



DAC-3421
PWVJ 0507752 424
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MAR 16 2005

March 15, 2005

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

Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, NM 87505

**RE: Application for Administrative Approval
Downhole Commingling
Potwin Pictured Cliffs, Dufers Point Gallup Dakota
Shoofly No. 1
Section 14, T24N R8W
San Juan County, New Mexico**

Dear Mr. Jones:

Merrion Oil & Gas (Merrion) requests administrative approval for downhole commingling of the Potwin Pictured Cliffs and the Dufers Point Gallup Dakota in the subject wellbore. The following information is provided in support of this application.

I. History and Justification

The Shoofly No. 1 was drilled and completed in 1984 as a Gallup oil well. It produced approximately 23,400 BO through December 2004. The oil rate in September 2004 was about 2.5 BOPD and the gas rate about 10 MCFD. The Gallup was approaching its economic limit, so we did a study and determined that there could be uphole Pictured Cliffs potential.

The pump went down in October 2004 and we decided to add the coal at the point that we moved a rig on to do the pump change. The well has logged off and will not flow.

II. Proposed Spacing Units

Exhibit 1 is the C-102 plat for the Dufers Point Gallup Dakota Pool, a 160 acre spacing unit in the northwest quarter of Section 14. Exhibit 2 is the C-102 plat for the Potwin Pictured Cliffs, an 80 acre spacing unit in the east half of the northwest quarter of Section 14.

III. Allocation Methodology

Exhibit 3 is the decline curve for the Dufers Point Gallup Dakota production. Exhibit 4 is the decline curve for the Mesa No. 2, an offset Potwin Pictured Cliffs producer. Based on the Mesa No. 2 production, we project that the Shoofly No.1 will initially make about 50 MCFD from the Pictured Cliffs. Based on this data, we plan to allocate 100% of the oil

production to the Gallup. Depending upon the actual Pictured Cliffs production, we will adjust the gas allocation, but based on the data we have now, the gas will be allocated 85% to the Pictured Cliffs and 15% to the Gallup.

Merrion proposes to obtain stabilized production tests on the Pictured Cliffs and use a fixed percentage to allocate future production between this zone and the Gallup. 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 Pictured Cliffs and the Gallup have been generally determined to be compatible across the basin based on other similar applications to the NMOCD. The Gallup does not make a significant amount of water in this well, and the Mesa No. 2 offset well only makes about 10 barrels of water per month from the Pictured Cliffs.

V. Cross Flow Between Zones

The reservoir pressure of the Pictured Cliffs is lower than the Gallup, but we anticipate that the liquids will be pumped up the tubing while the gas is produced up the casing/tubing annulus. The small volume of Gallup gas production should not crossflow into the Pictured Cliffs. The surface casing pressure will be about 40 psi, so all the gas will preferentially flow to the surface.

VI. Well Ownership Notification

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

VII. Summary

The well production is marginal under current conditions, but we believe there are additional reserves behind pipe in the Pictured Cliffs. The Potwin Pictured Cliffs would not justify drilling a new wellbore, however commingling with the Gallup will allow recovery of these additional reserves. 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/workovers/Huerfano/Shoofly 1 Commingle Just.doc

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

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised June 10, 2003

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

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 ___

District III
1000 Rio Brazos Road, Aztec, NM 87410

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

APPLICATION FOR DOWNHOLE COMMINGLING

Merrion Oil & Gas 610 Reilly Ave, Farmington, NM 87401
Operator NM-16589 Shoofly 1 Address C-14-24N-8W San Juan
Lease Well No. Unit Letter-Section-Township-Range County
OGRID No. 014634 Property Code 007842 API No. 30-045-26133 Lease Type: X Federal ___ State ___ Fee ___

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	Potwin Pictured Cliffs UNDES ✓		Dufers Point Gallup-Dakota ✓
Pool Code	83000 ✓		19859 ✓
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	2142' - 2244'		5540' - 5826'
Method of Production (Flowing or 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)	583 psi		1515 psi
Oil Gravity or Gas BTU (Degree API or Gas BTU)	1000 BTU		1474 BTU
Producing, Shut-In or New Zone	New Zone		Producing
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.)	Not yet completed Date: Rates:	Date: Rates:	Date: 9/30/04 Rates:
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil 0 Gas 50 mcf/d 0% 85%	Oil Gas % %	Oil 2.7 Gas 9 mcf/d 100% 15%

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes X 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 X No ___
Will commingling decrease the value of production? Yes ___ No X ___
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 X 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 [Signature] TITLE Production Engineer DATE 3/15/05
TYPE OR PRINT NAME Connie Dinning TELEPHONE NO. (505) 324-5326
E-MAIL ADDRESS cdinning@merrion.bz

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-26133		² Pool Code 19859		³ Pool Name Dufers Point Gallup-Dakota	
⁴ Property Code 007842		⁵ Property Name Shoofly			⁶ Well Number 1
⁷ OGRID No. 14634		⁸ Operator Name Merrion Oil & Gas			⁹ Elevation 6939' GL

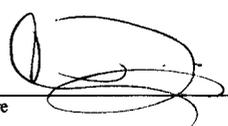
¹⁰ Surface Location

UL or lot no. C	Section 14	Township 24N	Range 8W	Lot Idn nenw	Feet from the 790'	North/South line north	Feet from the 1650'	East/West line West	County San Juan
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¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres 160	¹³ Joint or Infill		¹⁴ Consolidation Code		¹⁵ Order No.				

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

16	790' fnl	NM-16589	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i>  Signature Connie Dinning Printed Name Production Engineer, cdinning@merrion.bz Title and E-mail Address 3/15/05 Date
	1650' fw1		

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1625 N. French Dr., Hobbs, NM 88240
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¹⁰ Surface Location

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C	14	24N	8W	nenw	790'	north	1650'	West	San Juan

¹¹ Bottom Hole Location If Different From Surface

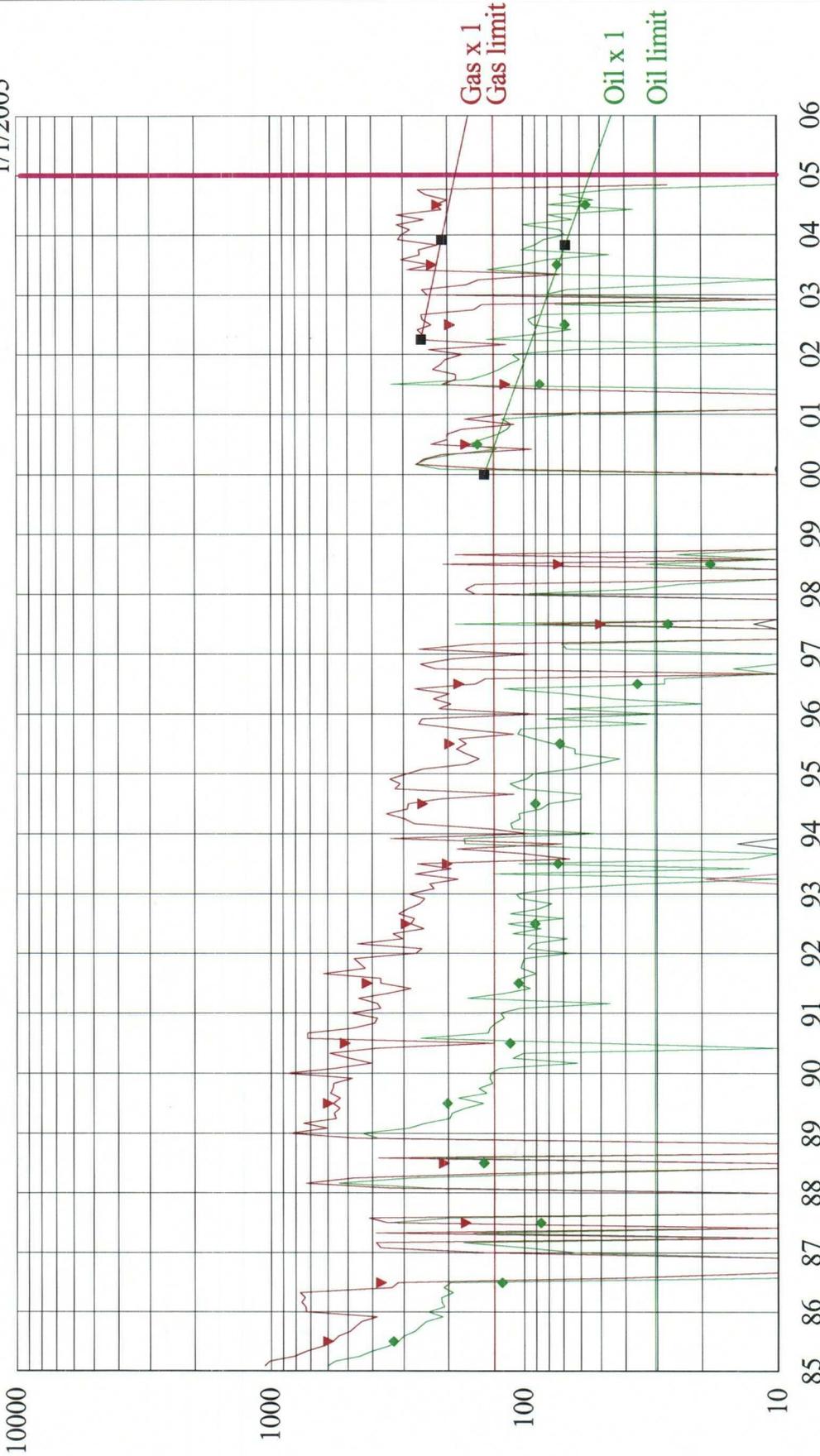
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NM-16589	

Shoofly 1 (1 - 100%), Dufers Pt. GLP/DK

Effective Date
 1/1/2005



15104524N08W14C00GD
 Shoofly 1 (1 - 100%)
 OLD
 Dufers Pt. GLP/DK
 San Juan, NM

[34526133]
 Dufers Pt. GLP/D
 14C 24N 8W

Cumulative:
 Remaining:
 Ultimate:

Oil (bbl)
 23,404
 1,425
 24,829

Gas (mcf)
 60,506
 5,429
 65,935

Water (bbl)
 274
 277
 551

Lease Name: MESA
County, State: SAN JUAN, NM
Operator: DUGAN PRODUCTION CORPORATION
Field: POTWIN
Reservoir: PICTURED CLIFFS
Location: 16 24N 8W SW NE NW

MESA - POTWIN

