

DHC 8/12/99

2423

MERRION
OIL & GAS

JUL 23 1999

July 21, 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 WAW Pictured Cliffs Pool
Hi Roll 2R
Section 35, T27N, R13W
San Juan County, New Mexico**

Dear Mr. Catanach:

Merrion Oil & Gas requests administrative approval for downhole commingling of the Basin Fruitland Coal and the WAW 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 W/2 of Section 35. Exhibit 3 is the C-102 plat for the WAW Pictured Cliffs Pool with a ± 160 acre spacing unit in the SW/4 of Section 35.

II. Justification

The Hi Roll 2R is a redrill of the Hi Roll 2, which is a slim-hole completion with 2-7/8" casing. Because of the inefficient slim-hole 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 south of our well, but has not been "proved-up" north across our lease. Because of the risk associated with the step-out, 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 Hi Roll 2 well while Exhibit 5 shows the production history of an offset coal well. The coal gas rate in the offset stabilized quickly and declined 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 110 psi, while the Fruitland Coal is at 200 psi. With a flowing line pressure of less than 50 psi, crossflow is not anticipated to be a problem.

VI. Well Ownership Notification

The spacing unit and ownership of the two zones is identical.

VII. Offset Operator Notification

Exhibit 1 is a plat showing all offset operators. Exhibit 6 is a list of all the offset operators who received a certified copy of this application.

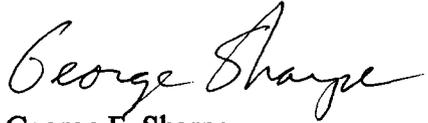
VIII. Summary

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
July 21, 1999

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

Sincerely,

A handwritten signature in cursive script that reads "George Sharpe". The signature is written in black ink and is positioned above the printed name and title.

George F. Sharpe
Manager – Oil & Gas Investments

Xc: Offset Operators
Aztec OCD, BLM – Farmington

DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980
DISTRICT II
811 South First St., Artesia, NM 88210-2835
DISTRICT III
1000 Rio Brazos Rd, Aztec, NM 87410-1693

State of New Mexico
Energy, Minerals and Natural Resources Department

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

OIL CONSERVATION DIVISION

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

APPROVAL PROCESS:

Administrative Hearing

EXISTING WELLBORE

YES NO

APPLICATION FOR DOWNHOLE COMMINGLING

Operator Merrion Oil & Gas Corporation Address 610 Reilly Avenue, Farmington, NM 87401-2634
Lease Hi Roll Well No. 2 R Unit Ltr. - Sec - Twp - Rge K-35-27N-13W County San Juan
Spacing Unit Lease Types: (check 1 or more)
OGRID NO. 014634 Property Code _____ API NO. _____ 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 (GAS-71629)		WAW Fruitland Sand Pictured Cliffs (GAS-2719)
2. Top and Bottom of Pay Section (Perforations)	1170'-1190'		1200'-1220'
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: Gas & Oil - Flowing: All Gas Zones: Estimated Current Measured Current Estimated Or Measured Original	a. (Current) 200 psi	a.	110 psi
	b. (Original) 200 psi	b.	200 psi
6. Oil Gravity (°API) or Gas BTU Content	BTU 1000		BTU 1100
7. Producing or Shut-In?	Shut-In Not completed yet		Shut-In 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	Date: N/A Rates:	Date: Rates:	Date: N/A Rates:
* If Producing, give date and oil/gas/water rates of recent test (within 60 days)	Date: Rates: N/A	Date: Rates:	Date: Rates: N/A
8. Fixed Percentage Allocation Formula -% for each zone	Will be provided after well is drilled. Oil: % 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.

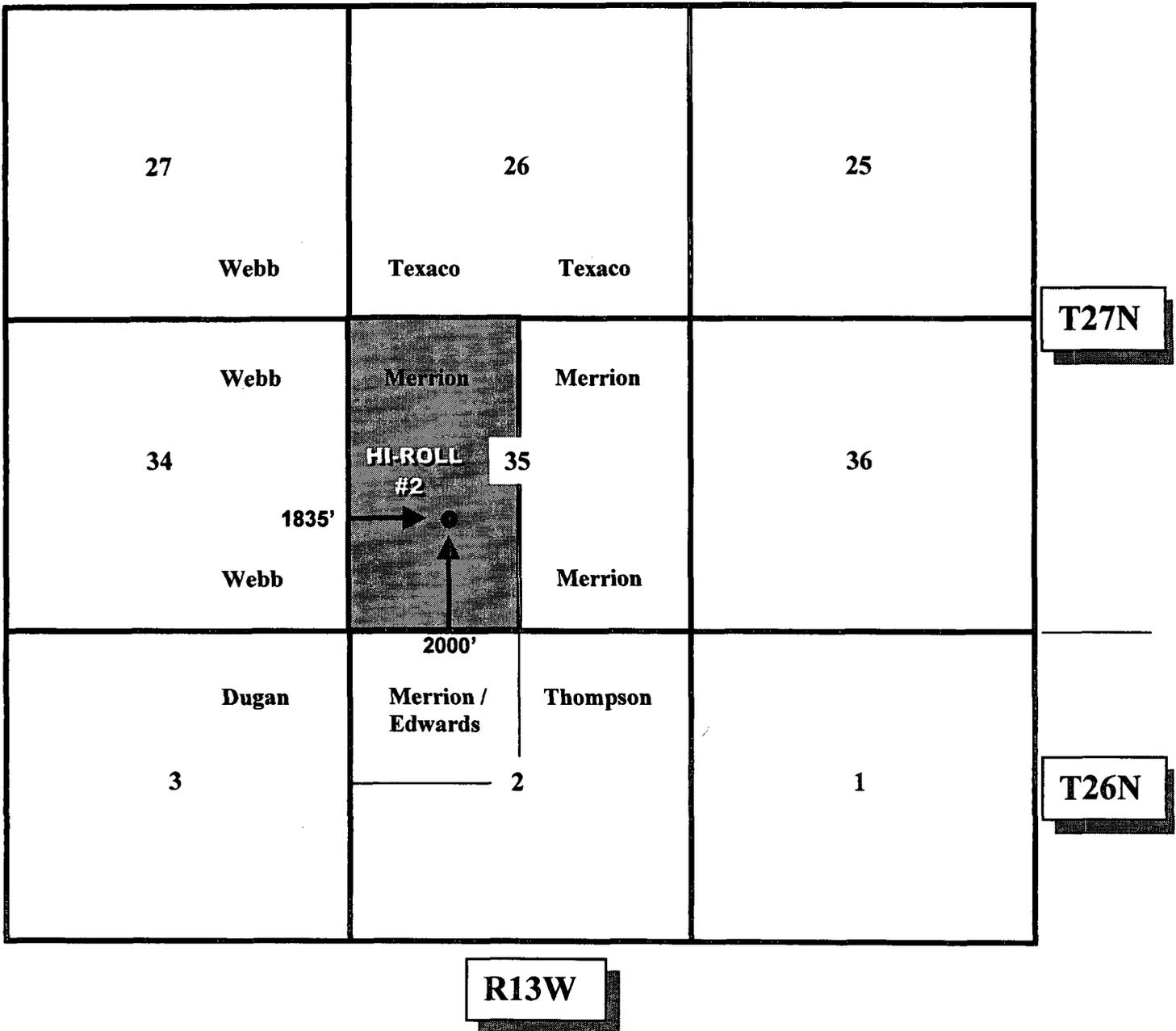
SIGNATURE _____ TITLE Engineer DATE 7-21-99

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

Exhibit 1

Offset Operator Plat HI-ROLL #2 T27N, R13W, Section 35

Application to Commingle Producing Formations



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 API Number		² Pool Code 71629		³ Pool Name Basin Fruitland Coal	
⁴ Property Code		⁵ Property Name Hi Roll			⁶ Well Number 2 R
⁷ OGRID No. 014634		⁸ Operator Name MERRION OIL & GAS CORPORATION			⁹ Elevation 6031'

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
K	35	27 N	13 W	NESW	2000	South	1835	West	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.

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 	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 George F. Sharpe Printed Name Engineer Title Date	
	¹⁸ SURVEYOR CERTIFICATION <i>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 belief</i>	
Date of Survey 21 June 1999 Signature and Title of Professional Surveyor 		Certificate Number

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

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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number		² Pool Code	³ Pool Name
		87190	WAW Fruitland Sand Pictured Cliffs
⁴ Property Code	⁵ Property Name		⁶ Well Number
	Hi Roll		2 R
⁷ OGRID No.	⁸ Operator Name		⁹ Elevation
014634	MERRION OIL & GAS CORPORATION		6031'

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
K	35	27 N	13 W	NESW	2000	South	1835	West	San Juan

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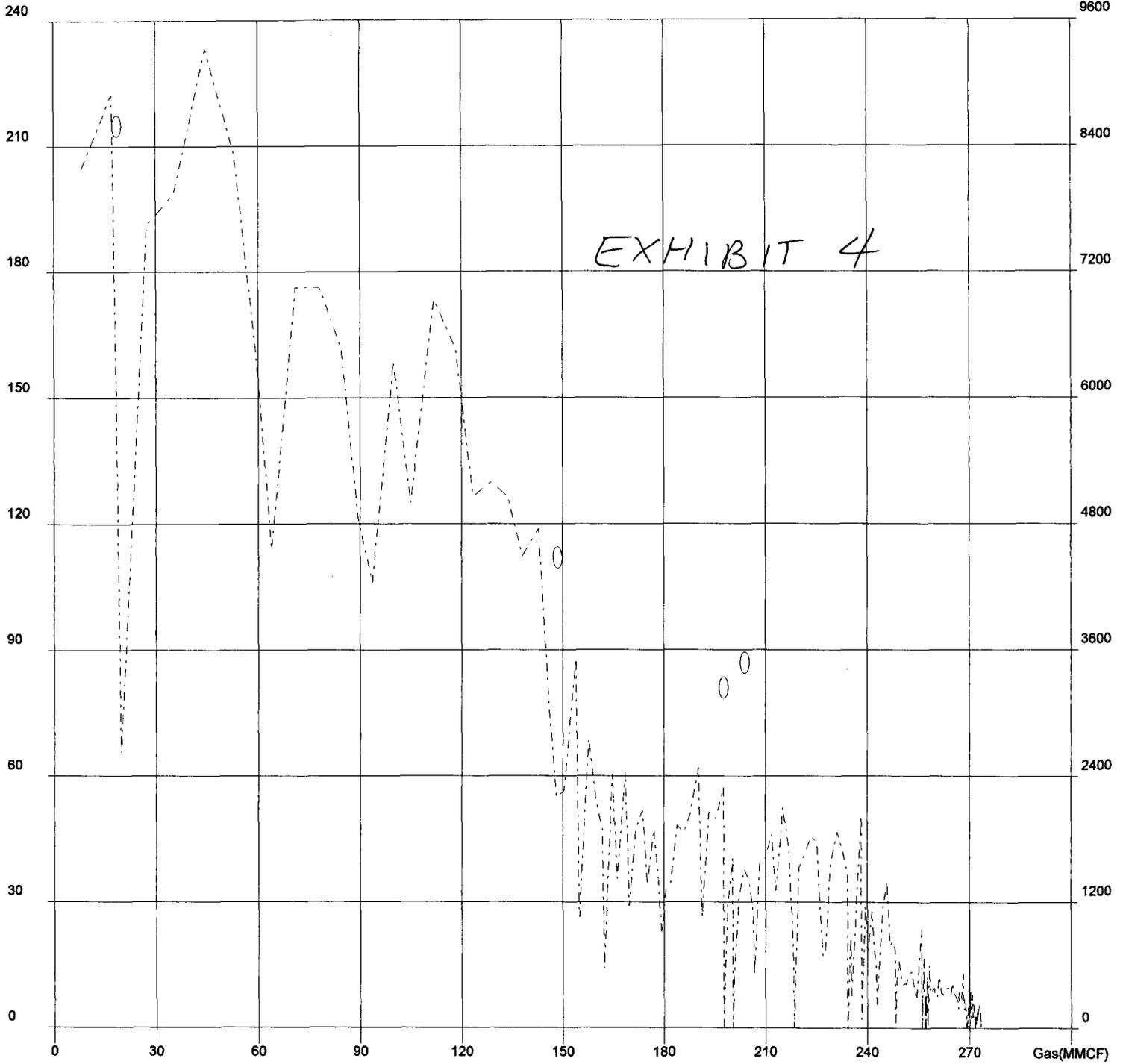
<p>16</p> <p style="font-size: 2em; font-weight: bold;">EXHIBIT 3</p>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i></p> <hr/> <p>Signature George F. Sharpe</p> <hr/> <p>Printed Name Engineer</p> <hr/> <p>Title</p> <hr/> <p>Date</p>
	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p><i>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 belief</i></p> <hr/> <p>21 June 1999 Date of Survey</p> <hr/> <p>Signature and Seal of Professional Surveyor</p> <div style="text-align: center;"> </div> <hr/> <p>Certificate Number</p>

Dwights

Lease: HIGH ROLL (2)

07/09/99

Retrieval Code: 251,045,27N13W35K00FP



WHSIP

0

County: SAN JUAN

F.P. Date: 07/78

Gas (mcf/mo) -----

Field: WAW (FRUITLAND PICTURED CLIFFS) F Oil Cum: 0 bbl

Reservoir: FRUITLAND PICTURED C Gas Cum: 273.4 mmcf

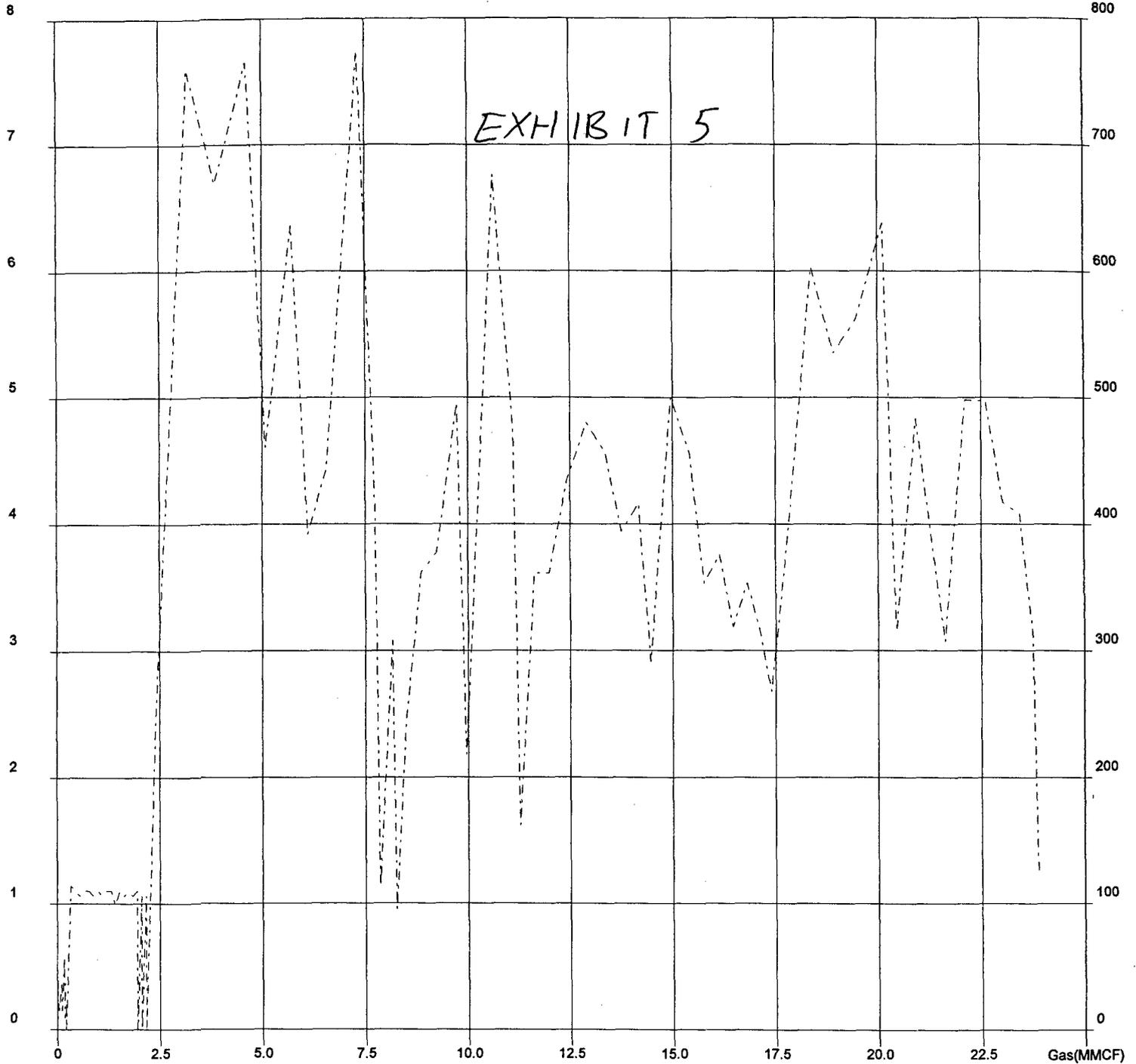
Operator: MERRION OIL & GAS CORP Location: 35K 27N 13W

Dwights

Lease: HICKMAN (7R)

07/09/99

Retrieval Code: 251,045,26N12W03A00FT



WHSIP

0

County: SAN JUAN

F.P. Date: 12/90

Gas (mcf/mo) -----

Field: BASIN (FRUITLAND COAL) FT

Oil Cum: 0 bbl

Reservoir: FRUITLAND COAL

Gas Cum: 23.87 mmcf

Operator: EDWARDS J K ASSOC INC

Location: 3A 26N 12W

EXHIBIT 6

**Offset Operator Notification
Hi Roll 2R
Commingling Application**

To: Offset Operators

If you have questions, please call George Sharpe at (505) 327-9801, ext. 114. If you have any objections to this application, please notify the NMOCD in writing within 20 days of receipt of this application.

**Mr. Paul Thompson
Thompson Engineering
7415 E. Main
Farmington, New Mexico 87402**

**Mr. Richard Fromm
Whiting Petroleum
1700 Broadway, Suite 2300
Denver, Colorado 80290**

**Mr. Tom Dugan
Dugan Production Corp.
P.O. Box 420
Farmington, NM 87499-0420**

**Mr. Max Webb
2705 ½ E. Main St.
Farmington, NM 87402**

**Mr. Kieth Edwards
Edwards Energy Corp.
1401 17th St., Suite 1400
Denver CO 80202**

**Texaco Production Inc.
3300 N. Butler Ave.
Farmington, NM 87401**