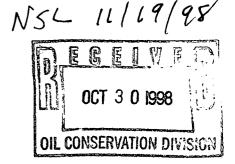
MERRION
OIL & GAS



October 28, 1998

Mr. Michael E. Stogner New Mexico Oil Conservation Division 2040 S. Pacheco St. Santa Fe, New Mexico 87505

Re: Revised Application of Merrion Oil & Gas Non-Standard "Off Pattern" Location Shank Com #1 Basin Fruitland Coal Pool NW/4 Section 2, T26N, R13W San Juan County, New Mexico

Dear Mr. Stogner:

In an application dated September 17, 1998, Merrion Oil & Gas Corp. (Merrion) requested administrative approval for a non-standard location for the subject well. Although no objections were submitted by offset operators, in a letter dated October 21, 1998, you denied the application based on the recommendation of Ernie Busch of the Aztec OCD. Mr. Busch did not feel that our geologic arguments supported the fact that a well in the "off pattern" NW/4 would be significantly better than a standard location in the SW/4. After discussions with Mr. Busch and yourself, Merrion has decided to clarify our reasoning and re-apply for administrative approval for this NSL.

Merrion has an approved State APD to drill the Shank Com #1 in the NW/4 of Section 2, T26N, R13W. The well will be completed in the Basin Fruitland Coal on a W/2 320 acre spacing unit (see Exhibit 1 and 2). Although the well is at standard offsets from the spacing unit boundary, it is non-standard because of its "off pattern" location in the northwest quarter versus the southwest quarter of the section.

Merrion is proposing to drill the well on the northern part of the spacing unit for geologic reasons. Exhibit 3 is a log cross-section showing that the coal thickness increases to the north and east across the project area. The total coal thickness of approximately 26 feet in the SW/4 of Section 10 increases to 39 feet in the NW/4 of Section 2, T26N, R13W, where Merrion proposes to drill the well.

Page Two October 28, 1998

Along with the increasing coal thickness, there is a dramatic improvement in coal quality to the northeast across the project area. Exhibit 4 shows that adjacent wells to the southwest of the Shank Com #1 spacing unit are uneconomic at gas rates of 0 to 42 MCFD. Wells to the northeast in the "sweet trend" as shown on Exhibit 4 are making up to 600 MCFD. This dramatic improvement in well performance indicates a substantial improvement in coal quality and cleating to the north and east.

Merrion strongly feels that a well in the SW/4 of Section 2 will be similar to the offsets too the southwest and will be uneconomic. It is only by drilling the well in the thicker, higher quality, more cleated coal in the NW/4 of the section that we can have an economically viable project. Therefore, we request that you reconsider and approve our application.

Exhibit 2 is a plat showing the offset operators in the area. Exhibit 5 is a list of operators who received certified copies of this application.

Please notify me at (505) 327-9801, ext. 114 if more information is required.

Sincerely,

George F. Sharpe

Manager - Oil & Gas Investments

Xc. Well File

Ernie Busch - Aztec OCD

, Box 1980, Habbs, NM 88241-1980

District II PO Drawer DD, Artesia, NM 88211-0719

1000 Rio Bruzos Rd., Aztec, NM 87410 District IV

District III

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

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EXHIBIT 2 SHANK COM #1 Non-Standard Location Offset Operator Plat

R13W

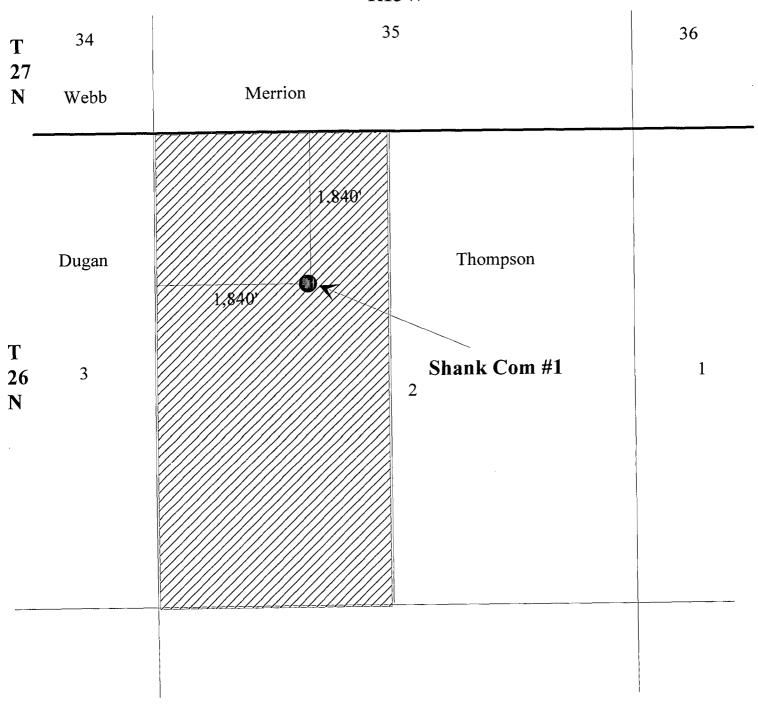
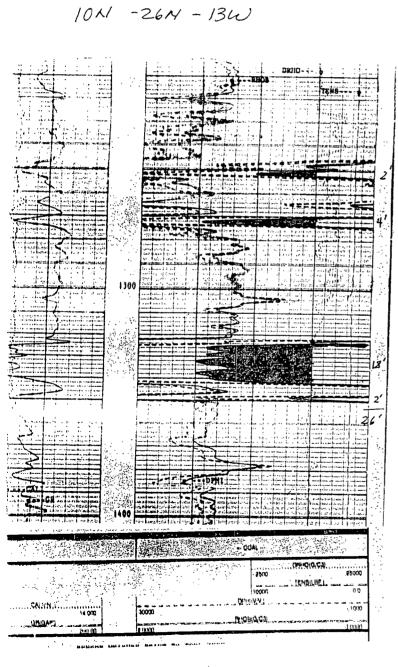


EXHIBIT 3 Density Log Cross Section

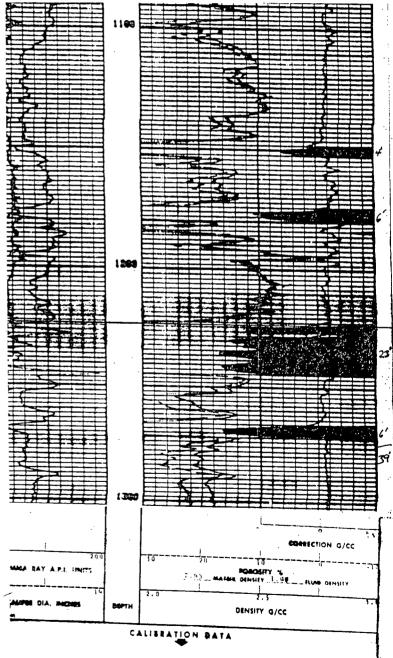
X Shank Com Location

Bartlesville #1 Density Log 2C - 26N - 13W



SW Gallegos Fed 26-13-10 #2

Density Log



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Exhibit 5

Offset Operator Notification Shank Com #1 Non-Standard Location

To: Offset Operators

If you have questions, please call George Sharpe at 327-9801. 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. John Alexander Dugan Production P.O. Box 420 Farmington, New Mexico 87499

Mr. Max Webb 2705 ½ E. Main Farmington, New Mexico 87402

Stogner, Michael

From:

Busch, Ernie

Sent:

Tuesday, November 17, 1998 9:33 AM

To:

Mike Stogner

Subject:

merrion o&g nsl

Importance:

High

Mike,

This is concerning the Shank Com #1 well that we denied as an administrative application, on the first go around. Merrion resubmitted additional information of a geologic nature that helped their case. There was no offset opposition and I also talked to the BLM and they did not have a position. So I recommend we grant Merrion's application administratively.

NEW MEXICO ENERGY, MINERALS & NATURAL RESOURCES DEPARTMENT

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

October 21, 1998

Merrion Oil & Gas Corporation 610 Reily Avenue Farmington, New Mexico 87401

Attention:

George F. Sharpe

RE:

Administrative application for an unorthodox "off-pattern" coal gas well location within the Basin-Fruitland Coal (Gas) Pool for the proposed Shank Com. Well No. 1 (API No. 30-045-29516), to be drilled 1840 feet from the North and East lines (Unit F) of Section 2, Township 26 North, Range 13 West, NMPM, San Juan County, New Mexico.

Dear Mr. Sharpe:

The subject application was duly filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on September 21, 1998. Subsequent to my initial review of this application and the records of the Division in Santa Fe and on the recommendation of the Aztec District Office of the Division (see copy attached), this application is hereby <u>denied</u> and is being returned to you at this time.

Should you have any questions concerning this decision, please contact Mr. Ernie Busch, Geologist, at the Division's Aztec District Office in Santa Fe. His telephone number is (505) 334-6178, or you may call me in Santa Fe at (505) 827-8185.

Sincerely,

Michael E. Stogner

Chief Hearing Officer/Engineer

MES/kv

cc:

New Mexico Oil Conservation Division - Aztec Lori Wrotenbery - OCD Director, Santa Fe

Kathy Valdes - NMOCD, Santa Fe

Stogner, Michael

From:

Busch, Ernie

Sent:

Tuesday, September 29, 1998 7:49 AM

To:

Mike Stogner

Subject:

Merrion O&G Corp. (NSL)

Importance:

High

Mike,

In reference to the Shank Com #1 well of Merrion's, I don't believe their application is justified for geologic exception. There is no substantial difference in the pay (exhibit #3), and a Southwest ¼ location is desirable because of the well distribution in the surrounding sections. I recommend not approving this application administratively and suggesting a standard location in the SW/4.

MERRION

OIL & GAS

September 17, 1998

Mr. Michael E. Stogner New Mexico Oil Conservation Division 2040 S. Pacheco St. Santa Fe, New Mexico 87501

Re: Application of Merrion Oil & Gas Corporation
Non-Standard Location
Shank Com #1
Basin Fruitland Coal Pool
NW/4 Section 2, T26N, R13W
San Juan County, New Mexico

Dear Mr. Stogner:

Merrion Oil & Gas Corp. (Merrion) requests administrative approval for a non-standard location for the subject well. Merrion has permitted to drill the Shank Com #1 in the NW/4 of Section 2, T26N, R13W. The well will be completed in the Basin Fruitland Coal on a W/2 320 acre spacing unit (see Exhibit 1 and 2). Although the well is at standard offsets from the spacing unit boundary, it is non-standard because of its location in the northwest quarter versus the southwest quarter of the section.

Merrion is proposing to drill the well on the northern part of the spacing unit for geologic reasons. Exhibit 3 is a log cross-section showing that the coal thickness increases to the north and east across the project area. The total coal thickness of approximately 26 feet in the SW/4 of Section 10 increases to 39 feet in the NW/4 of Section 2, T26N, R13W, where Merrion proposes to drill the well.

Even more telling is the dramatic improvement in production to the northeast across the project area. Exhibit 4 shows that by drilling the Shank Com #1 in the NW/4 of Section 2, it is more on trend with the highly productive wells to the east versus the marginal wells to the southwest. Therefore, Merrion feels the economic viability of the well will be dramatically improved by drilling the well in the non-standard NW/4.

Page Two September 17, 1998

Exhibit 2 is a plat showing the offset operators in the area. Exhibit 5 is a list of the operators who received certified copies of this application.

Please notify me at (505) 327-9801, ext. 114 if more information is required.

Sincerely,

George F. Sharpe

Manager - Oil & Gas Investments

xc: Well File

Box 1980, Hobbs, NM 88241-1980 District II PO Drawer DD, Artesia, NM 88211-0719

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

PO Box 2088, Santa Fe, NM 87504-2088

District IV

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

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Fee Lease - 3 Copies

AMENDED REPORT

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EXHIBIT 2 SHANK COM #1 Non-Standard Location Offset Operator Plat

R13W

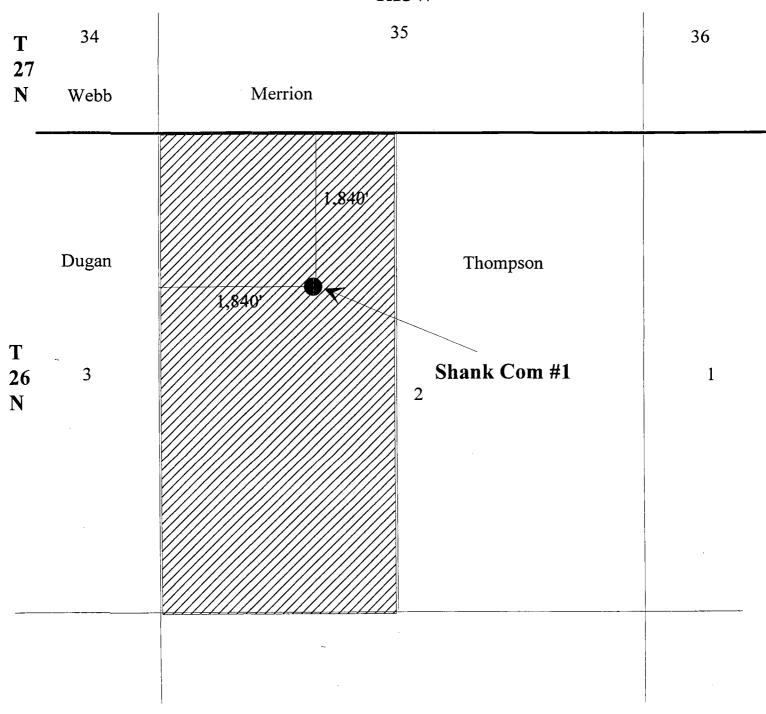
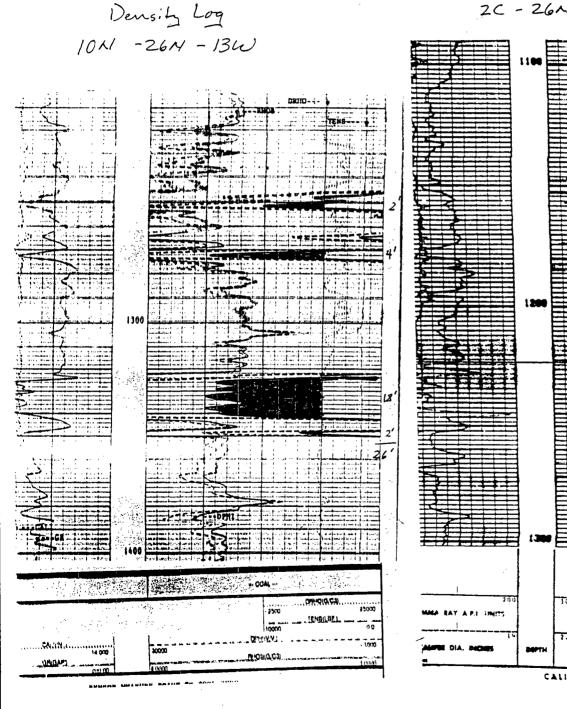


EXHIBIT 3 Density Log Cross Section

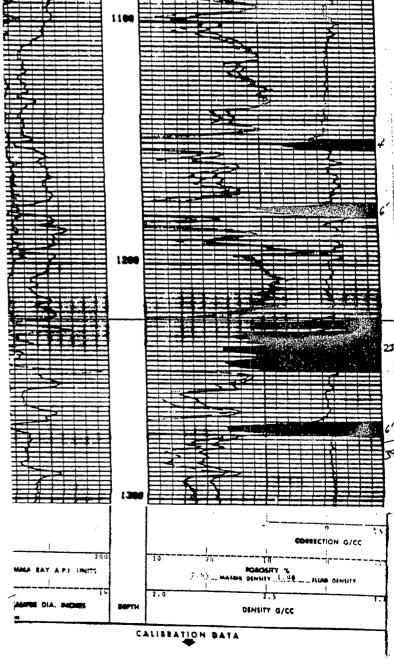
X Shank Com Location

Bartlesville #1 Density Log 2C - 26N - 13W

NE



SW Gallegos Fed 26-B-10 #2



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Exhibit 5

Offset Operator Notification Shank Com #1 Non-Standard Location

To: Offset Operators

If you have questions, please call George Sharpe at 327-9801. 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. John Alexander Dugan Production P.O. Box 420 Farmington, New Mexico 87499

Mr. Max Webb 2705 ½ E. Main Farmington, New Mexico 87402 CMD: ONGARD OG5SECT INQUIRE LAND

ONGARD 10/21/98 04:04:15
INQUIRE LAND BY SECTION OGOIV -EMDT
PAGE NO: 1

Sec : 02 Twp : 26N Rng : 13W Section Type : NORMAL

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PF07 BKWD PF08 FWD PF09 PRINT PF10 SDIV PF11 PF12

CMD : OG5SECT

ONGARD
INQUIRE LAND BY SECTION

10/21/98 04:04:26 OGOIV -EMDT PAGE NO: 2

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 PF07 BKWD
 PF08 FWD
 PF09 PRINT
 PF10 SDIV
 PF11
 PF12

CMD : OG6C101

ONGARD

C101-APPLICATION FOR PERMIT TO DRILL

10/21/98 04:05:00 OGOIV -EMDT

OGRID Idn : 14634 API Well No: 30 45 29516 APD Status(A/C/P): A

Opr Name, Addr: MERRION OIL & GAS CORP

Aprvl/Cncl Date : 01-28-1998

610 REILLY AVE

FARMINGTON, NM 87401-2634

Prop Idn: 22342 SHANK COM

Well No: 1

 U/L Sec
 Township Range
 Lot Idn
 North/South
 East/West

 Surface Locn: F
 2
 26N
 13W
 FTG 1840 F N
 FTG 1840 F W

 OCD U/L
 : F
 API County: 45

Work typ(N/E/D/P/A) : N Well typ(O/G/M/I/S/W/C): G Cable/Rotary (C/R) : R Lease typ(F/S/P/N/J/U/I): S Ground Level Elevation : 6045

State Lease No: Multiple Comp (Y/N) : N Prpsd Depth : 1383 Prpsd Frmtn : BASIN FT COAL

State of New Mexico

2040 South Pacheco

Santa Fe, NM 87505

Form C-10

PO Box 1980, Hobbs, NM 88241-1980

District II

811 South First, Artesia, NM 88210

District III

1000 Rio Brazos Rd., Aztec, NM 87410

January 26, 1998

Title:

Date:

Drilling & Production Manager

Phone: 505-327-9801

Energy, Minerals & Natural Resources-Depo

Revised October 18, 199

Instructions on bac

Submit to Appropriate District Offic State Lease - 6 Copie

Fee Lease - 5 Copie

District IV						~ ~ ~	~~	on Dan	157	_		
2040 South Pached							MENDED REPORT					
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Hole Siz	ze	7" J55	asing Size		g weight/foot		Setting Depth		Cement	 	Estimated TOC	
8-3/4"			ICC	23 ppi		-	~1383′KB		cuft)	Surface		
6-1/4"		4-1/2"	199	10.5 p	pı	~1363 NB		~113 sx (*	100 CUIT	ft) Surface		
								+				
22				SN - PLUG P	or :	<u> </u>		<u> </u>				
program, if any. U	se additional sh	eets if neces	sary.		_	the present productive	-				i	
Mer	rion Oil &	Gas prop	oses to drill	3 ³ / ₄ " hole w	ith native mud	to approx. 120'	KB and	set 7" 23# J5	5 surfac	e casing, c	ement to surface	
with ~30 sx 'E hole surveys	' w/ 2% Ca If appears	aCl ₂ (36 s product	it"). Will drill i	67 ₄ "nole to 1/2" 10.5 pc	ID @ approx f.155 producti	. 1383' KB with I on casing from T	ow solid D to sur	is non-dispers face Will cei	ied gel r ment wi	nud systen th 25 sx 'B'	n. Run open ' (30 ft ³) lead	
slurry followed	by 38 sx	'B' w/ 2%	6 SMS (77 ft ³) and tail in	with 50 sx 'B'	(59 ft3) cement	to fill from	m total depth	to surfa	ce. Top of	cement should	
				d upon cali	per log). If cei	ment does not re	ach surf	ace, a tempe	rature lo	g or ceme	nt bond log will	
be run to dete	•			orated casi	ng Will fractu	、 re stimulate and	nut on f	or production	test			
					-		-			pressure	1000 psig.	
		•	-			with a bag type BOP in place, minimum working pressure 1000 psig. negotiate with NAPI for approval to use surface.						
For	mation top	s: Ojo A	amo - Surfac	e, Kirtland	- 76', Fruitland	l - 800', Fruitland	l Coal - 1	1211', Picture	d Cliffs	1233'.		
					lr							
²³ I hereby certif my knowledge a	ormation g	iven above is tru	e to the best of	OI	L CO	NSERVA	TION	DIVIS	ION			
Signature:	A		XL			Approved by:	<u>, </u>	" 1/4	-	0		
/	Ju	ب	/3/		····		Ru	a car laico	ECTOR	1)151 241		
Printed name:	even S.	ļ.	Title: 8EPU	TY OIL	& GAS INSP	ECTOR,	7131. 840					

Approval Date

Attached

Conditions of Approval : Ho Cli)

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

Property Code Property Cod	· ',		W	ELI	LO	CATION	REAGE DEDI	CA	TION PL	AŢ				
Property Code Property Name Shank Com 1 OGRID No. Ogerster Name Ographic Name O	1.4	er.												
Shank Com GORID No. GORRID N	30-0	045-3	29516		71629 Basin Fruit						tland Coal			
"OFFICE Name (NOTE) OFFICE N		, 1					⁴ Propert	y Name		* Well Number			Well Number	
MERRION OIL & GAS Out	22.34	1.2											1_	
UL or lot no. Section Township Range Lot Idn Feet from the Part North/South line Feet from the 1840 North 1840 West San Juan "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 "Dedicated Acress "Joint or Infill "Consolidation Code "Order No. In progress 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 To Allowable Will be assigned to the first of t		No.												
UL or lot no. P 2	014634	·				M							045'	
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