

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson

Governor

Jon Goldstein

Cabinet Secretary

Jim Noel

Deputy Cabinet Secretary

Mark Fesmire

Division Director

Oil Conservation Division



Response Required – Deadline Enclosed

Underground Injection Control Program

"Protecting Our Underground Sources of Drinking Water"

17-Jun-10

MELROSE OPERATING COMPANY

ONE CHASEWOOD - SUITE 310

20333 CHASEWOOD PARK

HOUSTON TX 77070

LOV NO. 02-09-152

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.026

Active Injection - (All Types)

30-015-01708-00-00

O-34-17S-28E

Test Date: 6/14/2010

Permitted Injection PSI:

Actual PSI: 740

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/17/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not hold pressure

ARTESIA UNIT No.014

Active Injection - (All Types)

30-015-01755-00-00

G-35-17S-28E

Test Date: 6/14/2010

Permitted Injection PSI:

Actual PSI: 650

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/17/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not pressure up. Stopped trying to pressure up after 20 bbls.

DUNN B FEDERAL No.018

Active Injection - (All Types)

30-015-01825-00-00

C-11-18S-28E

Test Date: 6/14/2010

Permitted Injection PSI:

Actual PSI: 1400

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/17/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well started leaking outside the casing.



June 17, 2010

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DUNN B FEDERAL No.006

30-015-01832-00-00

M-12-18S-28E

Active Injection - (All Types)

Test Date: 6/15/2010

Permitted Injection PSI:

Actual PSI: 1260

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/18/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not hold pressure

DUNN B FEDERAL No.030

30-015-10293-00-00

K-11-18S-28E

Active Injection - (All Types)

Test Date: 6/15/2010

Permitted Injection PSI:

Actual PSI: 1500

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/18/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not hold pressure

STATE 647 AC 721 No.207

30-015-10782-00-00

I-33-18S-28E

Active Injection - (All Types)

Test Date: 6/15/2010

Permitted Injection PSI:

Actual PSI: 700

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/18/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not hold pressure

CONOCO 7 STATE No.006

30-015-23921-00-00

C-7-19S-29E

Active Injection - (All Types)

Test Date: 6/15/2010

Permitted Injection PSI:

Actual PSI: 300

Test Reason: 5-year Test

Test Result: F

Repair Due: 9/18/2010

Test Type: Std. Annulus Pres. Test

FAIL TYPE: Other Internal Failure

FAIL CAUSE:

Comments on MIT: Well will not hold pressure. Well started leaking outside of the casing.

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.