

MERRION

OIL & GAS

REC'D
AUG - 2 1999

OIL CONSERVATION DIVISION

July 30, 1999

Mr. David Catanach
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

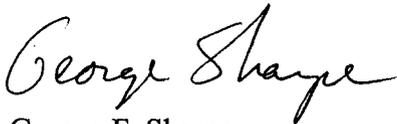
**Re: Administrative Order DHC 2321
Clarification of Well to be Commingled
Mead B 1R
Section 3, T26N, R11W
San Juan County, New Mexico**

Dear Mr. Catanach:

Merrion Oil & Gas plans to redrill the Mead B-1 as the Mead B-1R and commingle the Pictured Cliffs and Fruitland Coal formations. In our application for the commingling, we inadvertently put the Mead B-1 well name and API number on the C-107 form, although the text of our application discussed drilling the new well. Your approval in Order DHC 2321 refers to the Mead B-1 well. Please change your records to reflect that the Order applies to the Mead B-1R, API #30-045-29872.

Sorry for the confusion.

Sincerely,



George F. Sharpe
Manager - Oil & Gas Investments

xc: Aztec OCD
BLM



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

ADMINISTRATIVE ORDER DHC-2321

Merrion Oil & Gas Corporation
610 Reilly Avenue
Farmington, New Mexico 87401-2634

Attention: Mr. George F. Sharpe

*Mead "B" No. 1
API No. 30-045-06078
Unit A, Section 3, Township 26 North, Range 11 West, NMPM,
San Juan County, New Mexico.
Basin-Fruitland Coal (Gas - 71629) and
West Kutz-Pictured Cliffs (Gas - 79680) Pools*

Dear Mr. Sharpe:

Reference is made to your recent application for an exception to Rule 303.A. of the Division Rules and Regulations to permit the above described well to commingle production from the subject pools in the wellbore.

It appearing that the subject well qualifies for approval for such exception pursuant to the provisions of Rule 303.C., and that reservoir damage or waste will not result from such downhole commingling, and correlative rights will not be violated thereby, you are hereby authorized to commingle the production as described above and any Division Order which authorized the dual completion and required separation of the zones is hereby placed in abeyance.

The maximum amount of gas which may be produced daily from the well shall be determined by Division Rules and Regulations or by the gas allowable for each respective prorated pool as printed in the Division's San Juan Basin Gas Proration Schedule.

The applicant shall consult with the supervisor of the Aztec District Office of the Division upon completion and testing of the well in order to establish a fixed allocation of production from each of the commingled zones. Upon approval by the Division's Aztec District Office, the applicant shall submit the allocation formula to the Santa Fe Office of the Division.

REMARKS: The operator shall notify the Aztec District Office of the Division upon implementation of the commingling process.

*Administrative Order DHC-2321
Merrion Oil & Gas Corporation
April 30, 1999
Page 2*

Pursuant to Rule 303.H., the commingling authority granted herein may be rescinded by the Division Director if conservation is not being best served by such commingling.

Approved at Santa Fe, New Mexico on this 30th day of April, 1999.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery by DRC

LORI WROTENBERY
Director

SEAL

LW/DRC

cc: Oil Conservation Division - Aztec
Bureau of Land Management-Farmington

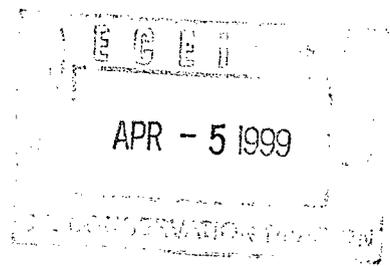
DHC 4/26/99

MERRION

OIL & GAS

2321

March 29, 1999



Mr. David Catanach
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

**Re: Application for Administrative Approval
Downhole Commingling
Basin Fruitland Coal Pool and Kutz West Pictured Cliffs Pool
Mead B Com 1R
Section 3, T26N, R11W
San Juan County, New Mexico**

Dear Mr. Catanach:

Merrion Oil & Gas requests administrative approval for downhole commingling of the Basin Fruitland Coal and the Kutz West Pictured Cliffs Pools in the subject wellbore. The following information is provided in support of this application:

I. Proposed Spacing Units

Exhibit 1 is the ownership plat showing the offset operators. Exhibit 2 shows the C-102 plat for the Basin Fruitland Coal with a 320 acre spacing unit in the E/2 of Section 3. Exhibit 3 is the C-102 plat for the Kutz West Pictured Cliffs Pool with a ±160 acre spacing unit in the NE/4 of Section 3.

II. Justification

The original Pictured Cliffs (PC) well is openhole in the PC and was stimulated with nitroglycerin. Because of the inefficient completion, significant reserves will be left behind in this well. However, the reserves are not sufficient enough to justify drilling a well with the PC as the only target.

The Fruitland Coal is productive to the north of our well, but thins across our lease. With 12 feet of main coal, we could not justify drilling a coal well by itself. Therefore, it is only by commingling the two zones that we can justify redrilling the well.

III. Allocation Methodology

Exhibit 4 shows the PC production from the current well while Exhibit 5 shows the production history of an offset coal well. Because the coal in the area produces very little water (less than 20 BWPM or 0.67 BWPD), the coal gas rate stabilizes quickly and declines exponentially, similar to the PC. Therefore, Merrion proposes to obtain stabilized production tests on each zone separately and use a fixed percentage to allocate future production between the two zones. If subsequent data indicates 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 PC and Fruitland have been generally determined to be compatible across the basin based on other similar applications to the OCD.

V. Cross Flow Between Zones

The current reservoir pressure of the PC is estimated to be 300 psi, while the Fruitland Coal is at 550 psig. With a flowing line pressure of less than 200 psi, crossflow is not anticipated to be a problem.

VI. Well Ownership Notification

The spacing unit and ownership of the two zones is not the same. Exhibit 6 is a list of all working interest, override, and royalty interest owners in the well who received certified copies of this application.

VII. Offset Operator Notification

Exhibit 1 is a plat showing all offset operators. Exhibit 7 is a list of all the offset operators who received a certified copy of this application.

VIII. Summary

Both the PC and the Fruitland Coal lack the reserves to economically justify a new well on their own. Commingling the zones will maximize reserves and protect correlative rights. Therefore, we request your approval of this application.

Page Three

March 29, 1999

Please call me with questions or if additional information is required.

Sincerely,



For George F. Sharpe
Manager - Oil & Gas Investments

Xc: Offset Operators and Well Owners
Aztec OCD, BLM - Farmington

Application of Merrion Oil & Gas
Downhole Commingling
Mead B Com 1R

Objections to this application must be sent to the NMOCD within 20 days of receipt of this application. If you do not object, please sign and return this waiver sheet to George Sharpe.

WAIVER

_____ hereby waives objection to this application.
Company or Individual Name

Signature

Date

DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-A
New 3-12-96

DISTRICT II
811 South First St., Artesia, NM 88210-2835

OIL CONSERVATION DIVISION

2040 S. Pacheco
Santa Fe, New Mexico 87505-6429

APPROVAL PROCESS:

Administrative Hearing

DISTRICT III
1000 Rio Brazos Rd, Aztec, NM 87410-1693

APPLICATION FOR DOWNHOLE COMMINGLING

EXISTING WELLBORE

YES NO

Operator Merrion Oil & Gas Corporation Address 610 Reilly Avenue, Farmington, NM 87401-2634

Lease MEAD B Well No. 1 Unit Ltr. - Sec - Twp - Rge A 3 26N 11W County San Juan

OGRID NO. 014634 Property Code 22957 API NO. 30-045-06078 Spacing Unit Lease Types: (check 1 or more)
Federal State (and/or) Fee

The following facts are submitted in support of downhole commingling:	Upper Zone	Intermediate Zone	Lower Zone
1. Pool Name and Pool Code	Basin Fruitland Coal		West Kutz Pictured Cliffs
2. Top and Bottom of Pay Section (Perforations)	1533'-1784'		1802'-1903'
3. Type of production (Oil or Gas)	Gas		Gas
4. Method of Production (Flowing or Artificial Lift)	Flow		Flow
5. Bottomhole Pressure Oil Zones - Artificial Lift: Estimated Current Gas & Oil - Flowing: Measured Current All Gas Zones: Estimated Or Measured Original	a. (Current) 550 psi	a.	a. 300 psi
	b. (Original) 550 psi	b.	b. 550 psi
6. Oil Gravity (°API) or Gas BTU Content	BTU 1000		BTU 1100
7. Producing or Shut-In?	SI - Not completed yet		SI - Not completed yet
Production Marginal? (yes or no)	Yes		Yes
* If Shut-in, give 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 * If Producing, give date and oil/gas/water rates of recent test (within 60 days)	Date: Rates: NA	Date: Rates:	Date: Rates: NA
	Date: Rates: NA	Date: Rates:	Date: Rates: NA
8. Fixed Percentage Allocation Formula -% for each zone	Oil: <u>Will be provided after well is drilled</u> Gas: %	Oil: % Gas: %	Oil: % Gas: %

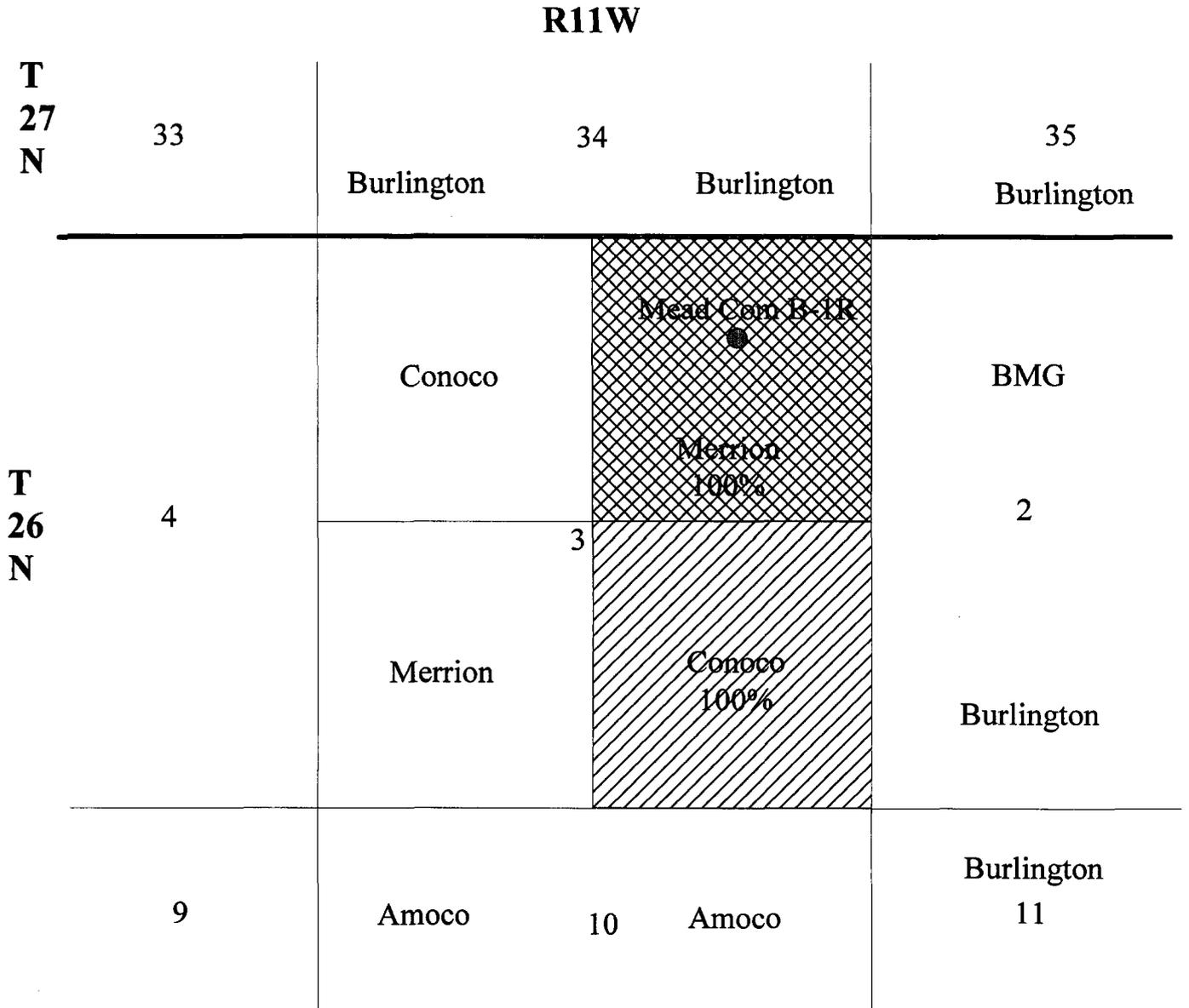
9. If allocation formula is based upon something other than current or past production, or is based upon some other method, submit attachments with supporting data and/or explaining method and providing rate projections or other required data.
10. Are all working, overriding, and royalty interests identical in all commingled zones? Yes No
If not, have all working, overriding, and royalty interests been notified by certified mail? Yes No
Have all offset operators been given written notice of the proposed downhole commingling? Yes No
11. Will cross-flow occur? Yes No If yes, are fluids compatible, will the formations not be damaged, will any cross-flowed production be recovered, and will the allocation formula be reliable. Yes No (If No, attach explanation)
12. Are all produced fluids from all commingled zones compatible with each other? Yes No
13. Will the value of production be decreased by commingling? Yes No (If Yes, attach explanation)
14. If this well is on, or communitized with, state or federal lands, either the Commissioner of Public Lands or the United States Bureau of Land Management has been notified in writing of this application. Yes No
15. NMOCD Reference Cases for Rule 303(D) Exceptions: ORDER NO(S) _____
16. 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 all offset operators.
 - * Notification list of working, overriding, and royalty interests for uncommon interest cases.
 - * Any additional statements, data, or documents required to support commingling.

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

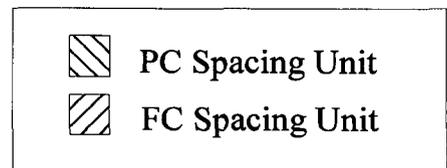
SIGNATURE George Sharper TITLE Engineer DATE 3/26/99

TYPE OR PRINT NAME George F. Sharper TELEPHONE NO. (505) 327-9801

**EXHIBIT 1
MEAD COM B-1R
Downhole Commingling Application**



LEGEND



District I
 PO Box 1980, Hobbs, NM 88241-1980
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-102
 Revised February 21, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 4 Copies
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1. AIT Number		2. Pool Code		3. Pool Name	
		71629		Basin Fruitland	
4. Property Code		5. Property Name			6. Well Number
		Mead Com B			1 R
7. OGRID No.		8. Operator Name			9. Elevation
014634		MERRION OIL & GAS			6327'

10. Surface Location

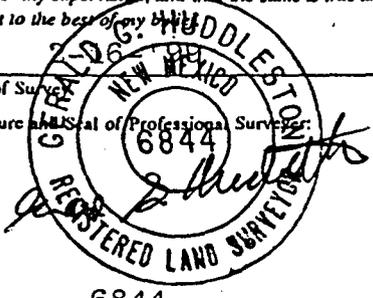
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	3	26 N	11 W	NENE	820	North	910	East	San Juan

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	13. Joint or Infill	14. Consolidation Code	15. Order No.
320			

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		XXXXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXXXX	<p>17 OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p>  <p>Signature CONNIE DINNING</p> <p>Printed Name Engineer</p> <p>Title</p> <p>Date 3/10/99</p>	
					<p>18 SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown 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 knowledge and belief</p>  <p>Date of Survey</p> <p>Signature of Professional Surveyor</p> <p>6844</p> <p>REGISTERED LAND SURVEYOR</p> <p>6844</p> <p>Certificate Number</p>
		Section 3			
EXHIBIT 2					

Dwights

Lease: MEAD (1)

03/26/99

Retrieval Code: 251,045,26N11W03A00PC

8

8

560

1400

7

7

490

1200

6

6

420

1000

5

5

350

800

4

4

280

600

3

3

210

400

2

2

140

200

1

1

70

0

0

0

0

0 25 50 75 100 125 150 175 200 225 Gas(MMCF)

EXHIBIT 4
PICTURED CLIFFS PRODUCTION
MEAD B-1

BHP/Z



County: SAN JUAN, NM

F.P. Date: 11/59

WHSIP



Gas (mcf/mo)

Field: KUTZ WEST (PICTURED CLIFFS) PC

Oil Cum: 0 bbl

Water (bbl/mo)

Reservoir: PICTURED CLIFFS

Gas Cum: 193.2 mmcf

Operator: MERRION OIL & GAS CORP

Location: 3A 26N 11W

Dwights

Lease: FEDERAL 33 (42)

03/26/99

Retrieval Code: 251,045,27N11W33H00FT

24

8

8

14000

21

7

7

12000

18

6

6

10000

15

5

5

8000

12

4

4

6000

9

3

3

4000

6

2

2

2000

3

1

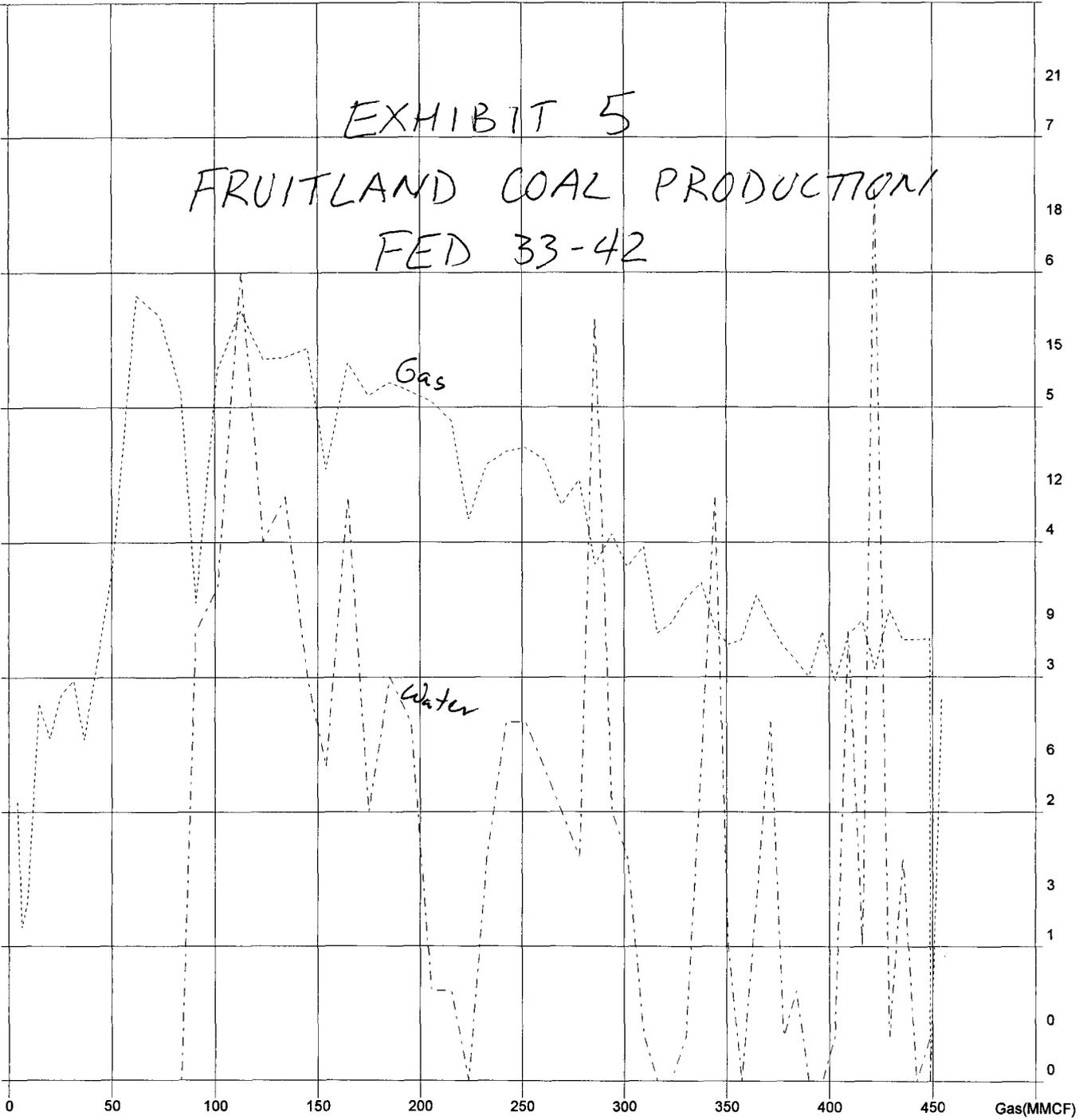
1

0

0

0

0



BHP/Z



County: SAN JUAN, NM

F.P. Date: 07/93

WHSIP



Gas (mcf/mo)

Field: BASIN (FRUITLAND COAL) FT

Oil Cum: 0 bbl

Water (bbl/mo)

Reservoir: FRUITLAND COAL

Gas Cum: 454.5 mmcf

Operator: LOUIS-DREYFUS NATRL GAS

Location: 33H 27N 11W

Exhibit "6"

**Mead B Com 1R Commingling Application
Notification of Owners in Well**

Working Interest Owners:

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500

Attn: Steve Klein

Royalty Interest Owners:

Department of the Interior
Minerals Management Service
P.O. Box 5810
Denver, CO 80217-5810

Overriding Royalty Interest Owners:

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500

Attn: Steve Klein

Total Minatome
P.O. Box 4326
Houston, TX 77210-4326

Marcia Berger
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

WWR Enterprises
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Herbert R. Briggs
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

William C. Briggs
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

George W. Umbach
2620 S. Maryland Prkwy., #496
Las Vegas, NV 89109

Cronican Trust
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Hannett Steele Group
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Cyrene L. Inman
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Cross Timbers Operating Co.
P.O. Box 840287
Dallas, TX 75284-0287

C. Fred Luthy, Jr.
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Carolyn Nielsen Sedberry
NationsBank, Agent
P.O. Box 840738
Dallas, TX 75284-0738

Roger B. Nielsen
P.O. Box 793
Mansfield, TX 76063

Frank Potenziani
P.O. Box 36600, Station D
Albuquerque, NM 87176

Cheryl L. Potenziani
P.O. Box 36600, Station D
Albuquerque, NM 87176

Robert Umbach
P.O. Box 5310
Farmington, NM 87499

Exhibit "7"

Mead B Com 1R Commingling Application
Notification of Offset Operators

Amoco Production Company
P.O. Box 800
Denver, CO 80201-0800

Attn: Steve Trefz

Burlington Resources Oil & Gas Co.
P.O. Box 4289
Farmington, NM 87499-4289

Attn: Dean Price

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500

Attn: Steve Klein

Benson-Montin-Greer
4900 College Blvd.
Farmington, NM 87402

Attn: Al Greer