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May 4, 2004

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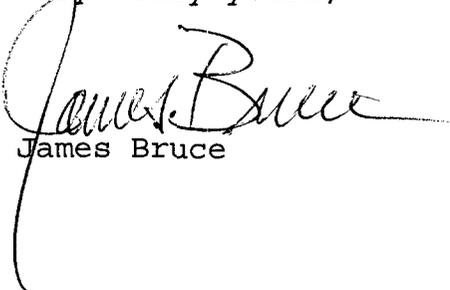
Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and one copy of an application for an exception to Rule 104.C.(2)(b), together with a proposed advertisement, filed on behalf of Merit Energy Company. Please set this matter for the May 27, 2004 Examiner hearing. Thank you.

The advertisement is also on the enclosed disk.

Very truly yours,

  
James Bruce

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MAY - 4 2004

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

Case 13273

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

APPLICATION OF MERIT ENERGY  
COMPANY FOR AN EXCEPTION TO  
DIVISION RULE 104.C.(2)(B),  
EDDY COUNTY, NEW MEXICO.

Case No. 13273

APPLICATION

Merit Energy Company applies for an exception to Division Rule 104.C.(2)(b) to allow (i) two gas wells to be located in the SW $\frac{1}{4}$  of Section 34, Township 21 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and (ii) both wells to produce concurrently from the Strawn and Morrow formations. In support thereof, applicant states:

1. Applicant is the operator of the W $\frac{1}{2}$  of Section 34 as to formations developed on 320 acre spacing.

2. The W $\frac{1}{2}$  of Section 34 is currently dedicated to the State Q Com. Well No. 1, located 2235 feet from the south line and 660 feet from the west line (the NW $\frac{1}{4}$ SW $\frac{1}{4}$ ) of the section, which is currently producing from the Strawn formation (Happy Valley-Strawn Gas Pool). Applicant also intends to re-complete the well in the Morrow formation (Happy Valley-Morrow Gas Pool), and to produce the well from both formations by means of downhole commingling.

3. Applicant proposes to drill the State Q Com. Well No. 2 at an orthodox location 660 feet from the south line and 1980 feet from the west line (the SE $\frac{1}{4}$ SW $\frac{1}{4}$ ) of Section 34, to a depth sufficient to test the Morrow formation.

4. Applicant seeks approval to simultaneously dedicate the W $\frac{1}{2}$  of Section 34 to both the State Q Com. Well Nos. 1 and 2, in both the Strawn and Morrow formations, and to produce both wells

concurrently.

5. The State Q Com. Well No. 2 is being located in the SE¼SW¼ of the section for geological and topographical reasons. In particular, no surface occupancy is allowed in the NW¼ of Section 34.

6. The granting of this application will prevent waste and protect correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter an order granting the relief requested above.

Respectfully submitted,



James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Merit Energy  
Company

PROPOSED ADVERTISEMENT

Case 13273: Application of Merit Energy Company for an exception to Division Rule 104.C.(2)(b), Eddy County, New Mexico. Applicant seeks an exception to Division Rule 104.C.(2)(b) to allow the W½ of Section 34, Township 21 South, Range 26 East, NMPM, to be simultaneously dedicated in the Strawn and Morrow formations to applicant's State Q Com. Well No. 1, located 2235 feet from the south line and 660 feet from the west line of the section, and the proposed State Q Com. Well No. 2, to be located 660 feet from the south line and 1980 feet from the west line of the section. Applicant also seeks approval for both wells to produce concurrently. The unit is located approximately 3½ miles west-northwest of Carlsbad, New Mexico.

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Santa Fe, NM 87505