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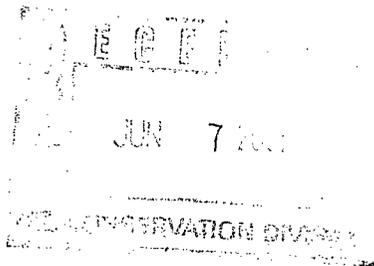
6/27/01

MERRION

OIL & GAS

June 4, 2001

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



2926

**Re: Application for Administrative Approval
Downhole Commingling
Basin Dakota Pool and White Wash Gallup/Mancos Pool
Non-standard Location – White Wash Gallup/Mancos Pool
Federal 28-2E
Section 28, T25N, R9W
San Juan County, New Mexico**

Dear Mr. Catanach:

Merrion Oil & Gas (Merrion) requests administrative approval for downhole commingling of the Basin Dakota and the White Wash Gallup/Mancos Pools in the subject wellbore. In addition, Merrion requests administrative approval for a non-standard location for the White Wash Mancos completion. The following information is provided in support of this application.

I. History and Justification

The Federal 28-2E was drilled and completed in 1985 as a Dakota gas well. It has produced approximately 130,000 MCF and is marginally economic at less than 10 MCFD. To extend the economic life of the well, Merrion proposes to complete the Gallup/Mancos interval and commingle it with the Dakota Formation.

II. Proposed Spacing Units

Exhibit 1 is the ownership plat showing the offset operators. Exhibit 2 shows the C-102 plat for the Basin Dakota Pool with a 320 acre spacing unit in the W/2 of Section 28. Exhibit 3 is the C-102 plat for the White Wash Gallup/Mancos Pool with a 40 acre spacing unit in the NW/4 SW/4 of Section 28.

III. Non-standard Location

The well is closer than 330 feet to the southern boundary of the White Wash 40 acre spacing unit. Therefore, we need approval for a non-standard location. The non-standard location is necessary to utilize the existing wellbore.

IV. Allocation Methodology

Exhibit 4 shows the Dakota production from the Federal 28-2E while Exhibit 5 shows the production history of the Rudman Federal 1, an offset Gallup/Mancos well. 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.

V. Reservoir Fluid Compatibility

Water analyses are not available for wells in the immediate area. However, the waters of the Mancos and Dakota have been generally determined to be compatible across the basin based on other similar applications to the OCD.

VI. Cross Flow Between Zones

The reservoir pressure of both zones is estimated to be 1500 psig. Therefore, crossflow is not anticipated to be a problem.

VII. Well Ownership Notification

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

VIII. Offset Operator Notification

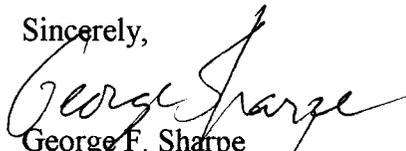
Exhibit 1 is a plat showing all offset operators. Exhibit 6 is a list of all the offset operators who received a certified copy of this application.

IX. Summary

The current Dakota completion is marginally economic. Reserves for the Gallup zone are not sufficient to justify drilling a new 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) 327-9801, ext. 114.

Sincerely,


George F. Sharpe
Manager - Oil & Gas Investments

xc: Offset Operators
Aztec OCD, BLM-Farmington

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

District II
811 South First Street, Artesia, NM 88210

District III
1000 Rio Brazos Road, Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised May 15, 2000

OIL CONSERVATION DIVISION

2040 South Pacheco
Santa Fe, New Mexico 87505

APPLICATION TYPE

Single Well

Establish Pre-Approved Pools

EXISTING WELLBORE

Yes No

APPLICATION FOR DOWNHOLE COMMINGLING

MERRION OIL & GAS CORPORATION, 610 Reilly Avenue, Farmington, NM 87401-2634

Operator **FEDERAL 28** Address **2E L 28 25N 09W** **San Juan**

Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 014634 Property Code 007786 API No. 30-045-26205 Lease Type: Federal State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	White Wash Gallup-Mancos		Basin Dakota
Pool Code			71599
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	5366'-5634'		6437'-56'
Method of Production (Flowing or Artificial Lift)	To be pumped		Flowing
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)	1500 psi		1500 psi
Oil Gravity or Gas BTU (Degree API or Gas BTU)	1350 BTU		BTU 1100
Producing, Shut-In or New Zone	Shut In - not completed yet		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.)	Date: Rates: N/A	Date: Rates:	Date: June, 1999 Rates: 7 MCFD, 1 BWPD
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 <i>Will be provided after Gallup is completed</i> % %	Oil Gas % %	Oil Gas % %

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones?
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes No
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 George Sharpe TITLE Engineer DATE June 4, 2001

TYPE OR PRINT NAME George F. Sharpe TELEPHONE NO. (505) 327-9801 Ext. 114

**Application of Merrion Oil & Gas
Downhole Commingling and Non-Standard Location
Federal 28-2E**

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 fax this waiver sheet to George Sharpe at (505) 326-5900.

WAIVER

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

Signature

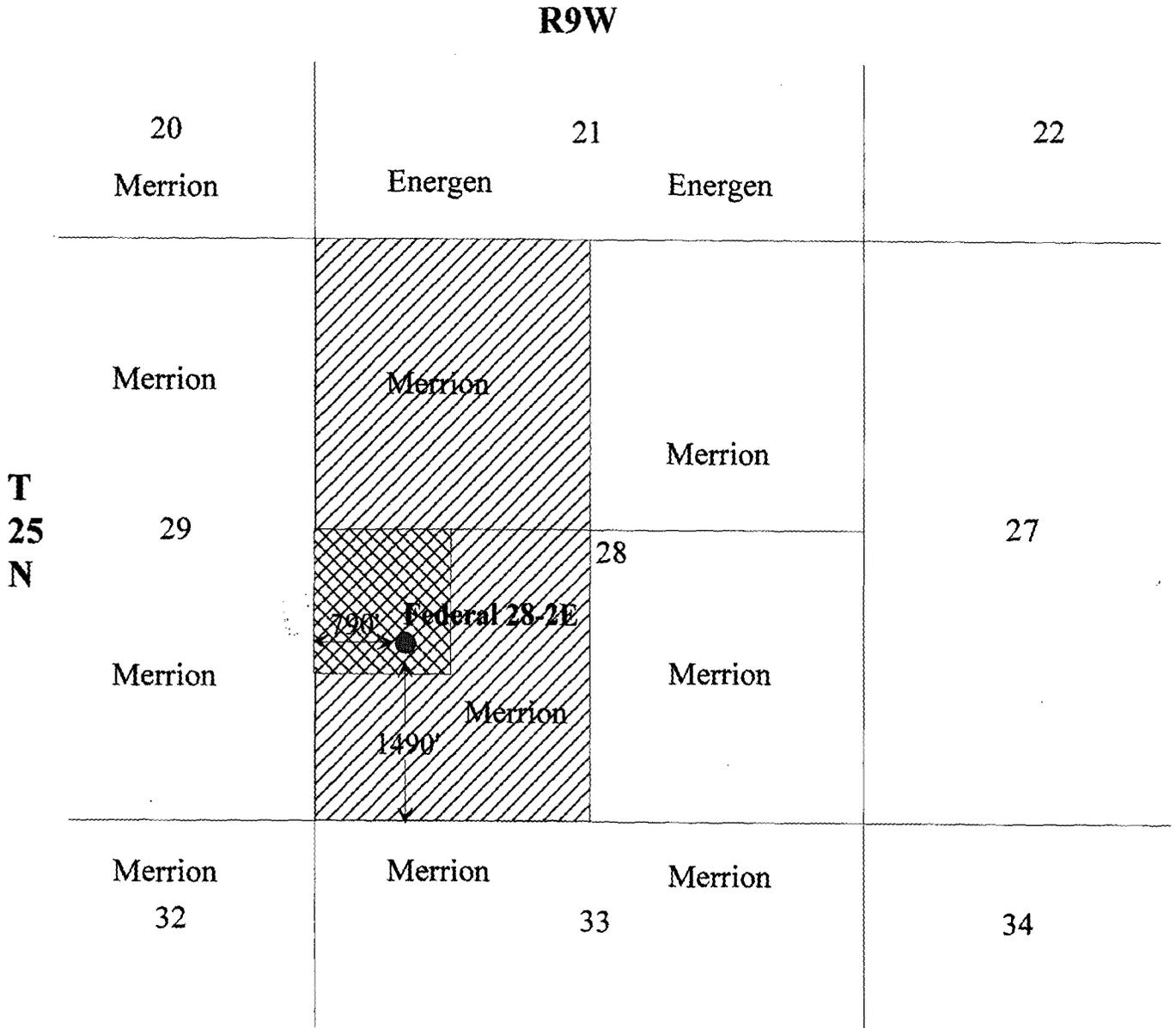
Date

Exhibit "6"

Federal 28-2E Commingling Application
Non-Standard Location Application
Notification of Offset Operators

Energen Resources
Attn: Rich Corcoran
2198 Bloomfield Highway
Farmington, NM 87401

**EXHIBIT 1
FEDERAL 28-2E
Downhole Commingling Application**



Bisti Lower Calks -

LEGEND

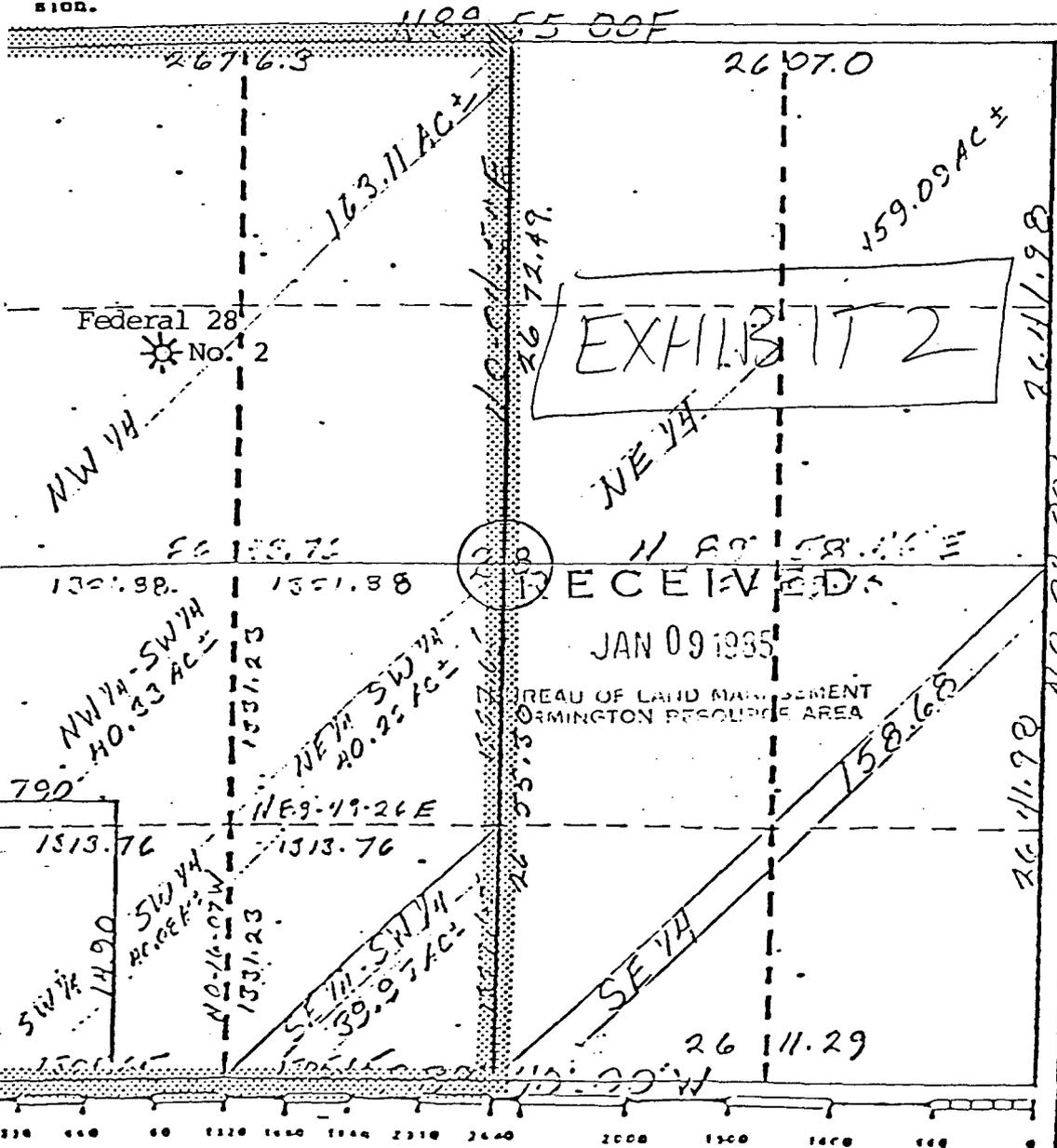
-  Mancos Spacing Unit
-  Dakota Spacing Unit

J. BRANNON		FED 28		Well No. 2-E	
Letter L	Section 28	Township 25 NORTH	Range 9 WEST	County SAN JUAN	
1490 feet from the SOUTH line and		790 feet from the WEST line			
and Level Elev. - 6712	Producing Formation Dakota	Pool Basin Dakota	Dedicated Acreage: 320		

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below. (As per U.S. Code, 30 CFR 251.23)
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?
- Yes No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION	
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.	
FOR: M. J. BRANNON	
ORIGINAL SIGNED BY	
Name	EWELL N. WALSH
Ewell N. Walsh, P.E.	
Position	President
Company	Walsh Engr. & Prod. Corp.
Date	1/8/85
I hereby certify that the well location shown on this plat was plotted from the original field survey made by me under my supervision, and that the same is true and correct to the best of my knowledge and belief.	
Date Surveyed	JANUARY 5, 1985
Registered Professional Engineer and/or Land Surveyor	
George R. Tompkins	
Certificate No.	7259

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

District II
811 South First, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-102
Revised August 15, 2000

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-26205		² Pool Code	³ Pool Name White Wash Gallup-Mancos	
⁴ Property Code 007786	⁵ Property Name FEDERAL 28			⁶ Well Number 2E
⁷ OGRID No. 014634	⁸ Operator Name MERRION OIL & GAS CORPORATION			⁹ Elevation 6712'

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
L	28	25N	09W	NWSW	1490	South	790	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 40	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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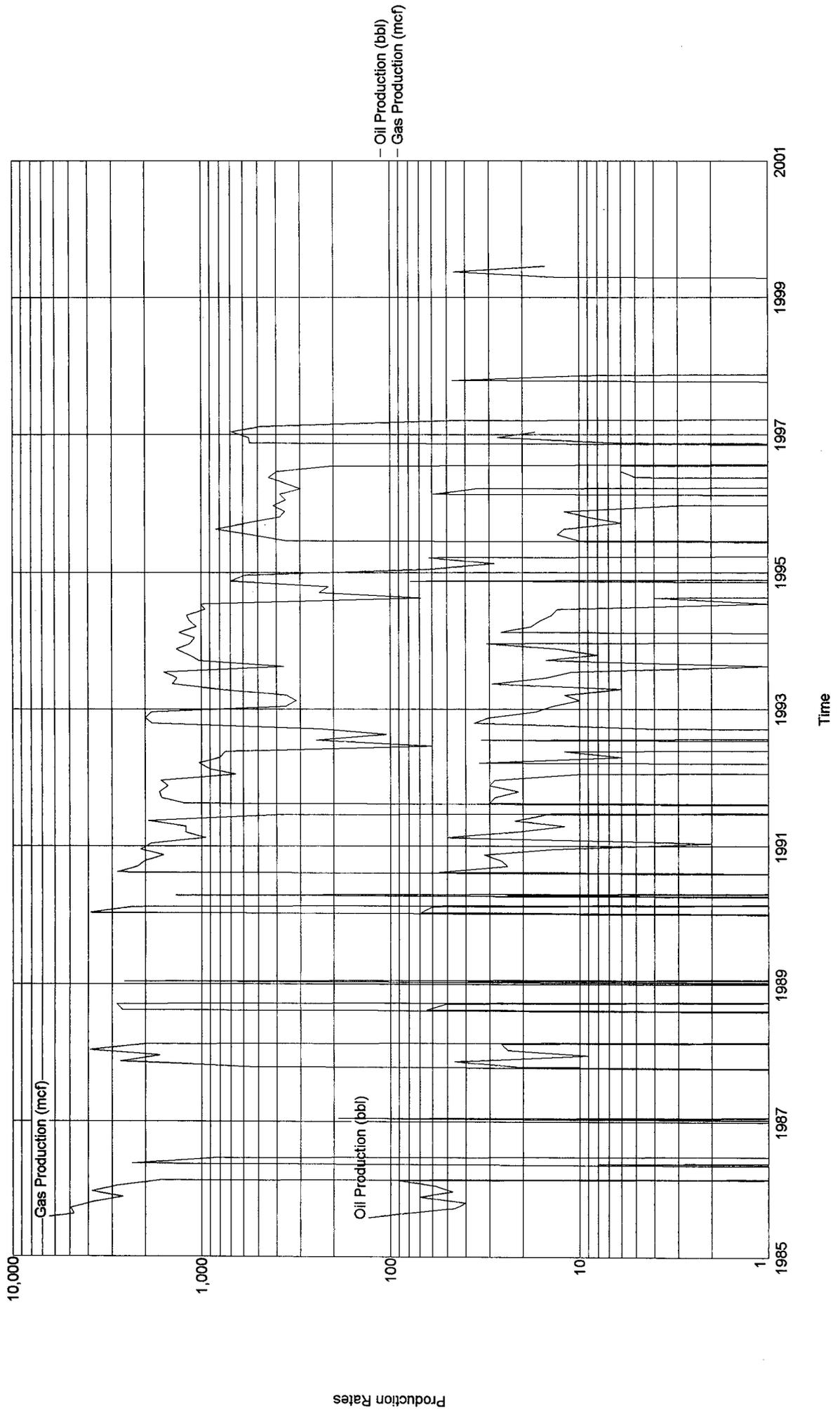
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

¹⁶ 	<p style="font-size: 2em;">Exhibit 3</p>	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 Sharpe Printed Name Engineer Title June 4, 2001 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 Signature and Seal of Professional Surveyor: Certificate Number

Lease Name: FEDERAL 28
County, State: SAN JUAN, NM
Operator: MERRION OIL & GAS CORPORATION
Field: BASIN
Reservoir: DAKOTA
Location: 28 25N 9W SE NW SW

Exhibit 4

FEDERAL 28 - 2E BASIN 28 25N 9W SE NW SW



Lease Name: RUDMAN FEDERAL
County, State: SAN JUAN, Unknown
Operator: NESCO INCORPORATED
Field: MULTIPLE
Reservoir: MULTIPLE
Location:

Exhibit 5

RUDMAN FEDERAL - MULTIPLE

Sec 27 - 25N - 9W

