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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

7007 3020 0000 6292 6482

09-Apr-08

MERIT ENERGY CO

13727 NOEL ROAD, SUITE 500

DALLAS TX 75240-

LOV NO. 02-08-056

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

J L KEEL B No.009

30-015-05076-00-00

Active Injection - (All Types)

H-5-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Tubing pressure over injection limit. Must be able to prove you can inject into this well under the max injection pressure limit.

H E WEST B No.024

30-015-05128-00-00

Active Injection - (All Types)

A-10-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Casing leak. Already on operators repair list.

TURNER B No.005**30-015-05184-00-00**

Expired TA Injection - (All Types)

L-17-17S-31E

Test Date: 4/4/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Standby or Idle Well Test

Test Result: F

Repair Due: 7/8/2008

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Casing would not hold pressure.

TURNER B No.007**30-015-05185-00-00**

Active Injection - (All Types)

O-17-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

TURNER A No.014**30-015-05239-00-00**

Active Injection - (All Types)

E-19-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Continuous blow of oil from casing valve.

TURNER B No.006**30-015-05304-00-00**

Active Injection - (All Types)

C-20-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI:

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: tubing pressure over Max allowable limit. Must be able to prove you can inject below max allowable limit.

J L KEEL A No.015**30-015-20014-00-00**

Active Injection - (All Types)

E-7-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI: 1800

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

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**30-015-25247-00-00**

Active Injection - (All Types)

G-6-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI: 1800

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Injection pressure over Max limit. Continuous blow from casing valve. Shut-in

J L KEEL A No.016**30-015-25423-00-00**

Active Injection - (All Types)

F-7-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI: 1700

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: injection pressure over limit, shut-in.

H E WEST B No.047**30-015-26203-00-00**

Active Injection - (All Types)

B-9-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI: 1950

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: injection pressure over limit. Told to shut-in.

J L KEEL A No.030

30-015-28306-00-00

Active Injection - (All Types)

O-7-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI: 1700

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

Test Type: Bradenhead Test

FAIL TYPE: Permit Violation

FAIL CAUSE:

Comments on MIT: Injection pressure over limit

H E WEST B No.095

30-015-29347-00-00

Active Injection - (All Types)

F-4-17S-31E

Test Date: 4/7/2008

Permitted Injection PSI:

Actual PSI: 2000

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/11/2008

Test Type: Bradenhead Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Continuous blow from casing valve. Well was shut-in and must remain so until repaired and re-tested.

TURNER B No.138

30-015-30321-00-00

Active Injection - (All Types)

A-20-17S-31E

Test Date: 4/8/2008

Permitted Injection PSI:

Actual PSI: 1700

Test Reason: Annual IMIT

Test Result: F

Repair Due: 7/12/2008

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.