

MARK E. FESMIRE, P.E.
Director

cc: Oil Conservation Division – Hobbs
WFX-850
Well File API No. 30-025-38922
Well File API No. 30-025-08586

April 30, 2009

Energy, Minerals and Natural Resources Department
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Attention: Mr. Will Jones

HAND DELIVERED

Re: Request to Alter Injection Pattern
Jalmat Field Yates Sand Unit No. 249
API No. 30-025-38922
2030' FSL & 330' FEL (Unit I) Section 11, T-22 South, R-35 East, NMPM,
Lea County, New Mexico

Dear Mr. Jones:

By Order No. WFX-850 dated January 27, 2009 the Division authorized Melrose Operating Company ("Melrose") to utilize its Jalmat Field Yates Sand Unit ("JFYSU") No. 249 as an injection well within the Jalmat Field Yates Sand Unit Waterflood Project. The JFYSU No. 249, which was drilled by Melrose in February, 2009, was to be a replacement well for the JFYSU Well No. 115 (API No. 30-025-08586) located 1980 feet from the South line and 330 feet from the East line (Unit I) of Section 11. The JFYSU No. 249 was to complete a 40-acre five spot injection pattern within Section 11.

The JFYSU No. 115 was drilled in 1957 to a total depth of 4,034'. The well was cased, cemented and completed as a producing well in the Jalmat Field Yates Sand Unit Waterflood Project in the following manner:

Surface Casing:	8 5/8" set @ 334', cemented w/ 225 Sx. Cement circulated to surface.
Production Casing:	5 1/2" set @ 4,033', cemented w/988 Cu. Ft. of Diacel "D" + 100 Sx. cement. TOC @ 980' by temperature survey.
Perforations:	3,844'-3,986; Jalmat (Tansill-Yates-Seven Rivers) Oil Pool

The well file for the JFYSU No. 115 indicates that the top and the base of the salt occurs in the wellbore at depths of 1,803' and 3,620', respectively, and that the top of the Yates formation occurs at a depth of 3,844'.

Recently, Melrose commenced plugging operations on the JFYSU No. 115. Plugging operations have been ongoing for approximately two weeks, and Melrose has spent a considerable amount of money in its attempt to reach the bottom of the well. Due to mechanical circumstances in the wellbore, Melrose has been unable thus far to get below a depth of 2,261'. After consultation with the OCD Hobbs District Office, Melrose has decided to plug the well from a depth of 2,261' to surface. Due to the fact that the well

will be plugged from that depth, the OCD Hobbs District Office has recommended that Melrose not utilize the JFYSU No. 249 as an injection well. However, the Hobbs District Office, after further discussion with Melrose, has stated that it would support the use of the JFYSU No. 249 as a producing well, and that by doing so, there would be no further restrictions on injection in the immediate area of the JFYSU No. 115.

By utilizing the JFYSU No. 249 as a producing well, and effectively a pressure sink, there is virtually no chance that fluid migration will occur into other formations within the wellbore of the JFYSU No. 115.

Prior to commencing final plugging operations on the JFYSU No. 115, Melrose hereby requests formal Division approval:

- (a) to change the injection pattern within the JFYSU Waterflood Project, thereby allowing Melrose to utilize the JFYSU No. 249 as a producing well instead of an injection well;
- (b) to plug the JFYSU No. 115 from a depth of 2,261 to the surface in accordance with a plugging program approved by the OCD Hobbs District Office; and
- (c) to continue injection operations in the immediate area of the JFYSU No. 115.

I am enclosing a wellbore diagram of the JFYSU No. 249, and a waterflood pattern map. Plugging operations on the JFYSU No. 115 will commence after the Division has approved Melrose's request to alter the injection pattern within the Jalmat Field Yates Sand Unit Waterflood Project.

Due to the circumstances, Melrose respectfully requests an expedited review and decision by the Division. If additional information is necessary, please contact me at (505) 690-9453.

Sincerely,



David Catanach
Regulatory Agent
Melrose Operating Company
1000 W. Wilshire
Suite 223
Oklahoma City, Oklahoma 73116

Xc Via-E-Mail: OCD-Hobbs
 Mr. Tony Beilman

Melrose Operating Company
Jalmat Field Yates Sand Unit No. 249
API No. 30-025-38922
2030' FSL & 330' FEL (Unit I)
Section 11, T-22 South, R-35 East, NMPM
Lea County, New Mexico

Date Drilled: February, 2009

12 1/4" Hole; Set 8 5/8" 24# J-55 Csg. @ 413'
Cemented w/ 375 Sx. Class C. Cement
circulated to surface.

Note: Well has been drilled, but has not yet been
completed. Perforation data will be provided to
NMOCD when the well has been completed.

Perforations: 3,700'-4,200' (Proposed)

7 7/8" Hole; Set 5 1/2" 15.5# J-55 Csg. @ 4,165'
Cemented w/700 Sx. Class C. Calculated TOC
@ surface.

T.D. - 4,165'

