

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD
- Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR
- [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
 [A] Working, Royalty or Overriding Royalty Interest Owners
 [B] Offset Operators, Leaseholders or Surface Owner
 [C] Application is One Which Requires Published Legal Notice
 [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

| | | | |
|--------------------|-----------|----------------|------|
| Print or Type Name | Signature | Title | Date |
| | | e-mail Address | |

MERRION

OIL & GAS

RECEIVED

July 8, 2004

JUL 12 2004

OIL CONSERVATION
DIVISION

Mr. William Jones
New Mexico Oil Conservation Division
1220 S. St. Francis Dr.
Santa Fe, NM 87505

**RE: Application for Administrative Approval
Downhole Commingling
Wildcat Fruitland Sand, Basin Fruitland and Gavilan Pictured Cliffs Pools
Chubby Hubby No. 1
Section 2, T24N, R2W
Rio Arriba County, New Mexico**

Dear Mr. Jones:

Merrion Oil & Gas (Merrion) requests administrative approval for downhole commingling of the Wildcat Fruitland Sand, Basin Fruitland and the Gavilan Pictured Cliffs in the subject wellbore. The following information is provided in support of this application.

I. History and Justification

The Chubby Hubby No. 1 APD was submitted for approval to the Rio Puerco BLM office in late May, and should be approved some time in the next month or so. Drilling will begin as soon as a rig is available.

There is Pictured Cliffs production in the area. A well was completed in the Fruitland Coal, however it is not commercially productive. The Fruitland Sand has not been tested (to our knowledge). We propose to commingle production from these three zones because we believe that no one zone would be economically productive. All three zones together could justify the drilling and operating cost of the well.

II. Proposed Spacing Units

Exhibit 1 is the C-102 plat for the Wildcat Fruitland Sand Pool with a 160 acre spacing unit in the northwest quarter of Section 2. Exhibit 2 is the C-102 plat for the Basin Fruitland Pool with a 320 acre spacing unit in the west half of Section 2. Exhibit 3 is the C-102 plat for the Gavilan Pictured Cliffs Pool with a 160 acre spacing unit in the northwest corner of section 2.

III. Allocation Methodology

Exhibit 4 is a map showing offset Pictured Cliffs wells and the Fruitland Coal well. Exhibits 5 through 8 show the production from three of the Pictured Cliffs offsets and one Fruitland Coal offset to the subject well. We project that the Pictured Cliffs will produce

about 50 MCFD. The Fruitland Sand is a wildcat pool in this area and we do not have production data to predict its performance. Open hole log information indicates that the interval may be productive, so we propose to test it. Our conservative estimate is about 20 MCFD, but we can not accurately predict the Fruitland Sand production.

The Fruitland Coal offset produced a maximum rate of 13 MCFD. It was plugged back from a Dakota producer drilled in 1986. We believe that the coal was damaged by mud drilling, and possibly lost circulation in the Fruitland interval. We plan to air drill through the Fruitland Coal to avoid formation damage. We estimate that the Fruitland Coal will produce about 50 MCFD. We have no production data to support this, however, we believe that commingling these three formations provides the best chance of success for each interval.

Merrion proposes to obtain stabilized production tests on each zone separately and use a fixed percentage to allocate future production between the three zones. If subsequent data indicate the need, additional testing may be done in the future to adjust the allocation percentages.

IV. Reservoir Fluid Compatibility

Water analyses are not available for wells in the immediate area. However, the waters of the Fruitland Sand, Coal and Pictured Cliffs have been generally determined to be compatible across the basin based on other similar applications to the NMOCD.

V. Cross Flow Between Zones

The reservoir pressure of all three zones is estimated to be about 850 psig. Therefore, crossflow is not anticipated to be a problem.

VI. Well Ownership Notification

The ownership of the three zones is identical, so no notification is necessary.

VII. Summary

Projected reserves for any one zone are not sufficient to justify drilling the well. Commingling the zones will maximize reserves and protect correlative rights. Therefore, we request your approval of this application.

If you have questions or need additional information, please call me at 505.324.5326.

Sincerely,



Connie S. Dinning
Production Engineer

Cc: Steve Hayden, Aztec NMOCD
BLM, Farmington Field Office

File: s/operate/drilling/lindrith/Cookie Dough Commingle Just.doc

District I
1625 N. French Drive, Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

District III
1000 Rio Brazos Road, Aztec, NM 87410

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised June 10, 2003

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

APPLICATION TYPE
 Single Well
 Establish Pre-Approved Pools
EXISTING WELLBORE
 Yes No

APPLICATION FOR DOWNHOLE COMMINGLING

Merrion Oil & Gas 610 Reilly Ave. Farmington, NM 87401
Operator Address

Chubby Hubby 1 C-2-24N-2W Rio Arriba
Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 014634 Property Code _____ API No. _____ Lease Type: Federal State Fee

| DATA ELEMENT | UPPER ZONE | INTERMEDIATE ZONE | LOWER ZONE UNDES. |
|--|--|--|--|
| Pool Name | Wildcat 24N2W23 Fruitland Sand | Basin Fruitland (Pre-approved w/ Gavilan PC) | Gavilan Pictured Cliffs (Pre-Approved w/ Basin FC) |
| Pool Code | | 71629 | 77360 |
| Top and Bottom of Pay Section (Perforated or Open-Hole Interval) | 3295' - 3325' | 3325' - 3405' | 3405' - 3425' |
| Method of Production (Flowing or Artificial Lift) | Artificial Lift | Artificial Lift | Artificial Lift |
| Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone) | 865 psi Estimated from 0.26 gradient | 885 psi Estimated from 0.26 gradient | 891 psi Estimated from 0.26 gradient |
| Oil Gravity or Gas BTU (Degree API or Gas BTU) | ±1100 BTU/SCF | ±1000 BTU/SCF | ±1100 BTU/SCF |
| Producing, Shut-In or New Zone | New Zone | New Zone | New Zone |
| Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.) | Date: Estimated from Offsets Rates: 20 MCFD | Date: Estimated from Offsets Rates: 50 MCFD | Date: Estimated from Offsets Rates: 50 MCFD 0 BOPD |
| Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.) | Oil Gas 0 % 17% | Oil Gas 0 % 42% | Oil Gas 100 % 41% |

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes No _____
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes No _____

Are all produced fluids from all commingled zones compatible with each other? Yes No _____

Will commingling decrease the value of production? Yes _____ No _____

If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application? Yes No _____

NMOCD Reference Case No. applicable to this well: _____

- Attachments:
- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
 - Production curve for each zone for at least one year. (If not available, attach explanation.)
 - For zones with no production history, estimated production rates and supporting data.
 - Data to support allocation method or formula.
 - Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
 - Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

- List of other orders approving downhole commingling within the proposed Pre-Approved Pools
- List of all operators within the proposed Pre-Approved Pools
- Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
- Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE  TITLE Production Engineer DATE 7/7/04

TYPE OR PRINT NAME Connie Dinning TELEPHONE NO. (505) 324-5326

E-MAIL ADDRESS cdinning@merrion.bz

State of New Mexico
 Energy, Minerals & Mining Resources Department
 OIL CONSERVATION DIVISION
 2040 South Pacheco
 Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|---------------------|------------------------------------|---------------------------------------|
| APA Number | Pool Code | Pool Name WC24N2W2; Fruitland Sand |
| Property Code | Property Name CHUBBY HUBBY | Well Number 1 |
| OGRID No. 014634 | Operator Name MERRION OIL & GAS | Elevation 7328' |

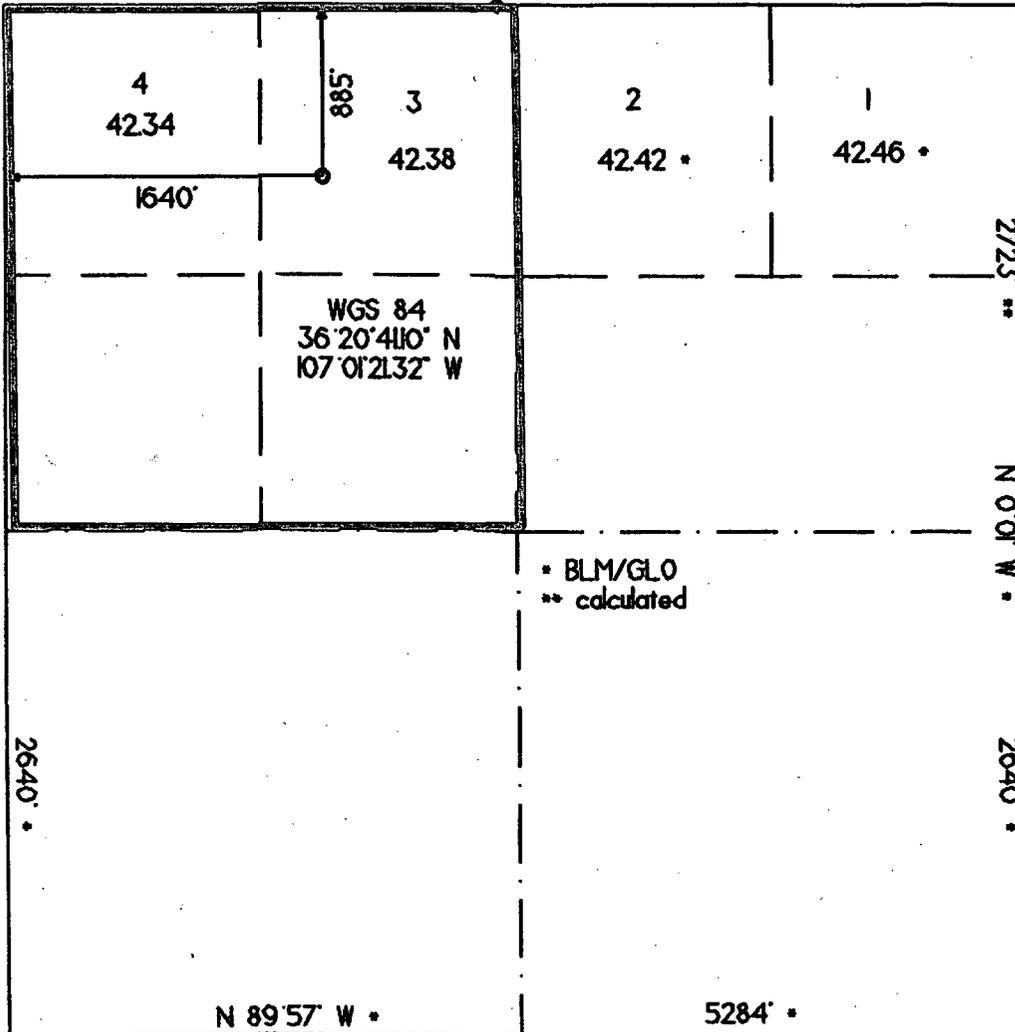
| Surface Location | | | | | | | | | |
|------------------|------|-------|------|----------|-------------|-------------|-------------|-----------|------------|
| UL or Lot | Sec. | Top. | Rgn. | Lot Lch. | Feet from > | North/South | Feet from > | East/West | County |
| C | 2 | 24 N. | 2 W. | NENW | 885' | NORTH | 1640' | WEST | RIO ARriba |

| Bottom Hole Location if Different From Surface | | | | | | | | | |
|--|------|------|------|----------|-------------|-------------|-------------|-----------|--------|
| UL or Lot | Sec. | Top. | Rgn. | Lot Lch. | Feet from > | North/South | Feet from > | East/West | County |
| | | | | | | | | | |

| | | | |
|----------------------|---------|---------------|-----------|
| Dedication 160 Ac | Joint ? | Consolidation | Order No. |
|----------------------|---------|---------------|-----------|

NO ALLOWABLE WELL ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
 OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

West * 5284**



| | |
|---|---------------------|
| OPERATOR CERTIFICATION | |
| I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. | |
| Signature | |
| Printed Name | Connie Dinning |
| Title | Production Engineer |
| Date | July 7, 2004 |
| SURVEYOR CERTIFICATION | |
| I hereby certify that the well location on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. | |
| Date of Survey | 6/04/04 |
| Signature and Seal of Professional Surveyor | |

278' **

N 0° 0' W *

2640' *

2725' **

N 0° 0' W *

2640' *

State of New Mexico
 Energy, Minerals & Mining Resources Department
OIL CONSERVATION DIVISION
 2040 South Pacheco
 Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

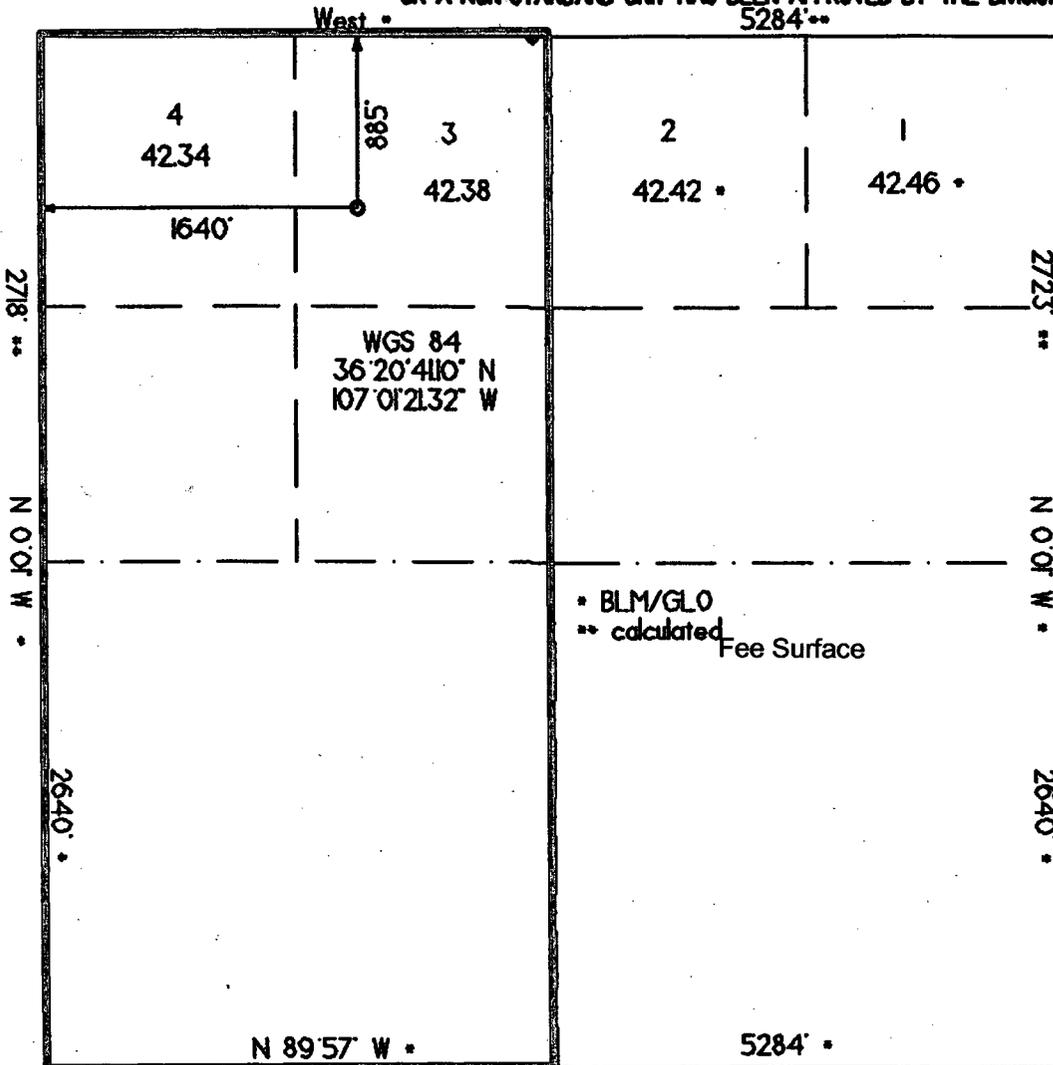
| | | | |
|--------------------|------------------------------------|--------------------|------------------------------|
| APA Number | | Pool Code 71629 | Pool Name Basin Fruitland |
| Property Code | Property Name CHUBBY HUBBY | | Well Number 1 |
| OGRD No. 014634 | Operator Name MERRION OIL & GAS | | Elevation 7328' |

| Surface Location | | | | | | | | | |
|------------------|------|-------|------|---------|-----------|-------------|-----------|-----------|------------|
| UL or Lot | Sec. | Twp. | Rge. | Lot Id. | Feet from | North/South | Feet from | East/West | County |
| C | 2 | 24 N. | 2 W. | W1/2 | 885' | NORTH | 1640' | WEST | RIO ARRIBA |

| Bottom Hole Location if Different From Surface | | | | | | | | | |
|--|------|------|------|---------|-----------|-------------|-----------|-----------|--------|
| UL or Lot | Sec. | Twp. | Rge. | Lot Id. | Feet from | North/South | Feet from | East/West | County |
| | | | | | | | | | |

| | | | |
|----------------------|---------|---------------|-----------|
| Dedication 320 Ac | Joint ? | Consolidation | Order No. |
|----------------------|---------|---------------|-----------|

NO ALLOWABLE WILL ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
 OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION
 I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: *[Signature]*

Printed Name: Connie Dinning

Title: Production Engineer

Date: July 7, 2004

SURVEYOR CERTIFICATION
 I hereby certify that the well location on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey: 6/04/04

Signature and Seal of Professional Surveyor: *[Signature]*

GERALD S. HODDLESTON
 NEW MEXICO
 6844
 REGISTERED LAND SURVEYOR

State of New Mexico
 Energy, Minerals & Mining Resources Department
 OIL CONSERVATION DIVISION
 2040 South Pacheco
 Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|--------------------|------------------------------------|--------------------------------------|
| APA Number | Pool Code 77360 | Pool Name Gavilan Pictured Cliffs |
| Property Code | Property Name CHUBBY HUBBY | Well Number 1 |
| OGFD No. 014634 | Operator Name MERRION OIL & GAS | Elevation 7328' |

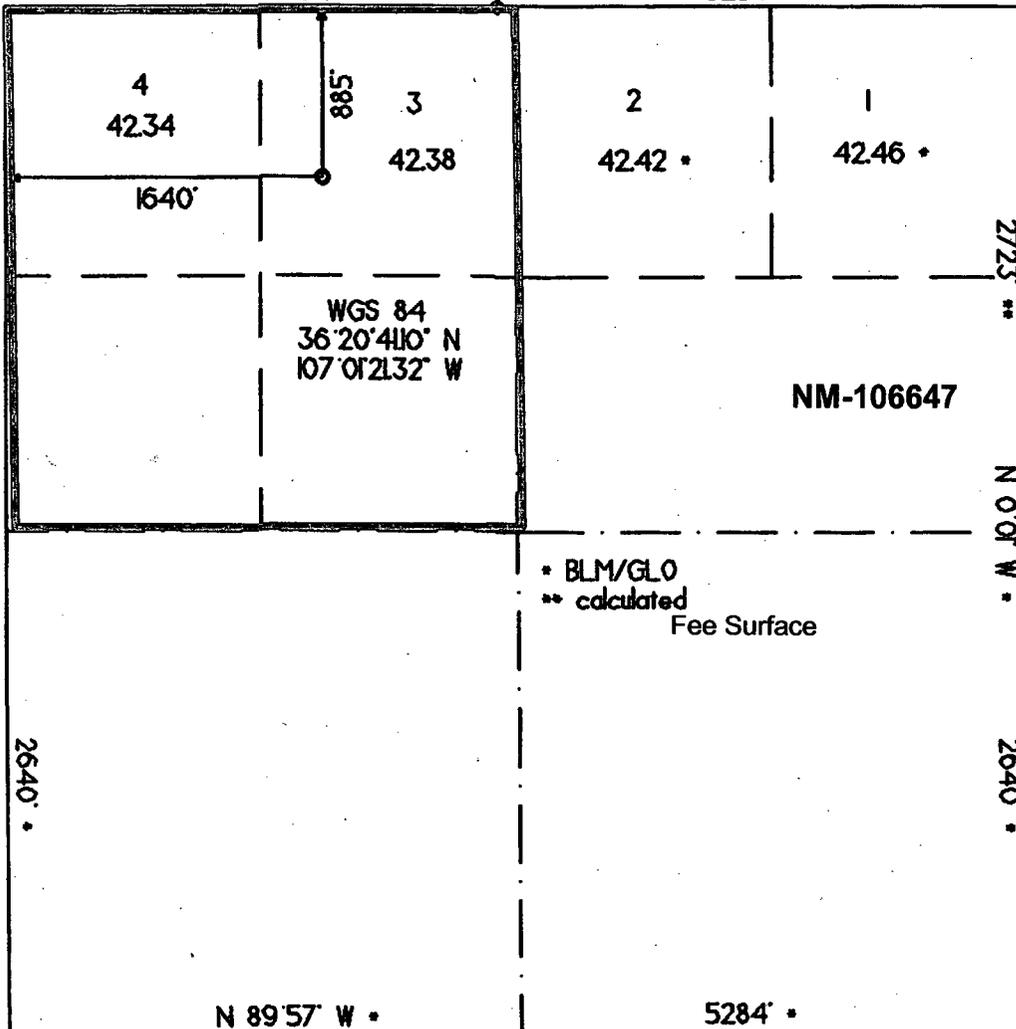
| Surface Location | | | | | | | | | |
|------------------|------|-------|------|----------|-------------|-------------|-------------|-----------|------------|
| UL or Lot | Sec. | Tap. | Rgn. | Lot Lch. | Feet from > | North/South | Feet from > | East/West | County |
| C | 2 | 24 N. | 2 W. | NENW | 885' | NORTH | 1640' | WEST | RIO ARriba |

| Bottom Hole Location if Different From Surface | | | | | | | | | |
|--|------|------|------|----------|-------------|-------------|-------------|-----------|--------|
| UL or Lot | Sec. | Tap. | Rgn. | Lot Lch. | Feet from > | North/South | Feet from > | East/West | County |
| | | | | | | | | | |

| | | | |
|----------------------|---------|---------------|-----------|
| Dedication 160 Ac | Joint ? | Consolidation | Order No. |
|----------------------|---------|---------------|-----------|

NO ALLOWABLE WILL ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
 OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

West * 5284**



OPERATOR CERTIFICATION
 I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: *[Signature]*

Printed Name: Connie Dinning

Title: Production Engineer

Date: July 7, 2004

SURVEYOR CERTIFICATION
 I hereby certify that the well location on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey: 6/04/04

Signature and Seal of Professional Surveyor: *[Signature]*

GERALD HODDLESTON
 NEW MEXICO
 6844
 REGISTERED LAND SURVEYOR

2718 **
 N 0° 0' W *

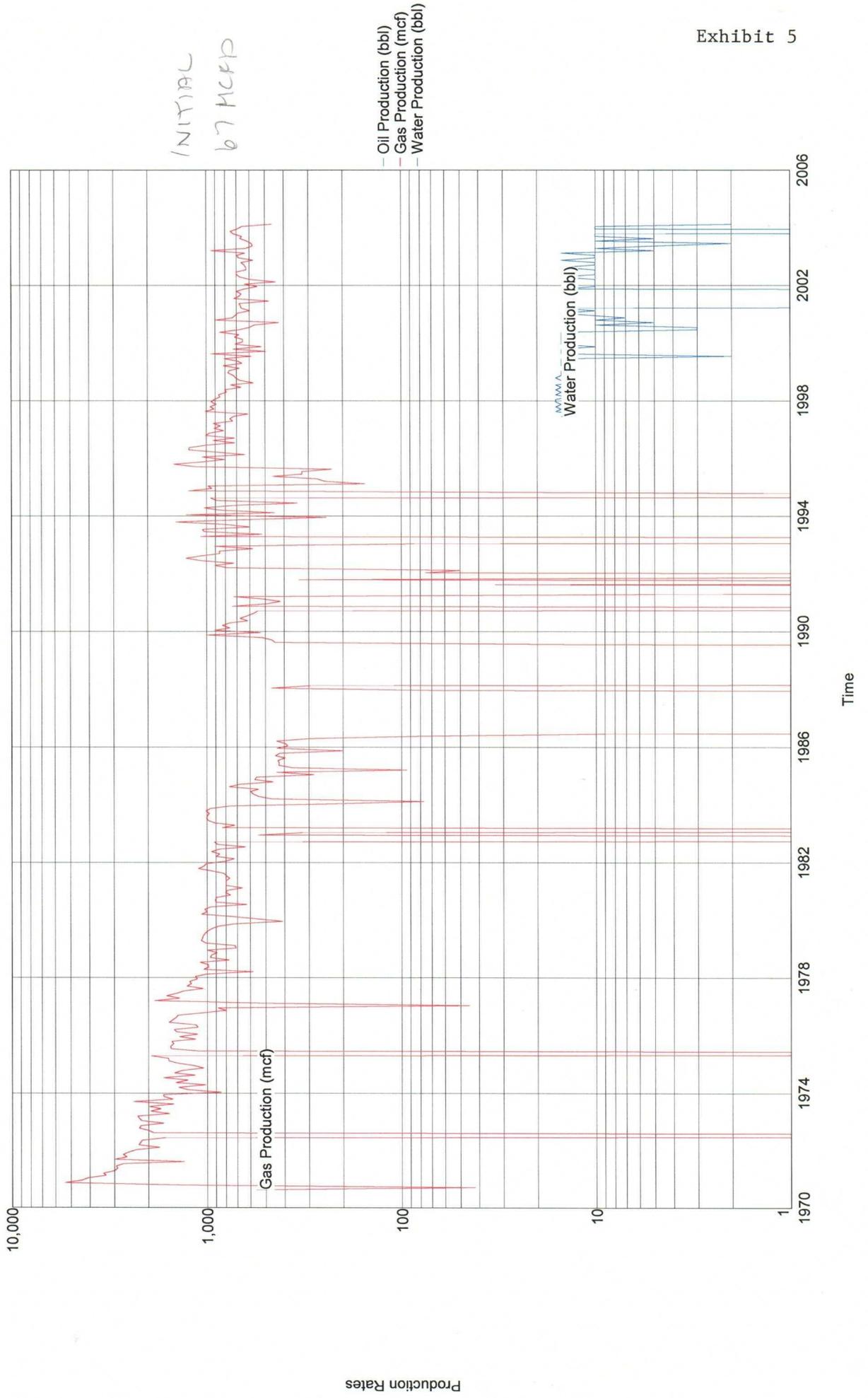
2725 **
 N 0° 0' W *

* BLM/GLO
 ** calculated
 Fee Surface

N 89°57' W * 5284' *

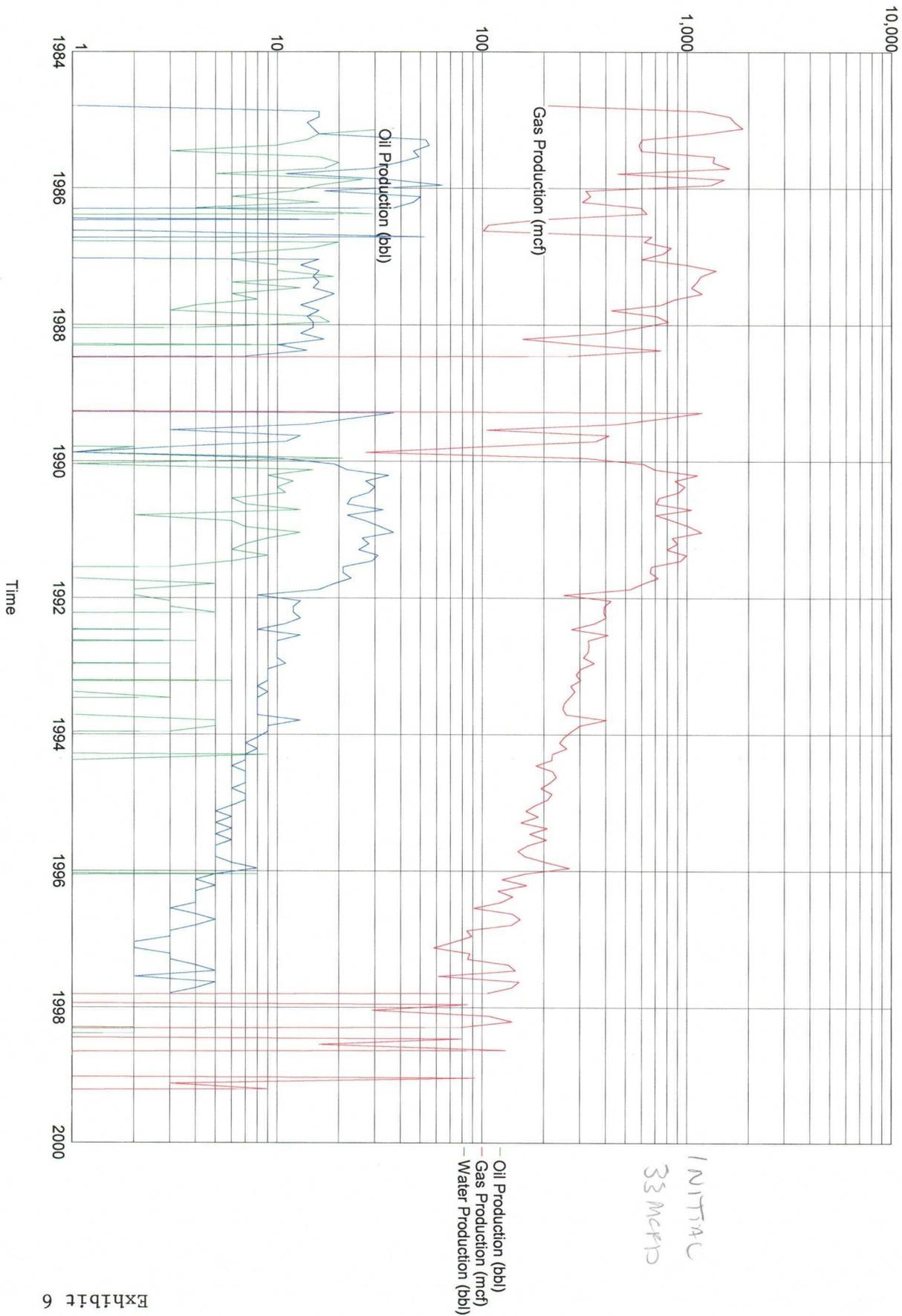
Lease Name: KILGORE |
County, State: RIO ARBA, NM
Operator: DUGAN PRODUCTION CORPORATION
Field: GAVILAN
Reservoir: PICTURED CLIFFS
Location: 36 25N 2W SE SE

KILGORE - GAVILAN



Lease Name: HAWK FEDERAL)
 County, State: RIO ARBA, NM
 Operator: ENERGEN RESOURCES CORPORATION
 Field: GAVILAN
 Reservoir: PICTURED CLIFFS
 Location: 35 25N 2W SW NE NE

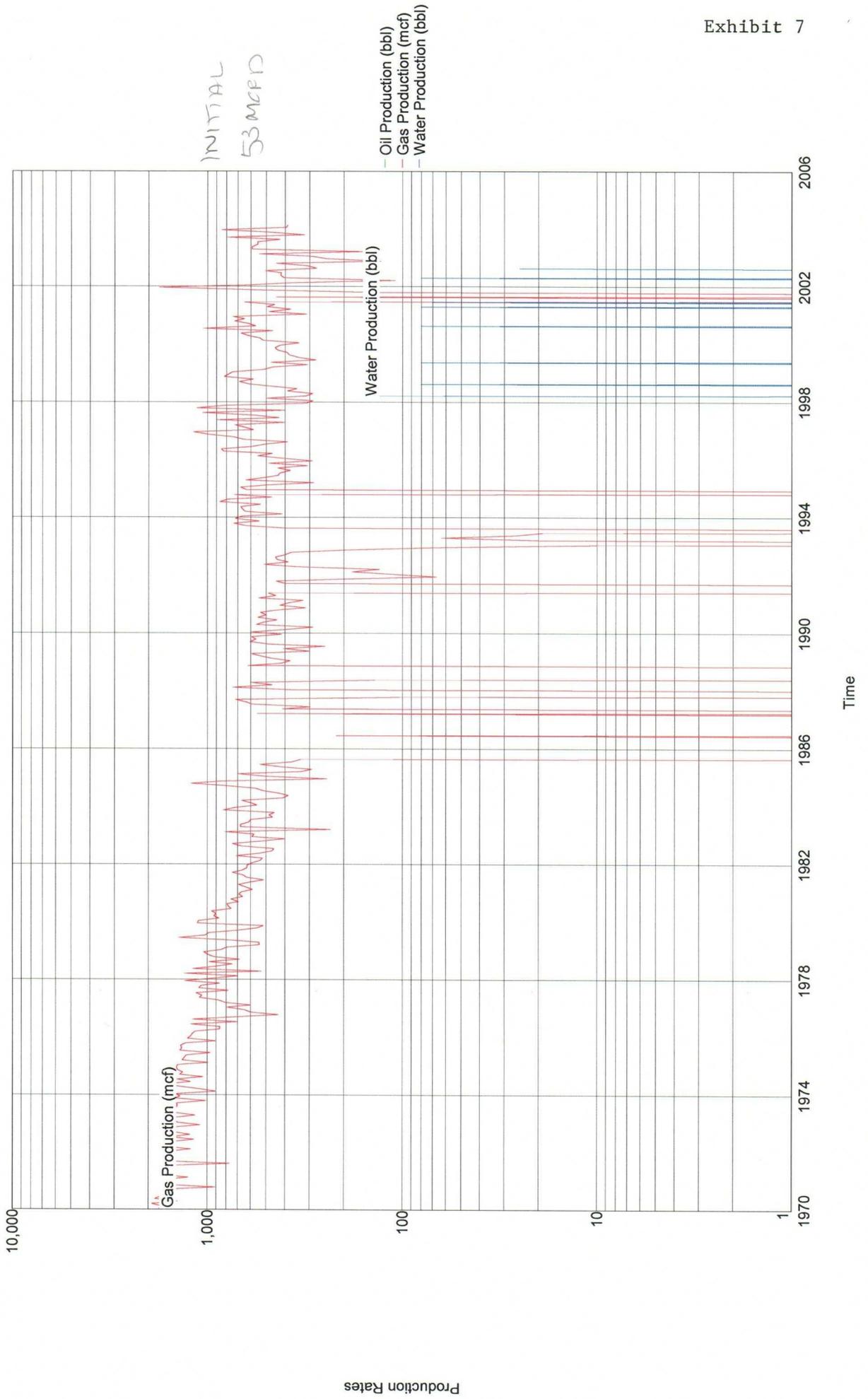
HAWK FEDERAL - GAVILAN



Production Rates

Lease Name: FEDERAL / 4
County, State: RIO ARBA, NM
Operator: N M & O OPERATING COMPANY
Field: GAVILAN
Reservoir: PICTURED CLIFFS
Location: 36 25N 2W SW NW

FEDERAL - GAVILAN



CHUCKY HUSBY / . . .
CHUNKY MONKEY I

- ① OLP DAKOTA 1986
- ② COAL TGST 1998
- ③ RECOMP TO MV 2002

Lease Name: FEDERAL INVADER I
County, State: RIO ARBA, NM
Operator: N M & O OPERATING COMPANY
Field: BASIN
Reservoir: FRUITLAND COAL
Location: 1 24N 2W SE NW NW

FEDERAL INVADER - BASIN FRUITLAND COAL

