

RECEIVED

AUG 06 2010  
HOBBSOCDSTATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISIONNMOCB-ACO-267  
OCD REC'D  
AUG-3 P 12:51

IN THE MATTER OF MELROSE OPERATING COMPANY,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act") and OCD Rule 19.15.5.10(E) NMAC, the Director of the Oil Conservation Division ("OCD") and Melrose Operating Company ("Melrose" or "Operator") enter into this Agreed Compliance Order ("Order" or "ACO") under which Operator agrees to plug, place on approved temporary abandonment status or restore to production or other beneficial use six wells (as identified in the Order) pursuant to the Act and OCD Rule 19.15.25.8 NMAC in accordance with the following agreed schedule and procedures.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation operating wells in the state of New Mexico under OGRID 184860.
3. The following two wells need an allowable and authorization to transport oil or gas from the well:
  - CONE JALMAT YATES POOL UNIT #130 (30-025-38918)
  - JALMAT FIELD YATES SAND UNIT #249 (30-025-38922)
4. If an operator is out of compliance with 19.15.5.9 NMAC, the OCD must deny an allowable and authorization to transport.
5. Operator is currently out of compliance with 19.15.5.9.A(4) NMAC because it has too many wells out of compliance with 19.15.25.8 NMAC (the inactive well rule) that are not subject to an agreed compliance order setting a schedule for bringing the wells into compliance with the inactive well rule and imposing sanctions if the schedule is not met. See 19.15.5.9(A)(4) NMAC.
6. As an operator of 446 wells, to be in compliance with 19.15.5.9.A(4) NMAC, Operator may have no more than 2 wells out of compliance with the inactive well

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rule. According to the inactive well list kept pursuant to 19.15.5.9(F) NMAC, Operator has 20 wells out of compliance with the inactive well rule. A copy of Operator's inactive well list as of July 13, 2010 is attached as Exhibit "A."

7. The CONE JALMAT YATES POOL UNIT #130 and JALMAT FIELD YATES SAND UNIT #249 are needed to effectively complete the waterflood pattern across the Jalmat and Cone leases.
8. According to Operator, the OCD letter which approved the CONE JALMAT YATES POOL UNIT #130 and JALMAT FIELD YATES SAND UNIT #249 as pressure sink wells requires that no injection shall occur within a half mile radius of each well unless the well is producing.
9. The following three injection wells are affected by the CONE JALMAT YATES POOL UNIT #130 not being able to legally produce:
  - CONE JALMAT YATES POOL UNIT #102 (30-025-08647)
  - CONE JALMAT YATES POOL UNIT #103 (30-025-08604)
  - CONE JALMAT YATES POOL UNIT #108 (30-025-08608)
10. The following nine injection wells are affected by the JALMAT FIELD YATES SAND UNIT #249 (30-025-38922) not being able to legally produce:
  - JALMAT FIELD YATES SAND UNIT #108 (30-025-08587)
  - JALMAT FIELD YATES SAND UNIT #109 (30-025-08594)
  - JALMAT FIELD YATES SAND UNIT #113 (30-025-08589)
  - JALMAT FIELD YATES SAND UNIT #114 (30-025-08590)
  - JALMAT FIELD YATES SAND UNIT #168 (30-025-38923)
  - JALMAT FIELD YATES SAND UNIT #223 (30-025-37492)
  - JALMAT FIELD YATES SAND UNIT #224 (30-025-37498)
  - JALMAT FIELD YATES SAND UNIT #236 (30-025-38929)
  - JALMAT FIELD YATES SAND UNIT #237 (30-025-38930)
11. If the CONE JALMAT YATES POOL UNIT #130 and JALMAT FIELD YATES SAND UNIT #249 do not have an allowable and authorization to transport, the affected injection wells identified in Findings Paragraphs 9 and 10 will fall onto the inactive well list.
12. Operator represents that the following wells from Exhibit "A" are ready to be returned to production or injection, and just need an approved C-104 to be returned to production or injection.
  - JALMAT FIELD YATES SAND UNIT #116 (30-025-08601)
  - JALMAT FIELD YATES SAND UNIT #134 (30-025-08613)
  - JALMAT FIELD YATES SAND UNIT #136 (30-025-08622)
  - JALMAT FIELD YATES SAND UNIT #167 (30-025-33679)

- JF JANDA NCT-L #001 (30-025-28063)
- STATE 647 AC 721 #199 (30-015-10084)
- STATE 647 AC 721 #201 (30-015-10314)

#### CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Exhibit "A" are out of compliance with OCD Rule 19.15.25.8 NMAC.
3. As operator of the wells identified in Exhibit "A," Operator is responsible for bringing those wells into compliance with OCD Rule 19.15.25.8 NMAC.
4. The OCD and the Operator enter into this Order so that Operator may submit form C-104 Request for Allowable and Authorization to Transport Oil and Gas for each of the wells identified in Findings Paragraphs 3 and 12, and that OCD will not deny these C-104s on the basis of Operator's non-compliance with 19.15.5.9 due to inactive wells.

#### ORDER

1. Operator agrees to bring the STATE 647 AC 711 #200 (30-015-10182), STATE E 1286 #126 (30-015-01880), VANDEVENTER STATE #002 (30-015-20103) and three additional wells from Exhibit "A" not identified in Findings Paragraph 12 into compliance with OCD Rule 19.15.25.8 NMAC by February 1, 2011 by
  - (a) restoring the well to oil or gas production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
  - (b) causing the wellbore to be plugged in accordance with OCD Rule 19.15.25.10(B) NMAC and filing a C-103 describing the completed work; or
  - (c) placing the well on approved temporary abandonment status in accordance with OCD Rule 19.15.25.12 NMAC through 19.15.25.14 NMAC.
2. Swabbing is not "production" or "beneficial use" for purposes of this Order.
3. Operator shall file a compliance report identifying each well returned to compliance, stating the date it was returned to compliance and describing how the well was returned to compliance (restored to production or other approved beneficial use, plugged wellbore, or approved temporary abandonment status). The written compliance report must be mailed or e-mailed to the OCD's Enforcement and Compliance Manager and to the OCD attorney in charge of inactive well agreed compliance orders so that it is received by the compliance deadline of February 1, 2011.

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4. **Limited Purpose of Order** — This Order shall be considered an “Inactive Well Agreed Compliance Order” under 19.15.5.9(F)(1)(c) NMAC for the limited purpose of removing the wells identified in Exhibit “A” from consideration in determining compliance with 19.15.5.9(A)(4) NMAC for:
- C-104’s that Operator will file for each of the following nine wells:
    - CONE JALMAT YATES POOL UNIT #130 (30-025-38918)
    - JALMAT FIELD YATES SAND UNIT #116 (30-025-08601)
    - JALMAT FIELD YATES SAND UNIT #134 (30-025-08613)
    - JALMAT FIELD YATES SAND UNIT #136 (30-025-08622)
    - JALMAT FIELD YATES SAND UNIT #167 (30-025-33679)
    - JALMAT FIELD YATES SAND UNIT #249 (30-025-38922)
    - JF JANDA NCT-L #001 (30-025-28063)
    - STATE 647 AC 721 #199 (30-015-10084)
    - STATE 647 AC 721 #201 (30-015-10314)
5. This Order **shall not be considered an “Inactive Well Agreed Compliance Order” under 19.15.5.9(F)(1)(c) NMAC for any other purpose**, and the wells identified in Exhibit “A” shall not be removed from the inactive well list kept pursuant to 19.15.5.9(F) NMAC.
6. This Order shall expire February 2, 2011.
7. Operator may negotiate with the OCD for an agreed compliance order to take effect when this Order expires. It will be within the OCD’s discretion whether to enter into an agreed compliance order with Operator. Factors in the OCD’s determination shall include:
- Operator’s compliance with OCD financial assurance requirements;
  - Operator’s compliance with the terms of this Agreed Compliance Order;
  - Whether Operator returned additional wells to compliance beyond those required under the terms of this Order;
  - Whether Operator prevented wells from falling out of compliance with the inactive well rule during the time period covered by this Order; and
  - Whether Operator proposes an acceptable plan for returning its inactive wells to compliance.
8. Operator understands that if it fails to meet the terms of this Order it is unlikely that the OCD will enter into further agreed compliance orders with Operator for inactive wells.
9. By signing this Order, Operator expressly:

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- (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
- (b) agrees that by February 1, 2011, it will
- Return the STATE 647 AC 711 #200 (30-015-10182) to compliance as defined in this Order;
  - Return the STATE E 1286 #126 (30-015-01880) to compliance as defined in this Order;
  - Return the VANDEVENTER STATE #002 (30-015-20103) to compliance as defined in this Order;
  - Return three additional wells identified in Exhibit "A" not identified in Findings Paragraph 12 to compliance as defined in this Order;
  - File the appropriate paperwork to document the compliance; and
  - Submit a written compliance report; and
- (c) waives any right, pursuant to the Oil and Gas Act or otherwise, to an appeal from this Order, or to a hearing either prior to or subsequent to the entry of this Order.
- 10 The OCD reserves the right to file an application for hearing to obtain authority to plug any well identified in Exhibit "A" and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 5<sup>th</sup> day of Aug, 2010

By: Mark E. Fesmire  
Mark Fesmire, P.E.  
Director, Oil Conservation Division

#### ACCEPTANCE

Melrose Operating Company hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Melrose Operating Company

By: Bryan Archer  
(Please print name) BRYAN ARCHER  
Title: V.P. MELROSE OPERATING COMPANY  
Date: 08.02.2010

**Exhibit A to Agreed Compliance Order for Melrose Operating Company****Inactive Well List****Total Well Count: 446 Inactive Well Count: 20 Since: 4/19/2009****Printed On: Tuesday, July 13 2010**

District	API	Well	ULSTR	OCO Unit	OGRIID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	YA Exp Date
2	30-015-01563	ARTESIA UNIT #002	M-26-175-28E	M	184860	MELROSE OPERATING COMPANY	S	O	08/1983			
2	30-015-01567	ARTESIA UNIT #005	P-26-175-28E	P	184860	MELROSE OPERATING COMPANY	S	O	04/2008	PREMIER	T	10/19/2009
2	30-015-02545	ARTESIA UNIT #047	G-3-185-28E	G	184860	MELROSE OPERATING COMPANY	S	I	03/2008			
1	30-025-08601	JALMAT FIELO YATES SAND UNIT #116	L-17-275-35E	L	184860	MELROSE OPERATING COMPANY	S	I	03/2007			
1	30-025-08613	JALMAT FIELO YATES SAND UNIT #134	E-13-225-35E	E	184860	MELROSE OPERATING COMPANY	S	I	09/2008	CONVERT TO INJ		
1	30-025-08622	JALMAT FIELO YATES SAND UNIT #136	G-14-225-35E	G	184860	MELROSE OPERATING COMPANY	S	I	09/2008	CONVERT TO INJ		
1	30-025-08627	JALMAT FIELO YATES SAND UNIT #138	E-14-225-35E	E	184860	MELROSE OPERATING COMPANY	S	O	09/2008	INT TO PA 11/23/09		
1	30-025-33679	JALMAT FIELO YATES SAND UNIT #167	A-11-225-35E	A	184860	MELROSE OPERATING COMPANY	S	O	06/2008	YATES		
1	30-025-28063	JF JANDA NCT-L #001	D-36-225-35E	D	184860	MELROSE OPERATING COMPANY	S	O	04/1986			
2	30-018-02007	MERSHON STATE #002	D-21-185-28E	D	184860	MELROSE OPERATING COMPANY	S	O	03/2008			
1	30-025-03192	NORTHEAST PEARL QUEEN UNIT #006	O-23-195-35E	O	184860	MELROSE OPERATING COMPANY	S	O	05/2008			
2	30-015-02054	STATE 647 AC 711 #100	A-27-185-28E	A	184860	MELROSE OPERATING COMPANY	S	I	04/2008		T	1/3/2008
2	30-015-10182	STATE 647 AC 711 #200	M-23-185-28E	M	184860	MELROSE OPERATING COMPANY	S	O	02/1997			
2	30-015-01877	STATE 647 AC 713 #115	O-15-185-28E	O	184860	MELROSE OPERATING COMPANY	S	O	08/2008			
2	30-015-10084	STATE 647 AC 721 #199	J-33-185-28E	J	184860	MELROSE OPERATING COMPANY	S	O	07/2006			
2	30-015-10314	STATE 647 AC 721 #201	O-33-185-28E	O	184860	MELROSE OPERATING COMPANY	S	O	07/2006			
2	30-015-01880	STATE E 1286 #126	D-15-185-28E	O	184860	MELROSE OPERATING COMPANY	S	O	01/1994		T	10/19/2009
2	30-015-20103	VANDEVENTER STATE #002	B-20-185-28E	B	184860	MELROSE OPERATING COMPANY	S	O	01/1985			
2	30-015-01959	WESTERN YATES STATE #001	F-20-185-28E	F	184860	MELROSE OPERATING COMPANY	S	O	03/2007			
2	30-015-01960	WESTERN YATES STATE #002	E-20-185-28E	E	184860	MELROSE OPERATING COMPANY	S	O	09/2006			

WHERE Ogrid:184860, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15, Excludes  
Wells Under ACOI, Excludes Wells in Approved TA Period

Melrose Operating Company

By:  BARRY ARCHER

Title: VICE PRESIDENT MELROSE OPERATING COMPANY