

10/16/02	SUSPENSE <i>NA</i>	ENGINEER	LOGGED IN <i>W</i>	TYPE <i>DHC</i>	APP NO. <i>229036105</i>
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**

- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

- [D] Other: Specify _____

[2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**

- [A] Working, Royalty or Overriding Royalty Interest Owners
 [B] Offset Operators, Leaseholders or Surface Owner
 [C] Application is One Which Requires Published Legal Notice
 [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] Waivers are Attached

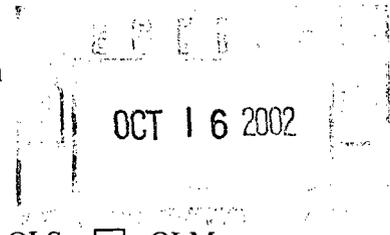
[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

George Sharpe _____ *George Sharpe* _____ *Investment Mgr* _____ *10-14-02*
 Print or Type Name Signature Title Date

gsharp - merrion@cyberport.com
 e-mail Address



BLM - Fairfax

MERRION

OIL & GAS

October 14, 2002

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

**Re: Application for Administrative Approval
Return to Production pursuant to Order # R-11133-A
Downhole Commingling
Basin Fruitland Coal Pool and WAW Fruitland / Pictured Cliffs Pool
Chaco Com 1 - API #30-045-22309
Section 18, T26N, R12W
San Juan County, New Mexico**

Dear Mr. Jones:

Merrion Oil & Gas (Merrion) requests administrative approval to return the well to production and for downhole commingling of the Basin Fruitland Coal and the WAW Frutland / Pictured Cliffs Pools in the subject wellbore. The following information is provided in support of this application:

I. Background

Merrion drilled and completed the subject well in 1977 as a Pictured Cliffs (PC) producer. Attachment 1 is the rate versus time plot, Attachment 2 is the rate versus cumulative production plot, and Attachment 3 is the P/z versus cumulative production for the well. As these plots indicate, the well declined steadily until the well was eventually shut-in in the early 1990's.

In 1995 Merrion sold the well and the PC rights to another operator (JK Edwards & Associates) who fracture stimulated the PC interval and dramatically increased production... so much so, that the offset operator, Whiting Petroleum, filed a protest with the NMOCD claiming the well had been fractured into the Fruitland Coal. Pursuant to Order #R-11133-A, the NMOCD eventually ruled indeed that the PC frac had communicated with the Fruitland Coal, that substantially all of the PC reserves had been produced, and that the production from that point forward was virtually all Fruitland Coal gas. The NMOCD ordered the well to be shut-in until such time that the Division would approve a method to put the well back into production. Because JK Edwards and

Associates did not own Fruitland Coal rights, no effort was made to obtain approval and return the well to production.

Merrion, who owns the Fruitland Coal rights, has subsequently purchased back the wellbore and the PC rights. Because we had already drilled a coal well (Yip Com #1 in the SW/4) on the W/2 of Section 18 spacing unit where the Chaco 1 resides, we also made no effort to return the well to production. However, with the pending approval of 160 acre infill Fruitland Coal wells, Merrion is requesting approval to return this well to production as our coal completion in the NW/4 of the spacing unit rather than drilling a redundant well.

II. Proposed Spacing Units

Attachment 4 shows the C-102 plat for the Basin Fruitland Coal with a 320 acre spacing unit in the W/2 of Section 18. Attachment 5 is the C-102 plat for the WAW Fruitland / Pictured Cliffs Pool with a ±160 acre spacing unit in the NW/4 of Section 18.

III. Allocation Methodology

Merrion concurs with the prior NMOCD conclusion in Order R-11133-A that virtually all of the PC gas has already been produced. Both the rate-cum plot (Attachment 2) and the P/z-cum plot (Attachment 3) indicate that the PC had slightly over 200,000 MIMCF of gas-in-place, while the well has produced a cumulative 354,000 MCF. Therefore, Merrion proposes that 100% of the gas production be allocated to the Fruitland Coal. All condensate, if any, shall be allocated to the PC.

IV. Reservoir Fluid Compatibility

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 less than 30 psi, while the Fruitland Coal is at 120 psig. With a flowing tubing pressure of less than 20 psi, crossflow is not anticipated to be a problem.

VI. Well Ownership Notification

While the working interest in all the various leases is identical, the override and royalty ownership is not. Attachment 6 is a list of all override and royalty interest owners in the well who received certified copies of this application.

VII. Summary

The well is currently shut-in because it has been deemed to be producing from the Fruitland Coal. With the pending approval of 160 acre infill drilling in the coal, Merrion would like to use this wellbore for that purpose. It would be difficult to justify drilling a new well because this area is already partially depleted. However, even if we could economically justify a new well, it would be a waste of the existing well and would result in additional impact on the surface for a wellsite, roads, and pipeline. To prevent this waste of resources, therefore, we respectfully request your approval of this application.

Please call me at 505-327-9801 x114 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: Override and Royalty Owners
Aztec OCD, BLM – Farmington

Application of Merrion Oil & Gas
Return to Production and Downhole Commingling
Chaco Com 1

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
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 **CHACO COM** Address **1 F 18 26N 12W San Juan**

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

OGRID No. 014634 Property Code 007755 API No. 30-045-22309 Lease Type: Federal State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	Basin Fruitland Coal		WAW Fruitland Pictured Cliffs
Pool Code	71629		87190
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	NA-In communication w/PC perfs		1113'-1139'
Method of Production (Flowing or Artificial Lift)	Flowing		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)	120 psi		30 psi
Oil Gravity or Gas BTU (Degree API or Gas BTU)	BTU 1000		BTU 1100
Producing, Shut-In or New Zone	Shut In		Shut In
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: May, 1998 Rates: 150 MCFd	Date: Rates:	Date: Feb. 1992 Rates: 7 MCFD
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 100%	Oil % Gas %	Oil 100% Gas 0%

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes 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 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.

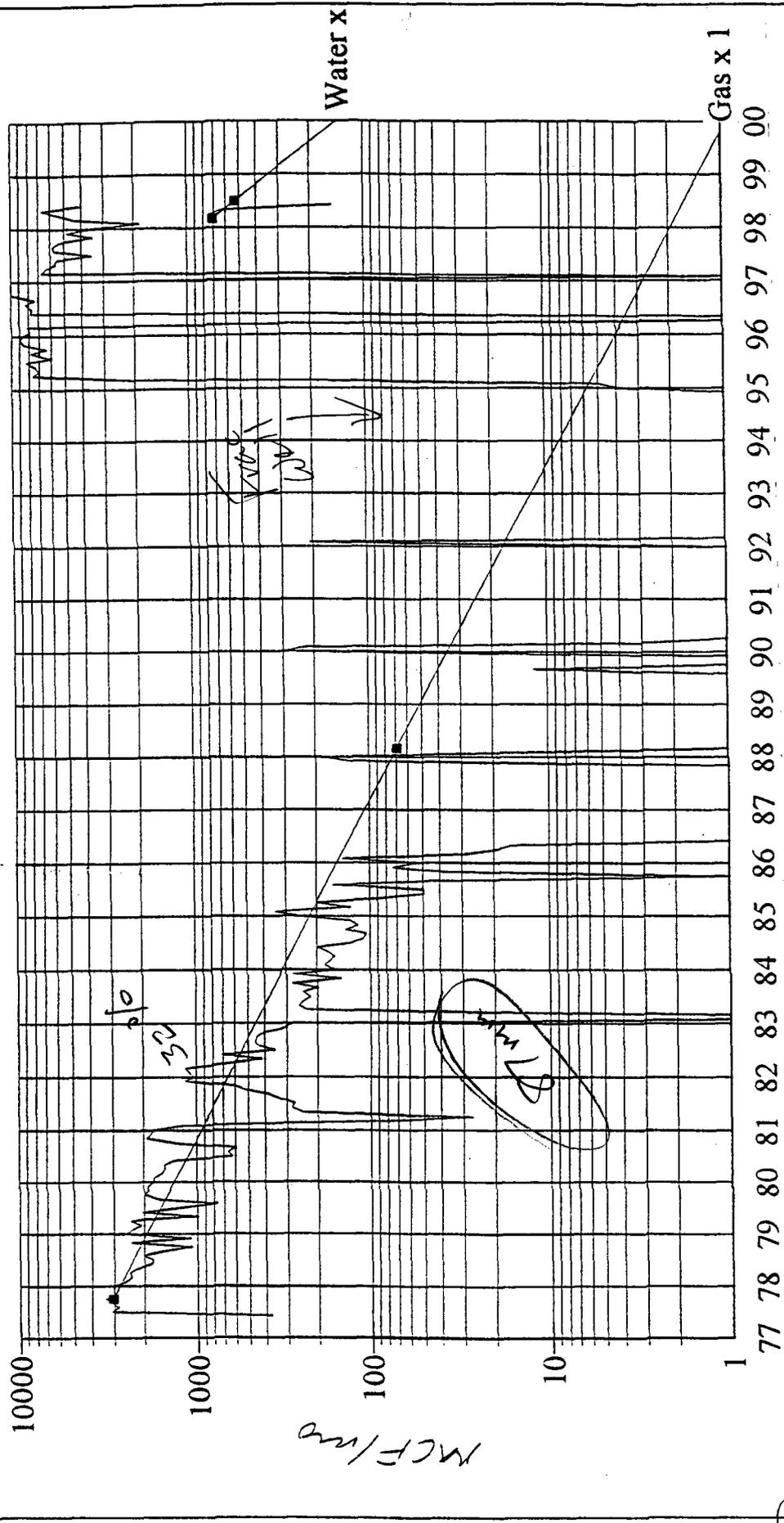
SIGNATURE George Sharpe TITLE Engineer DATE October 14, 2001

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

PRODUCTION GRAPH

Attachment #1

CHACO (001 - 100%), WAW



2300430452230987190
 CHACO (001 - 100%)
 PENDRAGON ENERGY PARTNERS INCORPORAT
 WAW
 SAN JUAN, NM

[30045223090000]
 FRUITLAND PICTUR
 18 26N 12W

Cumulative:
 Remaining:
 Ultimate:

Oil (bbl)
 0
 Recalculate
 Recalculate

Gas (mcf)
 353,468
 Recalculate
 Recalculate

Water (bbl)
 1,330
 Recalculate
 Recalculate

8/1/01
 WAW/8

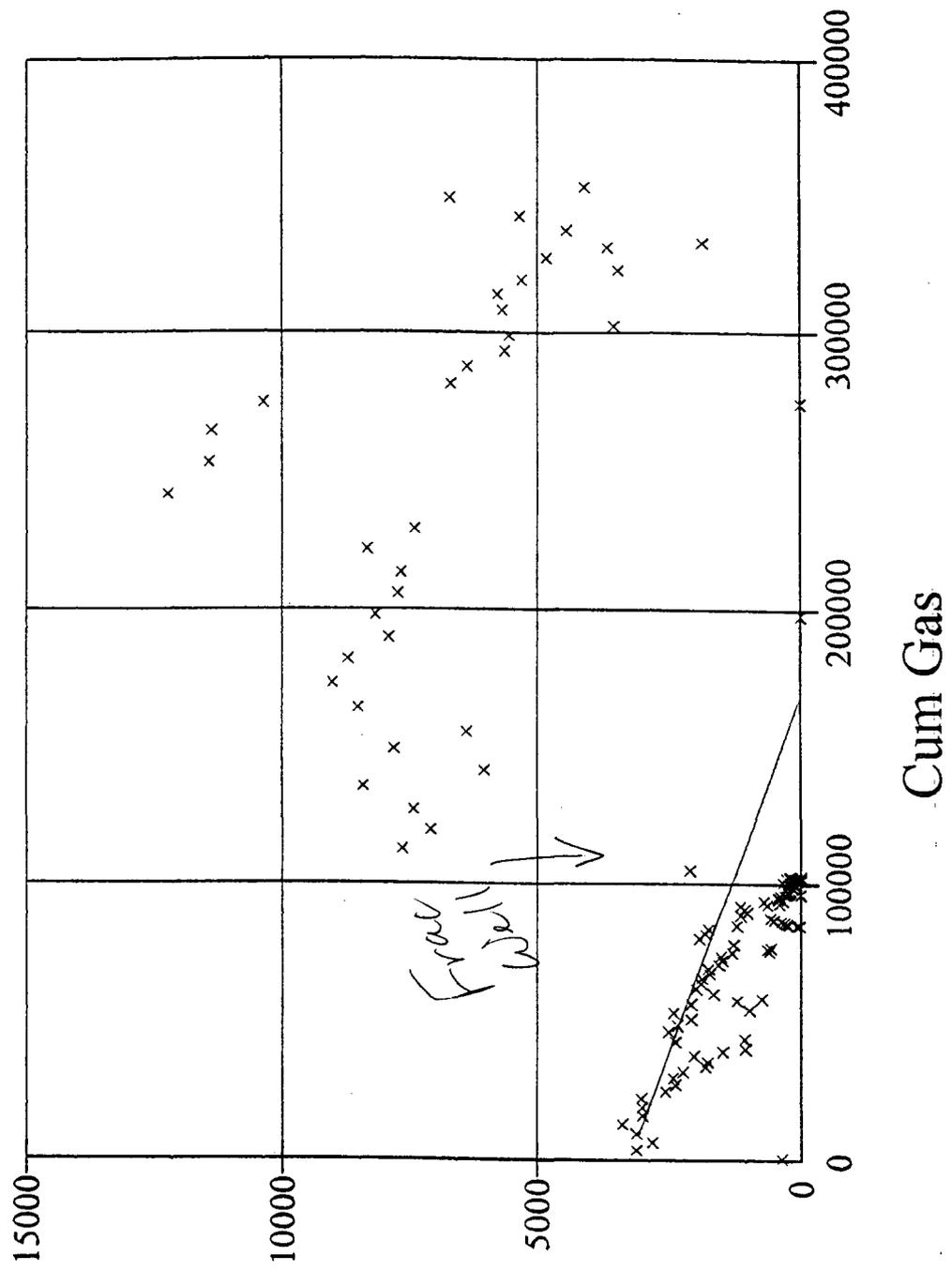
Attachment #2

USER DEFINED GRAPH

12/13/2001

Page: 4
F:\APP\GORAPH\RES\EV\data\PNDRON36.mdb

CHACO (001 - 100%), WAW



2300430452230987190
CHACO (001 - 100%)
PENDRAGON ENERGY PARTNERS INCORPORAT
WAW
SAN JUAN, NM

(30045223090000)
FRUITLAND PICTUR
18 26N 12W

Attachment #3

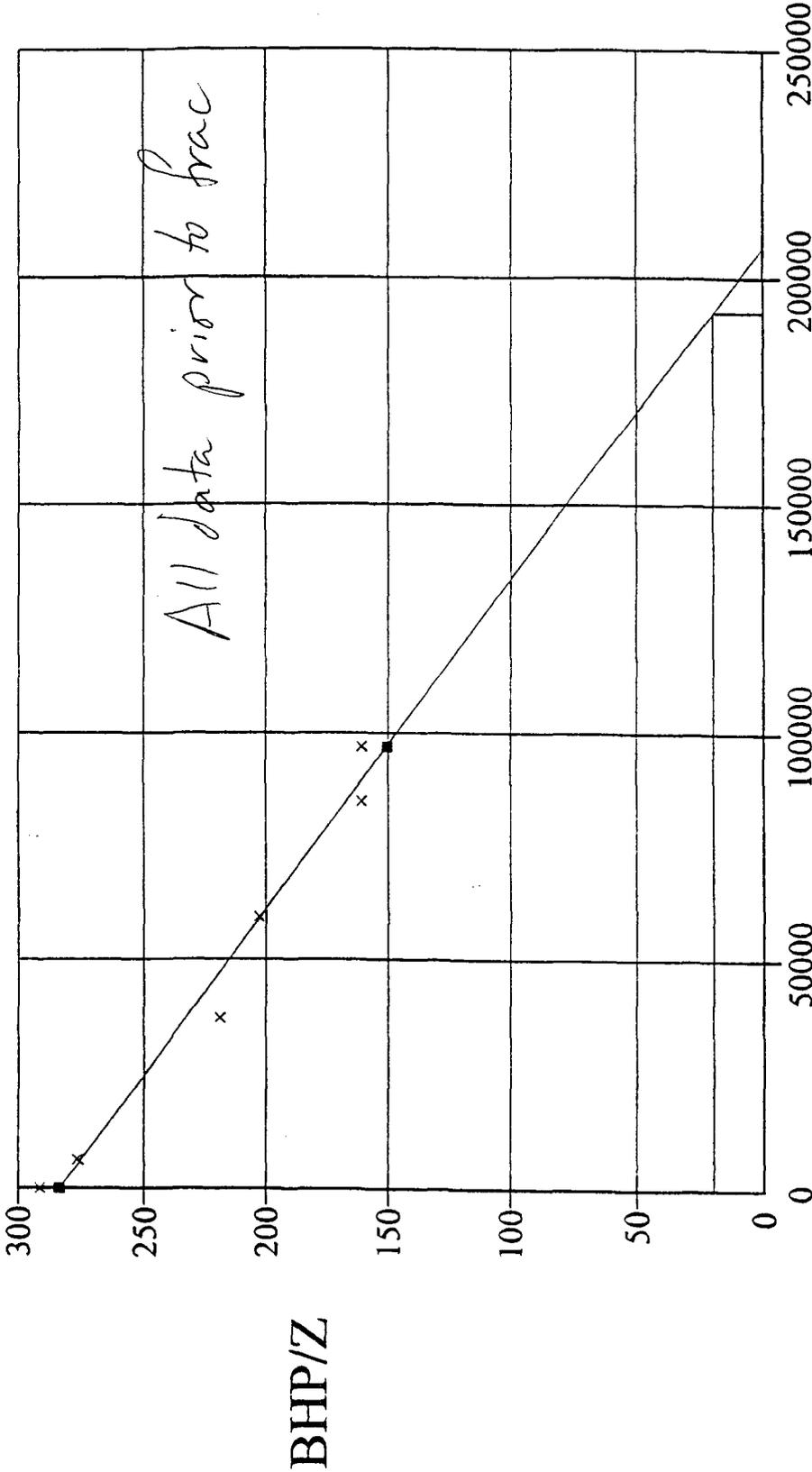
PRESSURE/CUM GRAPH

12/13/2001

Page: 1

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CHACO (001 - 100%), WAW



Cumulative Gas

2300430452230987190
 CHACO (001 - 100%)
 PENDRAGON ENERGY PARTNERS INCORPORAT
 WAW
 SAN JUAN, NM

[30045223090000]
 FRUITLAND PICTUR
 18 26N 12W

Gas in Place:
 Recoverable Gas:
 Prior Cumulative:
 Remaining Recoverable:
 Abandonment Pressure:

206,694 mcf
 192,123 mcf
 353,468 mcf
 -161,345 mcf
 20 psi

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

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised August 15, 2000

District II
811 South First, Artesia, NM 88210

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

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

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

District IV
2040 South Pacheco, Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-22309		² Pool Code 71629	³ Pool Name BASIN FRUITLAND
⁴ Property Code 007755	⁵ Property Name CHACO COM		⁶ Well Number 001
⁷ OGRID No. 014634	⁸ Operator Name MERRION OIL & GAS CORPORATION		⁹ Elevation 5989'

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
F	18	26N	12W	SENW	1826	North	1826	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 312.92	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

	<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><i>George Sharpe</i> Signature</p> <p>George Sharpe Printed Name</p> <p>Engineer Title</p> <p>October 14, 2002 Date</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 belief.</p> <p>Date of Survey Signature and Seal of Professional Surveyor:</p> <p>Certificate Number</p>

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

Form C-102
 Revised August 15, 2000

OIL CONSERVATION DIVISION
 2040 South Pacheco
 Santa Fe, NM 87505

Submit to Appropriate District Office
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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-22309		² Pool Code 87190		³ Pool Name WAW Fruitland Pictured Cliffs	
⁴ Property Code 007755		⁵ Property Name CHACO COM			⁶ Well Number 001
⁷ OGRID No. 014634		⁸ Operator Name MERRION OIL & GAS CORPORATION			⁹ Elevation 5989'

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F	18	26N	12W	SENW	1826	North	1826	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 156.59	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

	<p>¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>George Sharpe</i> Signature</p> <p>George Sharpe Printed Name</p> <p>Engineer Title</p> <p>October 14, 2002 Date</p>
	<p>¹⁸ SURVEYOR CERTIFICATION 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.</p> <p><i>Attachment 5</i></p> <p>Date of Survey Signature and Seal of Professional Surveyor: Certificate Number</p>

Attachment 6

Return to Production and Downhole Commingling
Chaco Com 1
Notification of Owners in Well

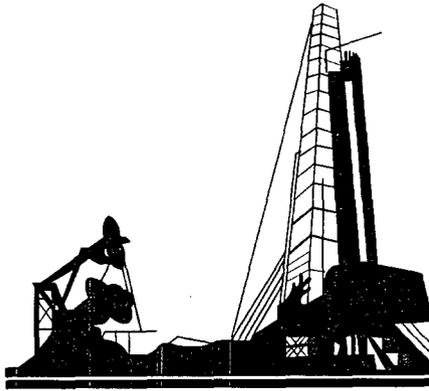
Royalty Interest Owners:

Department of the Interior
BLM
1235 La Plata Hwy.
Farmington, NM 87401

Farmington Indian Minerals Office
1235 La Plata Hwy, Suite B
Farmington, NM 87401

Overriding Royalty Interest Owners:

Mr. William Landsdale
P.O. Box 27
Seals Beach, CA 90740



TRANSMITTAL COVER SHEET

OIL CONSERVATION DIVISION
1220 S. ST. FRANCIS DRIVE
SANTA FE, NM 87505
(505) 476-3440
(505)476-3462 (Fax)

Sent 11/5/02

PLEASE DELIVER THIS FAX:

TO: *George Stange w/ Morrison Oil Co /* *OCD AETEC*

FROM: *Will Jones SANTA FE (OCD)*

DATE: *11/5/02*

PAGES: *C+2*

SUBJECT: *Chaco com #1 DHC Permit*

IF YOU HAVE TROUBLE RECEIVING THIS FAX, PLEASE CALL THE OFFICE NUMBER ABOVE.