

MERRION

OIL & GAS

RECEIVED

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May 31, 1995

Mr. William Lemay
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87503

**Re: Application for Administrative Approval - Special Pool Rules
For Unorthodox Locations, Non-Standard Spacing Units,
and Special Allowables
To Facilitate Additional Horizontal Drilling
Papers Wash Entrada Cooperative Area (Unit)
McKinley County, New Mexico**

11309

Dear Mr. Lemay:

Order R-9079 (Exhibit 1) gave your approval for an unorthodox location and special allowables to permit Merrion to drill a horizontal well from the PWU #1 location (previously Fed 15-2H) in the Papers Wash Entrada Cooperative Area. Merrion requests your administrative approval for special pool rules to allow for additional horizontal wells within the Cooperative Area. This application reviews the performance of the PWU #1, describes why Merrion wants to drill additional wells, and outlines the special pool rules that are needed to allow Merrion to do so.

HISTORY

In our application for Order R-9079, Merrion described how oil is trapped in the top of preserved Entrada dunes. We discussed the fact that a strong bottom water drive resulted in severe water coning, which left significant unrecovered "attic oil" in the top of the dune between wells. The successful redrilling of the PWU #1 as a horizontal well (see Exhibit 2 for land plat and well location) in March of 1990 demonstrated the validity of our theory. The PWU #1 has produced approximately 106,000 barrels of oil since being redrilled (see Exhibit 3 for production plot).

FUTURE PLANS

The success of the PWU #1 has led to the possibility of additional development within the Cooperative Area boundaries with either horizontal or vertical wells (see Exhibit 4, remaining net pay map). The near term plan is to utilize either the PWU #1 wellbore (the well is now close to its economic limit) or the PWU #2 wellbore to drill another horizontal extension. Depending on the success of that well, additional horizontal and or vertical wells could be justified.

REQUESTED SPECIAL POOL RULES

Merrion requests the following special pool rules:

- 1.) Merrion is authorized to institute a short radius drilling pilot project, hereinafter referred to as the "project area", in the Papers Wash Entrada Oil Pool within the Papers Wash Entrada Cooperative Area comprising the following described 400 acres in McKinley County, New Mexico:

TOWNSHIP 19N, RANGE 5W, NMPM

Section 15: E/2

Section 16: SE/4 NE/4, and NE/4 SE/4

- 2.) Special operating provisions for additional horizontal or vertical wells within the Papers Wash Cooperative Area will be promulgated that allow for:
 - a.) No vertical well or any portion of a horizontal well shall be closer than 330 feet to the outer boundary of the Cooperative Area;
 - b.) No surface well location shall be located closer than 10 feet to an interior quarter quarter section line;
 - c.) The allowable assigned to the Cooperative Area shall be 750 barrels of oil per day times the number of 40 acre tracts that are either developed by conventionally drilled wells or traversed by a horizontal drain hole.

These provisions should be identical to those approved for the Eagle Mesa Entrada Secondary Unit, Order R-10213, attached hereto as Exhibit 5.

SUPPORTING INFORMATION

The following information is provided in support of this request:

- 1.) All of the lands within the project area are unitized for the purposes of horizontal drilling and water injection. The Cooperative Agreement covering these lands is attached as Exhibit 6. Ownership within the Cooperative Area is common, so all interest owners will benefit proportionately from any well drilled.
- 2.) The special pool rules will protect correlative rights by providing additional drilling, which will benefit the royalty owners.

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- 3.) Copies of this application were sent certified mail to the following offset lease owners (see Exhibit 2):

Chaco Oil Co, Inc.
313 Washington SE
Albuquerque, New Mexico 87108

Bureau of Indian Affairs
Attn: Mary Lou Drywater
P.O. Box 1060
Gallup, New Mexico 87305

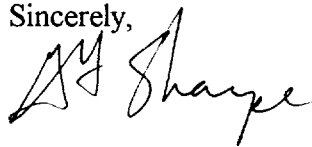
Bureau of Land Management
Attn: Duane Spencer
1235 La Plata Highway
Farmington, New Mexico 87401

SUMMARY

Special pool rules are needed to allow additional horizontal wells to be drilled in the Papers Wash Cooperative Area. This will protect correlative rights through increased royalty payments. Therefore, we request your prompt attention to this matter.

Please call me at (505) 327-9801 with questions or comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "G. Sharpe".

George F. Sharpe
Manager - Oil & Gas Investments

xc: Unit File
Pitco
Jim Johnson

EXHIBITS

- 1 Order R-9079 For Unorthodox Location and Special Operating Rules for the Papers Wash Entrada Cooperative Area
- 2 Land Plat with Unit Boundaries
- 3 PWU #1 Production Plot
- 4 Remaining Net Pay Map
- 5 Order R-10213 - Special Operating Rules for the Eagle Mesa Secondary Unit
- 6 Cooperative Agreement for Horizontal Drilling and the Injection of Gas and Water in the Papers Wash Area