pKRV0206050538 AMEND DHC N/R

MERRION

OIL & GAS

February 26, 2002

Mr. David Catanach
New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505-4000

Re: Application for Revised Administrative Approval-Order DHC-2986
Downhole Commingling
Flora Vista Fruitland Sand, Fulcher-Kutz Pictured Cliffs, and
Basin Fruitland Coal Pools
Osborn #1
Section 22, T30N, R12W
San Juan County, New Mexico

Dear Mr. Catanach:

Merrion Oil & Gas (Merrion) received approval via Administrative Order DHC-2986 for the downhole commingling of the Flora Vista Fruitland Sand and the Fulcher-Kutz Pictured Cliffs Pools in the subject wellbore. Upon further consideration, Merrion wishes to commingle the Basin Fruitland Coal in the Osborn #1 as well, and requests that the order be revised to reflect that plan. The following information is provided in support of this application:

I. Proposed Spacing Units

Exhibit 1 shows the C-102 plat for the Flora Vista Fruitland Sand with a 160 acre spacing unit in the SW/4 of Section 22. Exhibit 2 is the C-102 plat for the Fulcher Kutz Pictured Cliffs Pool, also with a +160 acre spacing unit in the SW/4 of Section 22. Exhibit 3 is the C-102 plat for the Basin Fruitland Coal with a 320 acre spacing unit in the W/2 of Section 22.

II. Justification

The Osborn #1 was completed in the Fruitland Sand in 1994. It has always been a marginal producer and is currently around 12 MCFD. The economics of the well can be significantly enhanced by adding the Pictured Cliffs and Fruitland Coal Formations and commingling the three zones.

III. Allocation Methodology

Exhibit 4 shows the production history from the Fruitland Sand, Exhibit 5 shows the production from the Blancett #1, an offset Pictured Cliffs well, while Exhibit 6 shows the production from the FC Slate Com 24, an offset Fruitland Coal well. The production characteristics of the three zones in this area are similar. Therefore, Merrion proposes to obtain stabilized production tests on each zone separately and use a fixed percentage to allocate future production between the three 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 reservoir pressure of all three zones is estimated to be 200 psig. Therefore, crossflow is not anticipated to be a problem.

VI. Well Ownership

The ownership of the three zones is identical.

VII. Summary

The current Fruitland Sand completion is marginally economic. 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: Aztec OCD