

**Correspondence
Markham**

NMOCD Examiner Hearing
August 26, 1993
Application of Merrion Oil & Gas
Case #: 10801
Exhibit # 2

Markham Correspondence
Table of Contents

1. Certified letter dated August 18, 1993; sent copy of AFE to Markham, along with revised copy of proposed Operating Agreement.
2. Certified letter dated August 16, 1993; received letter from Markham, requesting changes to Operating Agreement.
3. Certified letter dated August 13, 1993; sent copy of proposed Operating Agr.
4. Letter dated July 2, 1993, but received August 2, 1993; Markham stating that he feels the wellbore value is unfair and suggests having the force-pool hearing.
5. Faxed and mailed letter dated July 26, 1993; responding to Markham's letter of July 17, requesting NRI of 75%, instead of 70%, restating our position concerning the wellbore value.
6. Letter dated July 17, 1993; received from Markham; stating that Mr. Herd and Mr. Christmann wish to farmout at 70% NRI, while Markham would like to participate, if we forego the wellbore value.
7. Letter dated July 9, 1993; responded to Markham's letter of June 26, 1993, requesting additional data of the Osborn well.
8. Certified letter dated June 22, 1993; requesting to farmout Markham's interest, or participation in the recompletion.

MERRION OIL & GAS CORPORATION

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

August 18, 1993

Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401

CERTIFIED MAIL
P 081 445 040

RE: Force-Pool Hearing
Osborn #1 Recompletion
San Juan County, New Mexico

Dear Mr. Markham:

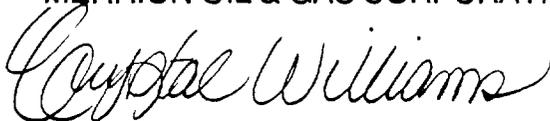
Pursuant to our conversation, enclosed please find a copy of the AFE for the above captioned well, for your review.

Also enclosed is the revised Operating Agreement for said well.

If you have any questions, please call.-

Yours Truly,

MERRION OIL & GAS CORPORATION



Crystal Williams
Landman

Enclosures

Merrion Oil & Gas Corporation
Authority for Expenditure (AFE)
Drilling & Completion Well Cost Estimate

AFE No.	AFE Type: 1	Lease: Osborn	Well No: 1
Accounting Well No.		Project: Drill a Fruitland Test	Field: Flora Vista Fruitland
Location: 790'fsl & 900'fwi (SWSW)		Lease No: Fee	TD: 1,400 ft
Sec 22, T30N, R12W		Spacing: 160 acres	Operator: Merrion Oil & Gas
County: San Juan State: NM		Prospect: Osborn	By: Steven Dunn, PE

Division of Interest:	Owner Share of		BPO Interest		APO Interest	
		Estimated Cost	WI	NRI	WI	NRI
1) Gross Working Interest	\$85,990	100.000000%	67.600000%	100.000000%	67.600000%	67.600000%
2) Royalties & Overrides				32.400000%		32.400000%
3)						
Total	\$85,990	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%

I. SUNK WELLBORE COSTS	EST COST
Location Construction, surface damages, anchors, pit liner, trash cage, etc	5,000
Surveying and Archaeology	500
Title Opinion	500
Drilling Rig	9,100
Footage cost 1,400ft @ \$6.50 per foot	
Daywork 0.5 days @ \$2,750 per day	1,375
Cement & Cementing	2,000
Surface	3,750
Production	1,600
Company Supervision	250
4 days @ \$400 per day	
Onsite Geologist	4,500
0.5 days @ \$500 per day	
Open hole logs	1,200
Trucking:	1,000
Haul water	250
Haul casing	1,400
Haul mud	1,560
Drilling mud	5,530
Surface 7", 23 lb/ft good used 240 feet @ \$6.50 per foot	
Product 4 1/2", 10.5 lb/ft good 1,400 feet @ \$3.95 per foot	
Float equipment	750
Fittings, valves for wellsite hookup	750
Administrative & General Expense (includes engineering design, permitting, accounting, geology, etc.)	3,000
County tax 5.93%	920
TOTAL SUNK WELLBORE COSTS	\$45,935

II. SURFACE EQUIPMENT	
Wellhead equipment	1,500
Separator, heated 3phase	4,000
County tax 5.93%	330
TOTAL SURFACE EQUIPMENT	\$5,830

III. COMPLETION COSTS	
Completion Rig	5,600
4 days @ \$1,400 per day	
Water for Stimulation (includes trucking)	1,500
Stimulation	17,500
Perforating & Logging	1,500
Roustabouts & other services	600
Company Supervision	1,600
Completion 4 days @ \$400 per day	
Location cleanup	250
Tubing	2,535
2 3/8" 4 7lb/ft EUE 1,300 feet @ \$1.95 per foot	
Trucking, Rig Move	500
Frac Tank rentals	250
County tax 5.93%	1,890
Administrative & General Expense	500
TOTAL COMPLETION & TIE-IN COSTS	\$34,225

TOTAL ESTIMATED COST	\$85,990
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Receipt for Certified Mail

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

Name <i>Red Markham</i>	
Street and No.	
P.O., State and ZIP Code	
Postage	\$
Certified Fee	
Registered 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

Is your RETURN ADDRESS completed on the reverse side?

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 will show to whom the article was delivered and the date delivered.

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

- Addressee's Address
 - Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

*Red Markham
1600 Broadway, Ste. 1212
Lubbock, TX 79401*

4a. Article Number

P 081 445 040

4b. Service Type

- Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

7. Date of Delivery

8/20

5. Signature (Addressee)

[Handwritten Signature]

6. Signature (Agent)

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

ROD MARKHAM

1500 BROADWAY, SUITE 1212
LUBBOCK, TEXAS 79401-3192
806 / 763-5326

OIL & GAS DEVELOPMENT

August 16, 1993

Ms. Crystal Williams
Merrion Oil & Gas
P.O. Box 840
Farmington, New Mexico 87499

CERTIFIED MAIL
P 440 535 330

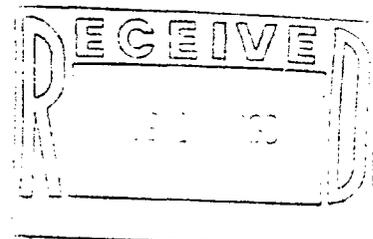
Re: Osborn #1 Recompletion
San Juan County, New Mexico

Dear Ms. Williams:

Today we received your second proposed Joint Operating Agreement for the Osborn well. This JOA is dated August 1, 1993. I received the first proposed JOA dated January 1, 1991 along with the material you sent to us by your letter dated 7/9/93. We notice that several changes have been made in this second version. The changes we noticed are: 1) the fixed overhead rate has almost doubled (Page 4 of COPAS), 2) operators requirement to pay royalties on behalf of Non-Operators is deleted (Page 10 JOA) and 3) Limitation of Expenditures has been changed such that consent to drilling or deepening a well shall include Option No. 1, which is consent to all drilling, completing and equipping of wells drilled on the contract lands (Page 10 JOA).

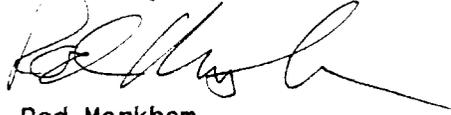
We believe the changes in fixed overhead are probably justified, but only if the Operator continues to assume the traditional responsibility of paying all royalties and overrides due under a well on behalf of all working interest parties. And we understand why Option No. 1 might be useful in the drilling and completion of a Fruitland Coal well but since this is not a Fruitland Coal well Option 2 is not acceptable. Since we have already agreed to the AFE for recompletion of the Osborn well there should not be a problem with that well.

In summary and in the event we become working interest owners under this well, we accept your most current JOA with the exceptions that 1) for Article VII E. Rentals, Shut-in Well Payments and Minimum Royalties: you reinsert the word "royalties" into this paragraph so that it reads "Rentals, shut-in well payments, royalties..." and 2) You change the Limitations of Expenditures to Option 2. Or, in the event we become working interest owners we will be happy to sign off on your original proposed JOA.



Again, I would like to state that as far as the Osborn recompletion goes, we will be happy to pay our part of the re-completion of this well along with the reasonable expenses to equip this well for production. What we have opposed and still oppose is your request that we pay for the expenses to drill and case this wellbore which was drilled and completed over thirty years ago. Thanks.

Sincerely

A handwritten signature in black ink, appearing to read "Rod Markham", with a long horizontal flourish extending to the right.

Rod Markham

RM/dtk

MERRION

OIL & GAS

August 13, 1993

Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401

CERTIFIED MAIL
P 081 445 132

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

Dear Mr. Markham:

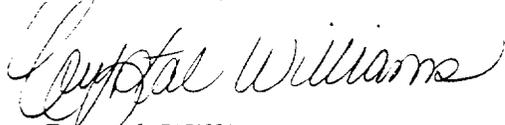
By now you should have received a copy of our letter sent to the OCD requesting to be on the August 26 docket for force-pooling the interests involved in the above captioned well.

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

ROD MARKHAM

1500 BROADWAY, SUITE 1212
LUBBOCK, TEXAS 79401-3192
806 / 763-5326

OIL & GAS DEVELOPMENT

July 2, 1993

Re: Osborn #1 Recompletion
San Juan County, NM

Ms. Crystal Williams
Merrion Oil and Gas
P.O. Box 840
Farmington, New Mexico 87499

Dear Ms. Williams:

I was unable to contact you by phone today. Last week I told you that I would give you an answer today regarding the Osborn well. We still believe that it is unfair to charge us for a well which was drilled and completed for another objective and has produced commercially for all of this time. Additionally, we should have been given notice before you recompleted this well to a zone in which we had an interest.

In light of your refusal to forego the drilled well cost, I guess the only alternative is for you to present this to the commission. I would again like to clarify that we would certainly be happy to pay our proportion of the plug-back and re-completion.

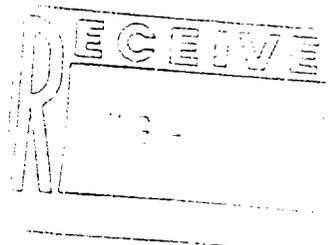
Thanks.

Sincerely,



Rod Markham

RM/dtk



MERRION

OIL & GAS

Harvey Herd #1

July 26, 1993

Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401-3192

FAXED & MAILED

RE: Osborn #1 Recompletion
San Juan County, NM

Dear Mr. Markham:

Pursuant to your letter of July 17, Mr. Herd and Mr. Christmann wished to farmout their interest, delivering a 70% NRI to Merrion, while you wished to participate in the recompletion of the above captioned well if Merrion would forego the \$57,000 well value.

Merrion Oil feels that the 70% NRI is a little steep and would agree to accepting a 75% NRI from both Mr. Herd and Mr. Christmann, and would farmin your interest on the same basis. In regards to the well value, Merrion Oil also feels that a \$57,000 value is not unreasonable. It would cost you this much to drill a well, and you would have the opportunity to buy-in after the fact, without the risk of a dry hole.

This well has already been recompleted and is capable of producing in paying quantities. However, we cannot produce the well until we get a communitization agreement executed. In order to insure ourselves that we will get the well on in a reasonable time frame, we have placed this well on the NMOCD docket of August 26, for compulsory pooling of all interests in the spacing unit. We apologize for having to accelerate the negotiations, but feel it is necessary as a prudent operator. We hope to come to mutually agreeable terms as soon as possible and forego the hearing.

If you have any questions, please call. We look forward to hearing from you.

Yours Truly,


Crystal Williams
Landman

xc:Mr. Harvey Herd. Mr. Chuck Christmann

ROD MARKHAM

1500 BROADWAY, SUITE 1212
LUBBOCK, TEXAS 79401-3192
806 / 763-5326

OIL & GAS DEVELOPMENT

July 17, 1993

Ms. Crystal Williams
Merrion Oil & Gas Corporation
P.O. Box 840
Farmington, New Mexico 87499

Re: Osborne #1 Recompletion
T30N, R12W, Sec. 22: SW/4
San Juan County, New Mexico

Dear Ms. Williams:

Thank you for your letter providing information on the Osborne well. Mr. Herd and Mr. Christmann have informed me that they would farmout to you on the basis of a 70% NRI delivered to Merrion. The Markham interest would either farmout on that basis or participate. Participation by the Markham interest is partially contingent upon foregoing the \$57,000 cost to drill and case such a well. Our feeling is that this is an unfair charge since the well has already been drilled, produced and amortized over a long period of time. We would agree however, that it would be fair to charge a small bonus for your work in putting this together.

We look forward to your response. Thanks.

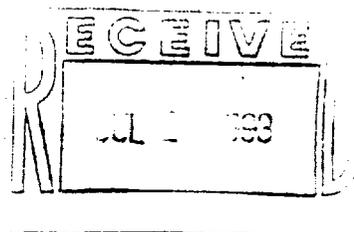
Sincerely,



Rod Markham

RM/dtk

cc: Harvey Herd
Chuck Christmann



MERRION OIL & GAS CORPORATION

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

July 9, 1993

Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401

J.H. Herd
P.O. Box 130
Midland, TX 79702

Chuck Christmann
c/o Frances B. Christmann
1500 Broadway, Suite 800
Lubbock, TX 79401

Kerr-McGee Corporation
Attn: Mr. John Alloway
P.O. Box 25961
Oklahoma City, OK 73125

Re: Osborne #1 Recompletion
T30N,R12W, Sec. 22: SW/4
San Juan County, NM

Dear Mr. Markham:

In response to your letter of June 26, we answer your questions as follows:

1. The estimated cost of plugging this well is \$12,600±.
2. The estimated monthly cost of operation is \$475.00 per month.
3. A copy of the proposed Joint Operating Agreement is enclosed.
4. Your net revenue interest is 3.719%. This is figured accordingly: 27.20 ac/160 spacing unit = 17% x 25% WI = 4.25% WI in unit x 87.5% Leases NRI
5. This well initially tested 70 MCFD against a 280 psi back pressure (approximate line pressure). It was tied in to sales a week ago and is currently producing ±45 MCFD, against a 340 psi line pressure. It is projected to stabilize at 25 MCFD.
6. No new logs were run when this well was recompleted. A copy of the perforated zone is enclosed from the old open hole logs. A copy of a pressure buildup test is also enclosed.
7. The wellbore value of \$57,000 is based on the estimated cost to drill and case a well to that depth.

July 9, 1993

Page 2

8. The gas from this well is sold on the spot market. El Paso charges their normal fees, which result in approximately \$.25/MMBTU deducted from the mainline to the wellhead.
9. Merrion Oil & Gas offers \$30.00/net acre = \$204.00 for your interest in the well. In lieu of this offer, you may participate in the well, or farmout to us.

Please review the enclosed. If you have additional questions, please feel free to call. Your prompt attention to this matter is appreciated.

Yours Truly,

MERRION OIL & GAS CORPORATION



Crystal Williams
Landman

Enclosures

xc: Rosalind Redfern Grover, T.W. Dwyer

MERRION OIL & GAS CORPORATION

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

June 22, 1993

Frances B. Christmann, Exec.(25%)
Attn: Mr. Chuck Christmann
1500 Broadway, Suite 800
Lubbock, TX 79401Jack & Mary Markham (25%)
Attn: Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401J.H. and Harriet Herd (16.67%)
Attn: Mr. O.G. Lanier
P.O. Box 130
Midland, TX 79702Kerr-McGee Corporation (33.33%)
Attn: Mr. John Alloway
P.O. Box 25861
Oklahoma City, OK 73125RE: Osborn #1 Recompletion
T30N,R12W, Sec. 22: SW/4
San Juan County, New Mexico

Gentlemen:

Upon review of the county records, it came to our attention that you own a working interest in the above captioned well (see Assignment of Operating Rights to Pioneer Petroleum).

Therefore, Merrion Oil & Gas would like to farm in your interest in said well (see enclosed Farmout Agreement). If you do not wish to farm out your interest, you will be responsible for paying your proportionate share of the wellbore value of \$57,000, in addition to the AFE recompletion costs. Enclosed is a copy of the AFE, along with the workover report, for this well if you choose to participate. If neither of these options are of interest, Merrion Oil may be interested in purchasing your interest.

Please review the enclosed. If you have any questions, please feel free to call me. Your prompt attention to this matter is greatly appreciated.

Yours Truly,

MERRION OIL & GAS CORPORATION


Crystal Williams
LandmanEnclosures
xc: TGM, GS, JGM, SSD

MERRION OIL & GAS CORPORATION

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

June 22, 1993

Mr. Rod Markham
1500 Broadway, Suite 1212
Lubbock, TX 79401

CERTIFIED MAIL
P 081 715 080

RE: Farmout Agreement
Fruitland Sand Rights
Sec. 22-T30N-R12W
San Juan County, New Mexico

Dear Mr. Markham:

Merrion Oil & Gas Corporation (Merrion) hereby proposes to farmin the east half of the southwest quarter of the southwest quarter (E/2SWSW), and the east half of the west half of the southeast quarter of the southwest quarter (E/2W/2SESW), of Section 22, Township 30 North, Range 12 West, N.M.P.M., containing twenty-seven point two (27.20) acres, more or less, located in San Juan County, New Mexico, (hereinafter referred to as the "Lands") from Rod Markham and _____, brother and sister, respectively, (hereinafter referred to as "Markham") subject to the following terms and conditions:

1. Merrion shall complete the plugging back and recompletion of the Osborne No. 1 well, located in the SW/4 SW/4 of Section 22, T30N,R12W, sufficient to test the Fruitland Sand 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 Markham.
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 Markham's right, title, and interest in and to the lands, subject to Markham retaining a proportionately reduced, overriding royalty interest equal to the difference between landowner's royalty and overriding royalty burdens and twenty percent (20%). It is the intent that Markham shall deliver, within thirty days from receipt of Assignments of Operating Rights, an eighty percent (80%), net revenue interest on leases to Merrion. Said assignments shall be limited in depth from the surface of the earth to the base

of the Fruitland Sand Formation. Said retained overriding royalty interest shall be perpetual.

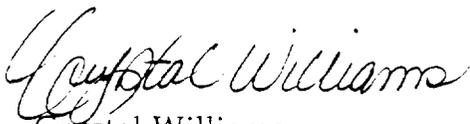
5. Merrion reserves the right to assign or transfer its rights under this Agreement to any third party of its choosing.

6. It is hereby agreed that Markham 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,



Crystal Williams
Landman

AGREED TO AND ACCEPTED this _____ day of _____, 1993.

Rod Markham

Merrion Oil & Gas Corporation

Authority for Expenditure (AFE)

Workover Well Cost Estimate

AFE No. 93004	AFE Type: 2	Lease: Osborn	Well No: 1
Accounting Well No.	Project: Plug back & open Fruitland	Field: Flora Vista Fruitland	
Location: 790' fsl & 900' fwl (SWSW) Sec 22, T30N, R12W	Lease No: Fee	TD: 3,396 ft	
County: San Juan State: NM	Spacing: 160 acres	Operator: Merrion Oil & Gas	
	Prospect: none	By: Steve Dunn	

Division of Interest:	Owner Share of		BPO Interest		APO Interest	
	Dry Hole	Completed	WI	NRI	WI	NRI
1) J. Gregory Merrion	\$0	\$9,060	50.000000%	33.800000%	50.000000%	33.800000%
2) Robert L. Bayless	\$0	\$9,060	50.000000%	33.800000%	50.000000%	33.800000%
3)						
Total	\$0	\$18,120	100.000000%	100.000000%	100.000000%	100.000000%

Intangibles - Workover (1615)				Dry Hole	Completed
412 Location Construction, anchors				0	500
412 Surveying; Archaeology & Damages				0	0
402 Completion Rig	Daywork cost	4 days @ \$1,080 per day		0	4,320
411	Trucking	<i>water hauling done not covered</i>		0	500
403 Cement & Cementing				0	500
408 Engineer		0 days @ \$500 per day		0	0
408 Company Supervision		4 days @ \$400 per day		0	1,600
404 Stimulation; Frac, Acid				0	1,850
405 Equipment Repairs				0	0
406 Perforating & Logging				0	2,000
407 Legal & Consulting				0	0
411 Trucking:	Haul water			0	350
411	Haul equip			0	250
409 Roustabouts & contract services				0	750
410 Rental Equipment & Tools				0	3,000
413 Hot Oil; subsurface				0	0
450 Miscellaneous				0	0
401 Administrative & General Expense				0	500
County tax	5.75%			0	900
Contingency	3%			0	470
Total Intangibles - Workover				\$0	\$17,490

Tangibles - Workover (1640)				Dry Hole	Completed
802 Casing		0 feet @ \$0.00 per foot		0	0
811 Tubing	2-3/8" 4.7lb/ft EUE	0 feet @ \$0.00 per foot		0	0
851 Flowline		0 feet @ \$0.00 per foot		0	0
827 Sucker Rods		0 feet @ \$0.00 per foot		0	0
820 Wellhead equipment				0	0
830 Subsurface equipment				0	100
836 Pumping Unit & Engine				0	0
841 Tanks & Treater				0	0
860 Fittings, valves				0	500
County tax	5.75%			0	30
896 Miscellaneous				0	0
Total Tangibles				\$0	\$630

Total Estimated Cost

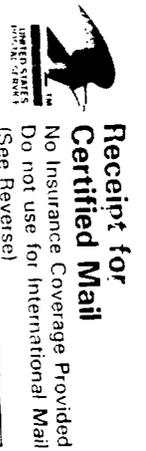
\$0 \$18,120

Approved: *Steve Dunn*
Merrion Oil & Gas Corporation

Date: 4-8-93

Approved: _____
Partner approval

Date: _____



PS Form 3800, June 1991

To: <i>markham</i>	
From: <i>markham</i>	
Weight	\$
Dimensions	
Postage	\$
Insurance	
Signature	
Postmark	

Is your RETURN ADDRESS completed on the reverse side?

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 will show to whom the article was delivered and the date delivered.

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

- 1. Addressee's Address
 - 2. Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Rod Markham
1600 Broadway, St. 1212
Woboc, TX 79401

4a. Article Number
D081715080

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

7. Date of Delivery
6/15

5. Signature (Addressee)
[Signature]

6. Signature (Agent)
[Signature]

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

Thank you for using Return Receipt Service.