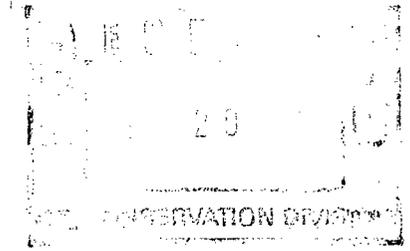


MERRION

OIL & GAS

2894



February 15, 2001

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

**Re: Application for Administrative Approval
Downhole Commingling
Basin Fruitland Coal Pool and Aztec Pictured Cliffs Pool
Katy Com #1
Section 26, T30N, R12W
San Juan County, New Mexico**

Dear Mr. Catanach:

Merrion Oil & Gas requests administrative approval for downhole commingling of the Basin Fruitland Coal and the Aztec Pictured Cliffs Pools in the subject wellbore. The following information is provided in support of this application.

I. Proposed Spacing Units

Exhibit 1 is the ownership plat showing the offset operators. Exhibit 2 shows the C-102 plat for the Basin Fruitland Coal with a 320 acre spacing unit in the E/2 of Section 26. Exhibit 3 is the C-102 plat for the Aztec Pictured Cliffs Pool with a ± 160 acre spacing unit in the NE/4 of Section 26.

II. Justification

The well was drilled in the middle of last year and completed in the Pictured Cliffs (PC) formation. We have had problems keeping the well on due to sand flow back problems. We have recently gotten the wellbore stabilized and the well is currently making approximately 25 MCFD and 60 BWPD. The economics of the well can be significantly enhanced by adding the Fruitland Coal and commingling the two zones.

III. Allocation Methodology

Exhibit 4 shows the PC production from the Juhan #1, an offset Pictured Cliffs well while Exhibit 5 shows the production history of the PC State Com 24, an offset coal well. The

production characteristics of the two wells are very similar. Therefore, 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.

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 both zones is estimated to be 550 psig. Therefore, crossflow is not anticipated to be a problem.

VI. Well Ownership Notification

The spacing unit and ownership of the two zones is not the same. Exhibit 6 is a list of all working interest, override, and royalty interest owners in the well who received certified copies of this application.

VII. Offset Operator Notification

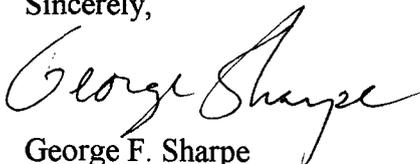
Exhibit 1 is a plat showing all offset operators. Exhibit 7 is a list of all the offset operators who received a certified copy of this application.

VIII. Summary

The current PC 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: Offset Operators and Well Owners
Aztec OCD, BLM-Farmington

**Application of Merrion Oil & Gas
Downhole Commingling
Katy 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 fax this waiver sheet to George Sharpe at (505) 326-5900.

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 **KATY COM** Address **1 B 26 30N 12W San Juan**
Lease Well No. Unit Letter-Section-Township-Range County
OGRID No. **014634** Property Code **25175** API No. **30-045-30084** Lease Type: Federal State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	Basin Fruitland Coal		Aztec Pictured Cliffs
Pool Code	71629		71280
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	1818'-1840'		1858'-1865'
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)	550 psi		550 psi
Oil Gravity or Gas BTU (Degree API or Gas BTU)	BTU 1000		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: Jan, 2001 Rates: 25 MCFD, 60 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 Will be provided after Fruitland Coal is completed. % %	Oil Gas % %	Oil Gas % %

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 February 15, 2001
TYPE OR PRINT NAME George F. Sharpe TELEPHONE NO. (505) 327-9801 Ext. 114

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
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-30084	² Pool Code 71629	³ Pool Name Basin Fruitland Coal
⁴ Property Code 25175	⁵ Property Name KATY	
⁷ OGRID No. 014634	⁸ Operator Name MERRION OIL & GAS CORPORATION	⁶ Well Number 1
		⁹ Elevation 5640'

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
B	26	30N	12W	NWNE	890	North	1625	East	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 319.2	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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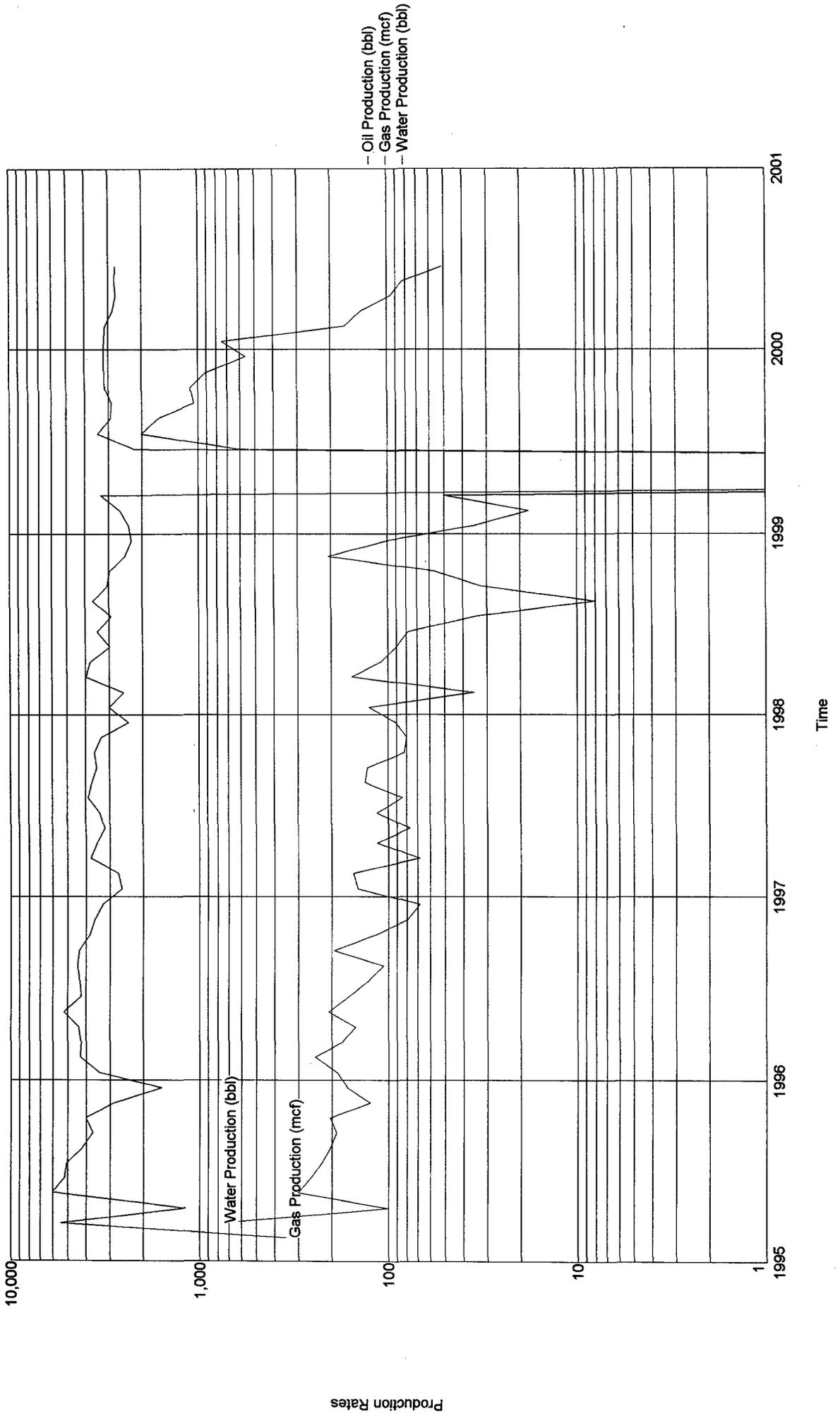
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

Exhibit 2		<p>¹⁷ OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i></p> <p style="text-align: center;"><i>George Sharpe</i></p> <p>Signature</p> <p>George Sharpe</p> <p>Printed Name</p> <p>Engineer</p> <p>Title</p> <p>February 15, 2001</p> <p>Date</p>
		<p>¹⁸ SURVEYOR CERTIFICATION</p> <p><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></p> <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor:</p>
		<p>Certificate Number</p>

Lease Name: JUHAN
County, State: SAN JUAN, NM
Operator: BAYLESS ROBERT L PRODUCER LLC
Field: FULCHER KUTZ
Reservoir: PICTURED CLIFFS
Location: 29 30N 12W NE SW NE

EXHIBIT 4

JUHAN - 1 FULCHER KUTZ 29 30N 12W NE SW NE



Lease Name: FC STATE COM
County, State: SAN JUAN, NM
Operator: CONOCO INCORPORATED
Field: BASIN
Reservoir: FRUITLAND COAL
Location: 36 30N 12W NE SW SW

EXHIBIT 5

FC STATE COM - 24 BASIN

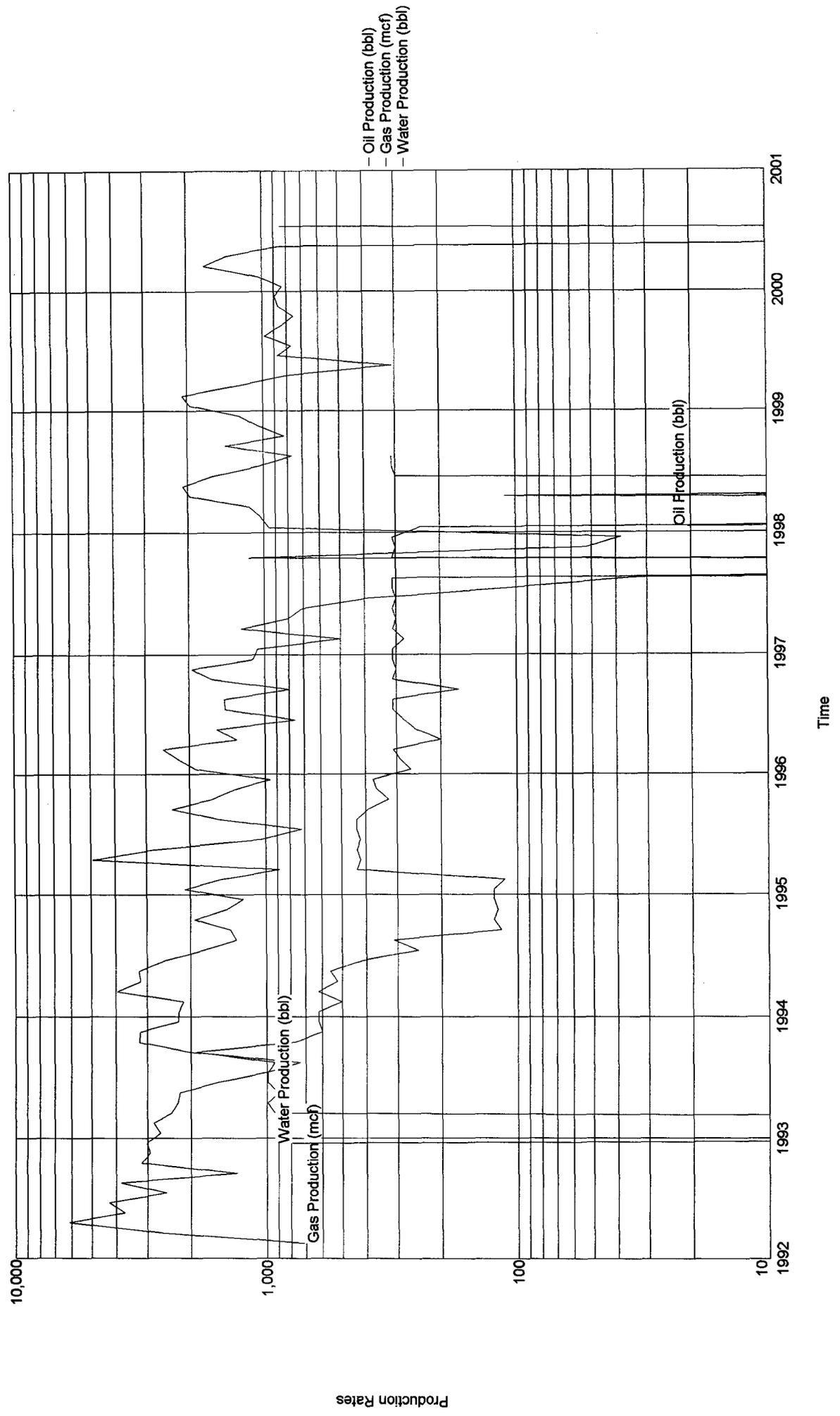


Exhibit "6"
Katy Com 1 Commingling Application
Notification of Owners in Well

Working Interest Owners

Burlington Resources
P. O. Box 4289
Farmington, NM 87499

Robert L Bayless, Producer LLC
P. O. Box 168
Farmington, NM 87499

George G. Vaught, JR
P.O. Box 13557
Denver, CO 80201

Royalty Interest Owners

Minerals Management Service
Department of the Interior
P. O. Box 5640
Denver, CO 80217

Susan L. Pierce Nelson
4901 Crestwood Drive
Farmington, NM 87402

John B Pierce
325 S 400 W #57
Mt. Pleasant, UT 84647

Lance Reemtsma
2601 Grant St.
Berkeley, CA 94703

Dirk Reemtsma
Citizens Bank, Agent
P O Box 4140
Farmington, NM 87499

Estate of G.T. McAlpin
Angela McAlpin, Ind. Executrix
P O Box 49
Cuero, TX 77954

Terry G & Veronica E Hood
P O Box 826
Aztec, NM 87410

FR Dickens & EM Dickens
P O Box 223
Aztec, NM 87410

Hazel B Peppin
Or Diana L Peppin
3652 South 2210 East
Salt Lake City, UT 84109-4315

Edward C Cordell
P O Box 3743
Farmington, NM 87499

Margarete Lockley
C/O Barbara Modzelewskil
3113 Dryer St.
Las Cruces, NM 88011

Duff-Leach Family Trust
J. Dianne Duff Leach, Trustee
P.O. Box 30396
Albuquerque, NM 87190

T E Duff Trust, Ted E Duff Trustee
P.O. Box 398
Ruidoso, NM 88345

J. M. Dennis Trust
Don C. Dennis, Trustee
P O Box 1738
Lubbock, TX 79408

Estate of Kay Dennis
Don C. Dennis, Independent Executor
P O Box 1738
Lubbock, TX 79408

Overriding Interest Owners

Cross Timbers Oil CO.
P.O. Box 840287
Dallas, TX 75284-0287

Weldon C, Ila Mae & Jonn W. Julander
Trustees UTA Of W C Julander Dtd 10/27/93
P O Box 2773
Littleton, CO 80161-2773

Burlington Resources
P. O. Box 4289
Farmington, NM 87499

Union Oil Company
Revenue Accounting
P.O. Box 841055
Dallas, TX 75284-1055

Cynthia Calvin
747 Newport Street
Denver, CO 80220

Edward M. Calvin
2380 Forest Street
Denver, CO 80207

Ben R. Howard
11490 Audelia Rd.
APT 215
Dallas, TX 75243

Sabine Royalty Trust Lockbox
Nationsbank Of Texas
(As Successor), Escrow Agent
Department #0887
Dallas, TX 75284-0887

Exhibit "7"

**Katy Com 1 Commingling Application
Notification of Offset Operators**

Burlington Resources
Mr. James Strickler
P.O. Box 4289
Farmington, NM 87499

Holcomb Oil & Gas
Mr. Jeff Holcomb
3001 Northridge Drive
Farmington, NM 87401

Cross Timbers
Mr. Edwin Ryan
810 Houston St., Suite 2000
Fort Worth, TX 76102

Manana Gas, Inc.
Mr. Ed Hartman
2520 Tramway Terrace Ct. NE
Albuquerque, NM 87122