

**Correspondence  
Phillips Petroleum**

NMOCD Examiner Hearing  
August 26, 1993  
Application of Merrion Oil & Gas  
Case #: 10800  
Exhibit # 3

**Phillips Petroleum Correspondence**  
Table of Contents

1. Certified letter dated August 19, 1993; sent copy of AFE to Phillips.
2. Certified letter dated August 13, 1993; sent copy of proposed Oper. Agr. to Phillips.
3. Letter dated February 22, 1993, requesting confirmation of Phillips' acquisition of Ellwood Oil's interest.
4. Certified letter dated January 29, 1993; original Farmout Agreement sent to Ellwood Oil Company.

MERRION OIL & GAS CORPORATION

610 REILLY AVE. • P. O. Box 840  
FARMINGTON, NEW MEXICO 87499

August 19, 1993 .

Phillips Petroleum  
Attn: Frank Hulse  
5525 Hwy. 64 NBU 3004  
Farmington, NM 87401

CERTIFIED MAIL  
P 081 445 144

RE: Serendipity No. 1 Recompletion  
San Juan County, NM

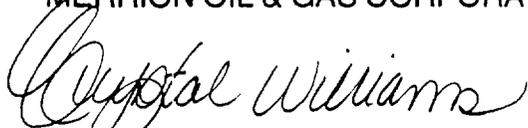
Dear Frank:

Enclosed is a copy of the AFE for the above captioned well for your review.

If you have any questions, please call.

Yours Truly,

MERRION OIL & GAS CORPORATION



Crystal Williams  
Landman

Enclosure

# Authority for Expenditure (AFE) Drilling & Completion Well Cost Estimate

AFE No. 92060	AFE Type: 1	Lease: Serendipity	Well No: 1
Accounting Well No.	Project: Drill a Fruitland Test	Field: Basin Fruitland	
Location: 165' fsl & 2310' fcl (NWSE)	Lease No: NM-33031	TD: 1,350 ft	
Se- 21, T20N, R5W	Spacing: 320 acres	Operator: Merrion Oil & Gas	
County: San Juan	State: NM	Prospect: Serendipity	By: Steven Dunn, PE

Division of Interest:	Owner Share of		BPO Interest		APO Interest	
		Estimated Cost	WI	NRI	WI	NRI
1) Gross Working Interest		\$117,343	100.000000%	85.000000%	100.000000%	85.000000%
2) Overides				2.500000%		2.500000%
3) United States of America				12.500000%		12.500000%
<b>Total</b>		<b>\$117,343</b>	<b>100.000000%</b>	<b>100.000000%</b>	<b>100.000000%</b>	<b>100.000000%</b>

I. SUNK WELLBORE COSTS	EST COST
Location Construction, anchors, pit liner, trash cage, etc.	2,000
Surveying and Archaeology	1,000
Title Opinion	500
Drilling Rig	8,775
...Footage cost 1,350ft @ \$6.50 per foot	
...Daywork 0.5 days @ \$2,750 per day	1,375
Cement & Cementing	2,000
...Surface	
...Production	3,750
Company Supervision	1,800
...4 days @ \$400 per day	
Onsite Geologist	250
...0.5 days @ \$500 per day	
Open hole logs	4,500
Trucking:	1,100
...Haul water	
...Haul casing	1,000
...Haul mud	250
Drilling mud	1,350
Casing:	1,580
...Surface 7", 23 lb/ft good used 240 feet @ \$6.50 per foot	
...Product 4 1/2", 10.5 lb/ft good 1,350 feet @ \$3.95 per foot	5,333
Fuel line 1" 100 feet @ \$0.60 per foot	60
Float equipment	750
Fittings, valves for wellsite hookup	2,000
Administrative & General Expense (includes engineering design, permitting, accounting, geology, etc.)	3,000
County tax 5.93%	1,740
<b>TOTAL SUNK WELLBORE COSTS</b>	<b>\$43,893</b>

II. EXISTING EQUIPMENT	
Wellhead equipment	1,500
Pumping Unit 114D w/ Waukesha engine	12,000
Separator, heated 3 phase	4,000
Tank, 300 bbl steel for water	1,800
Tubing 2 3/8" 4.7lb/ft EUE 1,300 feet @ \$1.95 per foot	2,535
Sucker Rods 1,325 feet @ \$0.97 per foot	1,285
Bottomhole pump	1,350
County tax 5.93%	1,450
<b>TOTAL SURFACE EQUIPMENT</b>	<b>\$25,920</b>

III. COMPLETION & TIE-IN COSTS	
Completion Rig 4 days @ \$1,400 per day	5,600
Water for Stimulation (includes trucking)	1,500
Stimulation	17,500
Perforating & Logging	1,500
Roustabouts & other services	1,200
Flow line construction 2,000 feet @ \$3.00 per foot	6,000
Company Supervision	1,600
...Completion 4 days @ \$400 per day	
...Flow Line 2 days @ \$400 per day	800
Location cleanup	500
Flowline 2 7/8" 8.5lb/ft 2,000 feet @ \$1.33 per foot	2,660
Gas Meter & Meter Run	3,800
Fittings, valves for flowline	500
Perf sub & misc subsurface equipment	250
Trucking, Rig Move	500
Frac Tank rentals	250
County tax 5.93%	2,820
Administrative & General Expense	750
<b>TOTAL COMPLETION &amp; TIE-IN COSTS</b>	<b>\$47,530</b>

**TOTAL ESTIMATED COST 117,343**

# MERRION

OIL & GAS

August 13, 1993

Phillips Petroleum  
Attn: Frank Hulse  
5525 Hwy 64 NBU 3004  
Farmington, NM 87401

CERTIFIED MAIL  
P 081 445 131

RE: Serendipity No. 1 Recompletion  
San Juan County, NM

Dear Frank:

By now you should have received a copy of our letter sent to the OCD requesting to be on the August 26 docket for force-pooling the interests involved in the above captioned well.

Enclosed for your review is a copy of the proposed Operating Agreement for said well.

If you have any questions, please call.

Yours Truly,

MERRION OIL & GAS CORPORATION



Crystal Williams  
Landman

Enclosure

P 081 445 131



### Receipt for Certified Mail

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to <u>Phillip</u>	
Street and No.	
P.O. State and ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800, June 1991

**SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.**  
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address. 2.  Restricted Delivery (Extra charge)

3. Article Addressed to:  
Phillips Reno.  
6025 Hwy. 64 NBL 3004  
Firm, NM 87401

4. Article Number: P081445131  
Type of Service:  Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

5. Signature - Addressee  
X

6. Signature - Agent  
X J. Sanderson

7. Date of Delivery  
8-16-93

8. Addressee's Address (ONLY if requested and fee paid)  
Always obtain signature of addressee or agent and DATE DELIVERED.

PS Form 3811, Apr. 1989

DOMESTIC RETURN RECEIPT

MERRION OIL & GAS CORPORATION

610 REILLY AVE. • P. O. BOX 840  
FARMINGTON, NEW MEXICO 87499

February 22, 1993

Phillips Petroleum  
Attn: Jay Kieke  
5525 U.S. Hwy. 64  
Farmington, NM 87401

RE: Lease No. SF-081028-A  
San Juan County, NM

Dear Jay:

Pursuant to Pat Hegarty's request, enclosed please find a copy of the "Title Summary" completed for the above captioned lease. Pat thought that Phillips may have purchased Ellwood Oil Company's interest in said lease.

Review the enclosed, and if Phillips did indeed acquired Ellwood's interest, please let us know. Your prompt attention to this matter is appreciated.

Yours Truly,

MERRION OIL & GAS CORPORATION

  
Crystal Williams  
Land Department

Enclosures

FAX 505-326-5900

**Merrion Oil & Gas Corporation**  
610 Reilly Avenue • Post Office Box 840  
Farmington, New Mexico 87499

Phone 505-327-9801

January 29, 1993

Ellwood Oil Company  
P.O. Box 7500  
Bartlesville, OK 74005-7500

**CERTIFIED MAIL**  
P-081-715-028

RE: Farmout Agreement  
Fruitland Coal Rights  
S/2 SE/4, Sec. 26-T26N-R13W  
San Juan County, New Mexico

Gentlemen:

Merrion Oil & Gas Corporation (Merrion) hereby proposes to Farmin the south half of the southeast quarter (S/2 SE/4) of Section 26, Township 26 North, Range 13 West, N.M.P.M., containing eighty acres, more or less, located in San Juan County, New Mexico (hereinafter referred to as the Lands) from Ellwood Oil Company (hereinafter referred to as Ellwood) subject to the following terms and conditions:

1. Merrion shall complete the plugging back and recompletion of the Serendipity No. 1 well, located in the NW/4 SE/4 of Section 26, T26N-R13W, sufficient to test the Fruitland Coal Formation (hereinafter referred to as said operation) sixty (60) days from execution of this agreement.
2. The operation conducted hereunder shall be at no cost, risk, or expense to Ellwood.
3. This agreement shall be null and void if Merrion fails to timely commence said operation sixty (60) days from execution of this agreement.
4. Upon completion of said operation, Merrion shall earn an Assignment of all of Ellwood's right, title, and interest in and to the lands, subject to Ellwood retaining a proportionately reduced, overriding royalty interest equal to the difference between landowner's royalty and overriding royalty burdens and twenty-five percent (25%). It is the intent that Ellwood shall deliver, within thirty days from receipt of a BLM assignment of Operating Rights, a seventy-five percent (75%), net revenue interest lease to Merrion. Said assignment shall be limited in depth from the surface of the earth to the base of the Fruitland Coal Formation. Said retained overriding royalty interest shall be perpetual.

January 29, 1993  
Farmout Agreement

Page 2

5. Merrion reserves the right to assign or transfer its rights under this Agreement to any third party of its choosing.
6. It is hereby agreed that Ellwood will not warrant title to lands subject to this agreement.

Please review this agreement and if acceptable, please have it properly executed in the space provided below, returning one original copy.

Thank you for your consideration in this matter.

Sincerely,



Patrick Hegarty  
Manager - Land/Negotiations

AGREED TO AND ACCEPTED this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

ELLWOOD OIL COMPANY

ATTEST:

By: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

**Receipt for Certified Mail**  
 No Insurance Coverage Provided  
 Do not use for International Mail  
 (See Reverse)

PS Form 3800, June 1991

Signature of Addressee <i>Stuwood</i>	
Post Office and ZIP Code	
Postage	\$
Insurance Fee	
Registration Fee	
Return Receipt Fee	
Return Receipt Showing to Whom & When Delivered	
Return Receipt Showing to Street, Date, and Addressee's Address	
Return Receipt Showing to Street, Date, and Addressee's Address	
Postage and Insurance Fee	\$
Postmark or Date	

I also wish to receive the following services (for an extra fee):

- 1.  Addressee's Address
- 2.  Restricted Delivery

- SENDER:**
- Complete items 1 and/or 2 for additional services.
  - Complete items 3, and 4a & b.
  - Print your name and address on the reverse of this form so that we can return this card to you.
  - Attach this form to the front of the mailpiece, or on the back if space does not permit.
  - Write "Return Receipt Requested" on the mailpiece below the article number.
  - The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

4a. Article Number  
 Consult postmaster for fee.

*Ellwood Oil Company  
 PO Box 7500  
 Bartlesville, OK 74005*

4b. Service Type  
 Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

7. Date of Delivery

8. Addressee's Address (Only if requested and fee is paid)

5. Signature (Addressee)  
*[Signature]*

6. Signature (Agent)  
 FEB 01 1991