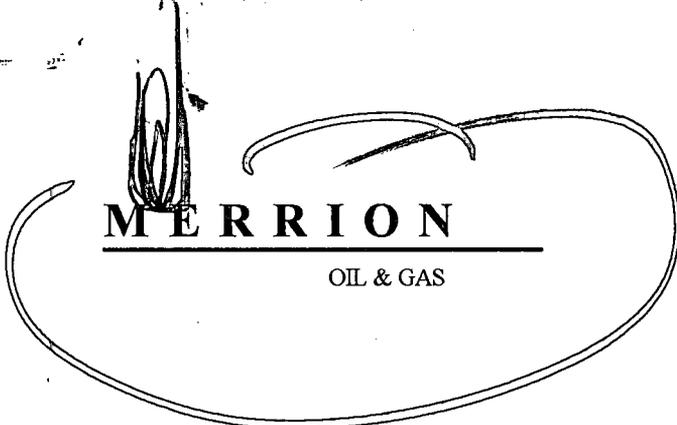
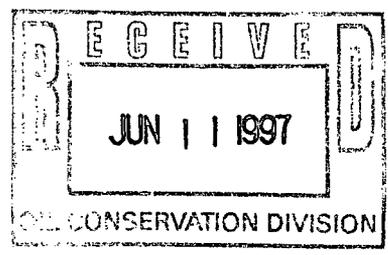


NSL 7/1/97



June 9, 1997

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505



**Re: Application of Merrion Oil & Gas Corporation
For Administrative Approval, Non-Standard Location
Powell #1
Basin Fruitland Coal Pool
N/2 Section 22, T 32N, R 13W
San Juan County, New Mexico**

Dear Mr. LeMay:

Merrion Oil & Gas plans to drill the Powell #1 in the SE/4 of the NE/4 of Section 22, T 32N, R 13W, San Juan County, New Mexico. The spacing unit for the well will be the north half of the section. We request approval to drill the well at non-standard footages of 2050' from the north line (too close to south boundary of spacing unit), and 790' from the east line for topographic reasons.

Attached are the following documents in support of this application:

- 1.) C-102 Well Location and Acreage Dedication Plat
- 2.) Offset Operator Plat
- 3.) Topographic Map
- 4.) Jones #1 Scout Ticket and Well Log
- 5.) Affidavit of Notification of Offset Operator

We are proposing to drill the well 200 feet further south than the standard 1850' FNL for two reasons. First, it moves the location down off a ridge on which it would be difficult and costly to build a location (see Exhibit 3). Second, there is a P&A'd well (Jones Fed #1) that is located 1840' FNL and 880' FWL in the same section (Exhibit 3). The proposed Powell #1 location is

Page Two
June 9, 1997

close to 300 feet from the Jones #1, while a standard location at 1850' FNL and 790' FWL would be less than 100 feet away. While the Jones #1 was properly abandoned with a cement plug across the main Fruitland Coal (see Exhibit 4), we feel safer fracing the Powell if we are a bit further away.

Please be aware that we recently got approval for Compulsory Pooling for the subject well (R-10807), which requires that we spud the well by August 31, 1997. Therefore, we request your approval as soon as possible.

Sincerely,



George F. Sharpe
Manager - Oil & Gas Investments

xc: Well File
CW
Frank Chavez - NMOCD - Aztec

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number		2 Pool Code 71629		3 Pool Name Basin Fruitland Coal	
4 Property Code		5 Property Name Powell			6 Well Number 1
7 OGRID No. 014634		8 Operator Name MERRION OIL & GAS			9 Elevation 5950'

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
H	22	32 N	13 W	SENE	2050	North	790	East	San Juan

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County

12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code	15 Order No.
---------------------------	--------------------	-----------------------	--------------

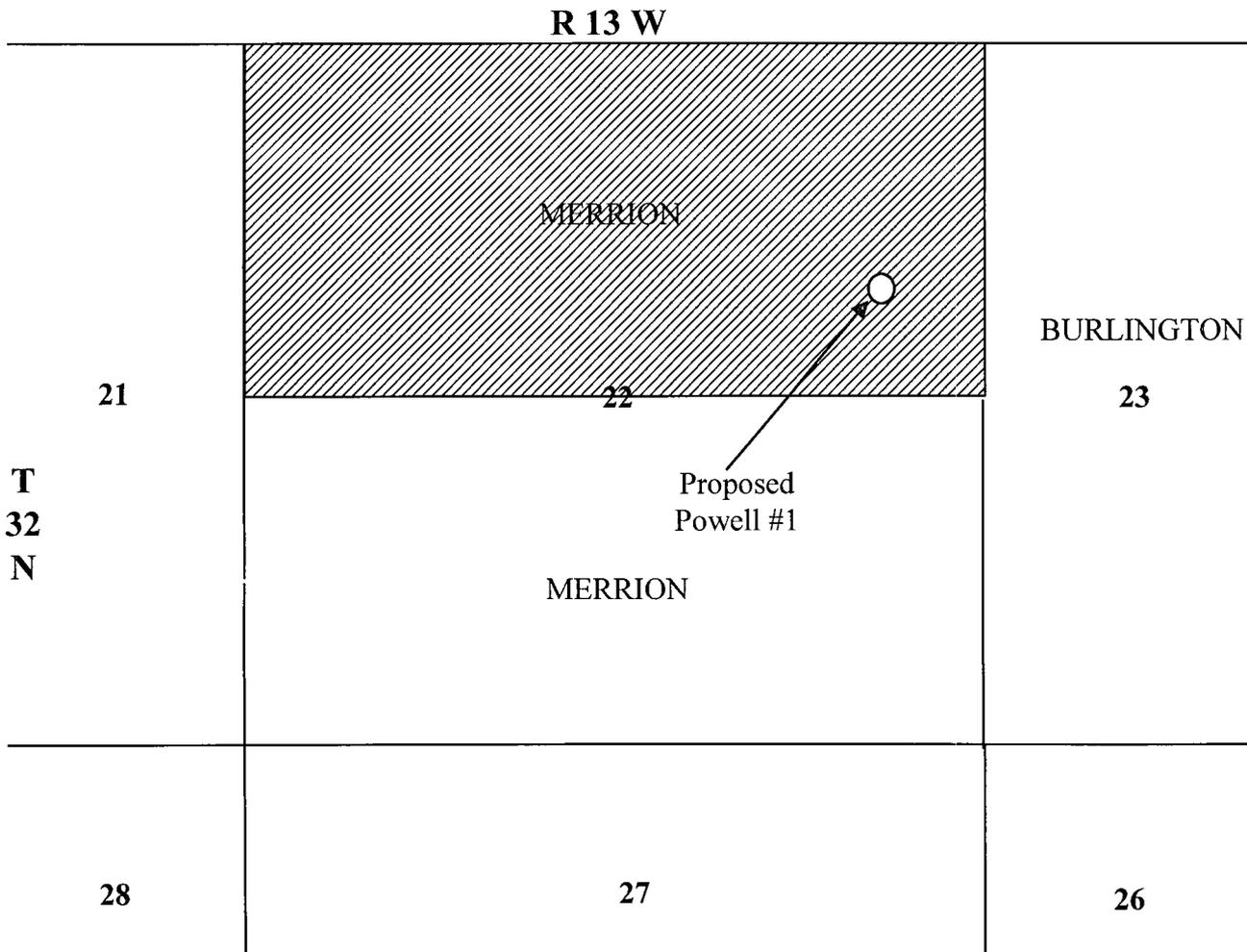
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16					17 OPERATOR CERTIFICATION
					<p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p>Signature: <i>George Sharpe</i> Printed Name: George F. Sharpe Title: Oil & Gas Investment Manager Date: 6/09/97</p>
18 SURVEYOR CERTIFICATION	<p>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</p> <p>Date of Survey: 28 Mar 1997</p> <p>Signature and Seal of Professional Surveyor: <i>[Signature]</i></p> <p>6844</p>				
					<p>6844</p> <p>Certificate Number</p>

EXHIBIT 1

EXHIBIT 2

**POWELL #1
OFFSET OPERATOR PLAT
N/2 Sec. 22, T32N, R13W
San Juan County, NM**



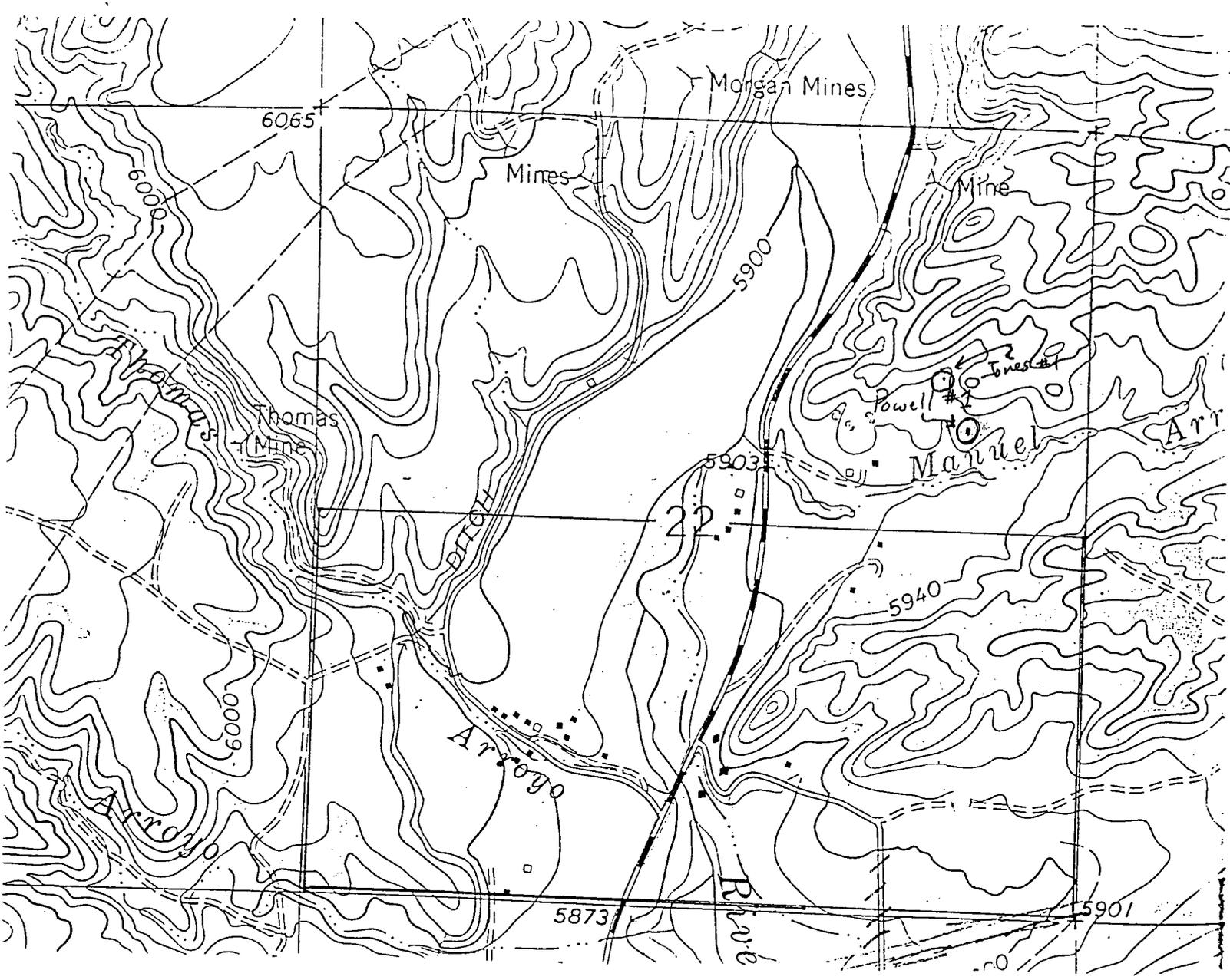


EXHIBIT 3

POWELL #1

TOPOGRAPHIC MAP

N/2 SEC. 22, T32N, R13W

SAN JUAN COUNTY, NM

=====
State : New Mexico NM Merid 32N - 13W - 22 se ne
=====

County: SAN JUAN Oper: SOUTHERN UNION GAS CORP

Field : WILDCAT Compl: 02/16/1960 W D P&A
=====

Well: JONES #1 Last Info: 02/03/1989

Ftg: 1840 fnl 880 fel
Lat-Long by TDG: 36.974840 - 108.184310
Oper Address: PO Box 808, Farmington NM 87401
Obj: 6000 Dakota Permit #: 01/11/1960 API: 30-045-1136700
Elev: 5971DF

=====
Spud: 01/09/1960
TD: 5670
=====

Elev: 5971DF FORMATION TOPS (Type: L=Log S=Sample V=True Vertical)
(Source: H=Dwights, I=IOG, T=Govt, S=Shell, U=USGS, R=NRIS
M=Munger, N=NDGS, B=Boyd, G=GDS, X=Proprietary)

Formation	Depth	Elev	T/S	Formation	Depth	Elev	T/S
Cliff House	2220	3751	L S	Pictured Cliffs 510'	670	5301	S S
Menefee	2525	3446	L S	Point Lookout	3060	2911	S S
Mancos	3350	2621	L S	Morrison	5550	421	S S
Gallup	4510	1461	L S	Pictured Cliffs	510	5461	L T
Greenhorn	5180	791	L S	Cliff House	2256	3715	L T
Graneros	5235	736	L S	Point Lookout	2989	2982	L T
1st Dakota	5298	673	L S	Gallup	4442	1529	L T
2nd Dakota	5370	601	L S	Greenhorn	5182	789	L T
3rd Dakota	5400	571	L S	Dakota	5296	675	L T

<< Shell Records >>

Casing: 10 3/4 cmtd @ 225 w/150; 7 5/8 cmtd @ 3425 w/25
Journl: 01/13/60 801 Drlg.
01/20/60 1979 Drlg.
01/26/60 2627 Drlg.
02/03/60 3412 Drlg.
02/10/60 4030 Drlg. Dev. 10 at 4010 ft.
02/17/60 5609 Drlg. Dev. 13 deg at 5609 ft.
02/24/60 5674 TD. Preparing to abandon. Made 1/2 in stream of wtr
from Morrison at 5674 ft, 121 PPM. Dev. 13 deg at 5595
ft; 10 deg at 5660 ft.

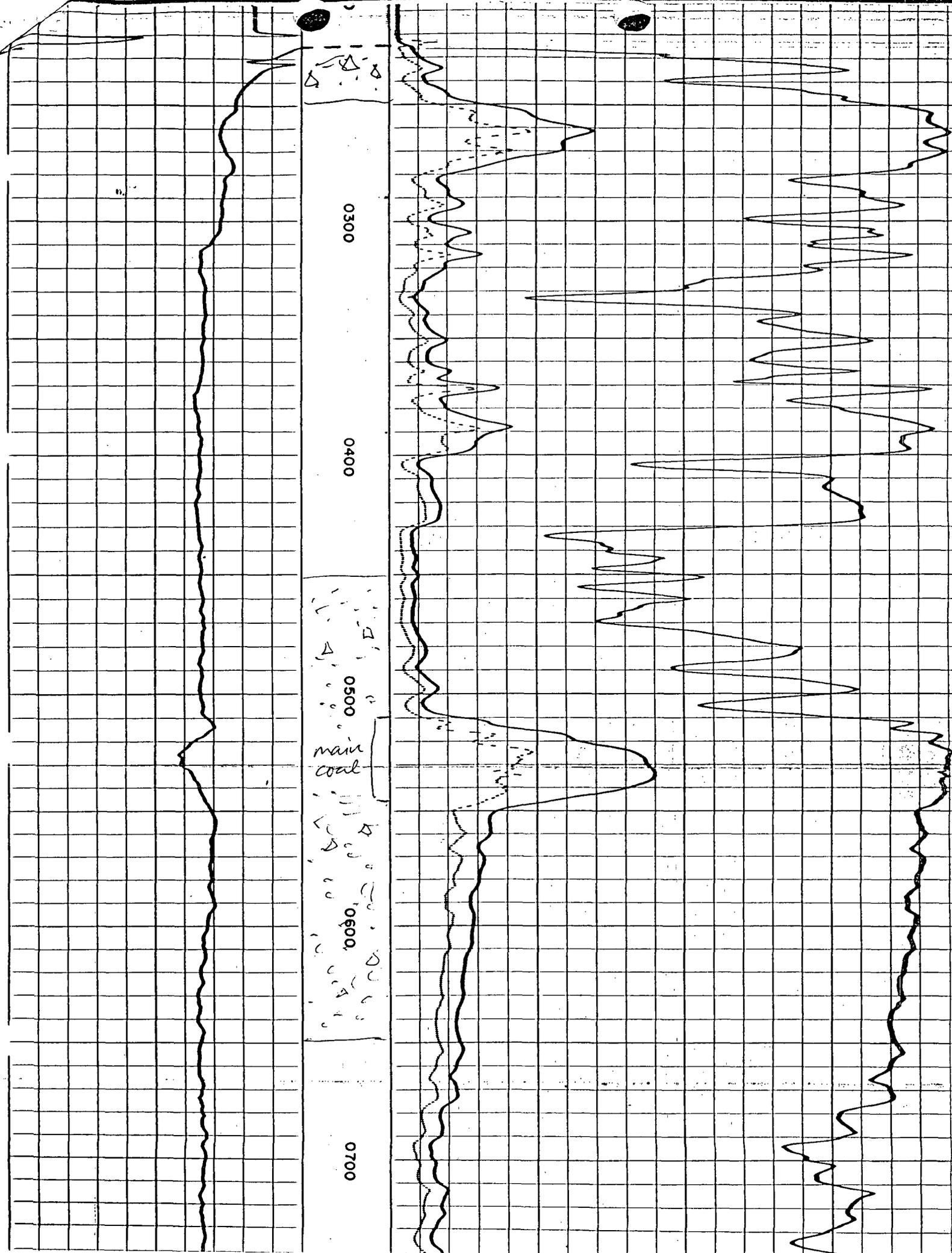
<< State Records >>

Casing: 10 3/4 @ 225 w/150 - 7 5/8 @ 3425 w/25
Journl: Encountered water in Morrison. P & A - 2/19/60

*cut plug 5180-5670
3350-3500
cut off 7 5/8" @ 2825'
450'-650' mud
200-250'*

← main coal @ 510'-545'
Page: 1

EXHIBIT 4
JONES #1 Scout Ticket & Log



0300

0400

0500

0600

0700

main coal



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

July 10, 1997

Merrion Oil & Gas Corporation
Attn: George F. Sharpe
610 Reilly Avenue
Farmington, New Mexico 87401

Re: Administrative application to drill the Powell Well No. 1 at an unorthodox coal gas well location in the N/2 of Section 22, Township 32 North, Range 13 West, NMPM, Basin-Fruitland Coal (Gas) Pool, San Juan County, New Mexico.

Dear Mr. Sharpe:

Reference is made to your application dated June 9, 1997 for the Powell Well No. 1 to be drilled 2050 feet from the North line and 790 feet from the East line (Unit H) of said Section 22. This well was the subject of a forced pooling order issued by the Division on May 30, 1997 (see Order No. R-10807 issued in Case 11767). What was the outcome of Merrion's attempt to re-enter the plugged and abandoned Southern Union Gas Company Jones Well No. 1 (API No. 30-045-11367), located at a standard coal gas well location 1840 feet from the North line and 880 feet from the East line (Unit H) of said Section 22? Please provide details.

Should there be any questions or comments concerning this matter, please contact me in Santa Fe at (505) 827-8185. Thank you.

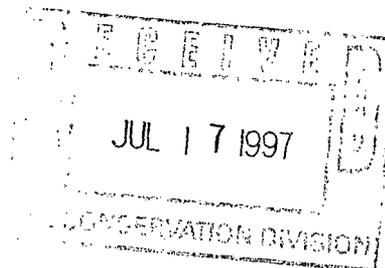
Sincerely,

Michael E. Stogner
Chief Hearing Examiner/Engineer

cc: Oil Conservation Division - Aztec
William J. LeMay, Director - NMOCD, Santa Fe

MERRION

OIL & GAS



July 15, 1997

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

Re: Additional Information
Force Pooling Order R-10807, Case 11767
Powell #1 Unorthodox Coal Gas Well
Section 22, T 32N, R 13W
San Juan County, New Mexico

Dear Mr. Stogner:

Referencing your letter dated July 10, 1997, Merrion received approval for force pooling all uncommitted interests in the N/2 of Section 22, for the drilling of a Fruitland Coal well (Order R-10807). The order allowed Merrion to either drill a new well or to re-enter the Jones #1 (API 30-045-11367) well in that section. Please be advised that Merrion has chosen to drill a new well (Powell #1) because of the risk that the coal is damaged in the Jones #1. We have recently submitted an application for a non-standard location to that effect.

Please call me at (505) 327-9801, ext. 114 if additional questions arise.

Sincerely,

A handwritten signature in cursive script that reads "George Sharpe".

George F. Sharpe
Manager - Oil & Gas Investments

xc: Powell #1 Well File

Mike Stogner

From: Frank Chavez
To: Mike Stogner
Subject: RE: Merrion
Date: Monday, July 28, 1997 7:53AM

Looks OK.

From: Mike Stogner
Sent: Tuesday, July 22, 1997 9:09 AM
To: Kathy Valdes
Cc: Ernie Busch; Frank Chavez
Subject: Merrion

Draft NSL order for Merrion's Powell #1: 2050'FNL & 790' FEL (H) 22-T32N-R13W.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11767
ORDER NO. R-10807

APPLICATION OF MERRION OIL AND GAS CORPORATION FOR
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 1, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 30th day of May, 1997, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Merrion Oil and Gas Corporation ("Merrion"), seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying the N/2 of Section 22, Township 32 North, Range 13 West, NMPM, San Juan County, New Mexico, to form a standard 320-acre gas spacing and proration unit for said pool.

(3) The proposed unit is within the boundaries of the Basin-Fruitland Coal (Gas) Pool which is governed by special rules and regulations as promulgated by Division Order No. R-8768, as amended, which require standard 320-acre gas spacing and proration units with wells to be located within the NE/4 or SW/4 of a section and no closer than 790 feet from any outer boundary of the spacing unit nor closer than 130 feet from any quarter section line nor closer than 10 feet from any quarter-quarter section line or subdivision inner boundary.

(4) The applicant owns an interest in the N/2 of said Section 22 and as such has

the right to drill for and develop the minerals underlying the proposed 320-acre unit.

(5) There are interest owners in the N/2 of said Section 22 who have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(7) The original application filed by Merrion in this matter (dated February 24, 1997) proposed to dedicate said 320-acre unit to its Powell Well No. 1 to be drilled at a standard coal gas well location in the NE/4 of said Section 22.

(8) At the time of the hearing Merrion requested the Division consider a proposal that it first be allowed to attempt a re-entry into the plugged and abandoned Southern Union Gas Company Jones Well No. 1 (API No. 30-045-11367), located at a standard coal gas well location 1840 feet from the North line and 880 feet from the East line (Unit H) of said Section 22 and if it is found to be mechanically sound perform a recompletion in the Basin-Fruitland coal gas interval. Division records show that the Jones Well No. 1 was drilled in January 1960 to a total depth of 5,674 feet and found to be non-productive. In February 1960 the wellbore was properly plugged and abandoned.

(9) No interested or affected party, or offset owner or operator appeared at the hearing and/or objected to this application.

(10) The applicant should be designated the operator of the subject unit and subsequent well dedicated to said unit.

(11) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(12) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional charge for the risk involved in either re-entering the aforementioned Jones Well No. 1 or in the drilling of a new well.

(13) Based on precedent established in compulsory pooling cases in the Basin-

Fruitland Coal Gas Pool, a 156 percent risk penalty has been established as being proper for wells within said coal gas pool.

(14) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(16) \$3,500.00 per month while re-entering the Jones Well No. 1 or in the drilling of a new well and \$350.00 per month while producing the subsequent well dedicated to said unit should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subsequent well dedicated to said unit, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the subsequent well dedicated to said unit which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(18) Upon the failure of the operator of said pooled unit to either commence re-entry operations on the aforementioned Jones Well No. 1 or the drilling of a new well to which said unit is dedicated on or before August 31, 1997, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) Should any of the parties to this force-pooling reach voluntary agreement, this order should thereafter be of no further effect as to those parties.

(20) The operator of the subsequent well dedicated to said unit should notify the Director of the Division in writing of the subsequent voluntary agreement of any party subject to the force-pooling provisions of this order.

(21) At the time of the hearing the applicant advised the Division that if it

became necessary, due to geology, to drill a new well (the proposed Powell Well No. 1) at a location in the N/2 of said Section 22 that is considered to be unorthodox, that any forced pooling order issued in this matter be applicable to said unorthodox location provided the operator file with the Division a proper request pursuant to any and all applicable rules and procedures for an unorthodox Basin-Fruitland coal gas well location.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal (Gas) Pool underlying the N/2 of Section 22, Township 32 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to either the existing Southern Union Gas Company Jones Well No. 1 (API No. 30-045-11367), located at a standard coal gas well location 1840 feet from the North line and 880 feet from the East line (Unit H) of said Section 22 or, if said Jones Well No. 1 is found not to be mechanically sound and can not be properly recompleted into the Basin-Fruitland coal gas interval, to a new well, to be designated the Powell Well No. 1, to be drilled at a standard coal gas well location in the NE/4 of said Section 22.

PROVIDED HOWEVER THAT, the operator of said unit shall either commence re-entry operations on the aforementioned Jones Well No. 1 or the drilling of a new well on or before the thirty-first day of August, 1997, and shall thereafter continue said re-entry or the drilling with due diligence in a manner to test the Basin-Fruitland Coal (Gas) Pool.

PROVIDED FURTHER THAT, in the event said operator does not either commence said re-entry or drilling operations on or before the thirty-first day of August, 1997, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should the subsequent well to be dedicated to said unit not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

FURTHER, should a new well (the proposed Powell Well No. 1) be drilled and completed at a location within the N/2 of said Section 22 that is considered to be unorthodox for the Basin-Fruitland Coal (Gas) Pool the operator shall file with the Division a proper request pursuant to any and all applicable rules and procedures for said unorthodox location.

(2) Merrion Oil and Gas Corporation is hereby designated the operator of the subject unit and subsequent well dedicated to said unit.

(3) After the effective date of this order and within 90 days prior to commencing re-entry or drilling operations, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion on the subsequent well dedicated to said unit; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (b) As a charge for the risk involved in either re-entering the aforesaid Jones Well No. 1 or in the drilling of a new well, 156 percent of the pro rata share of reasonable well costs attributable to each non-

consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$3,500.00 per month while re-entering the Jones Well No. 1 or in the drilling of a new well and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest and, in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the subsequent well dedicated to said unit which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

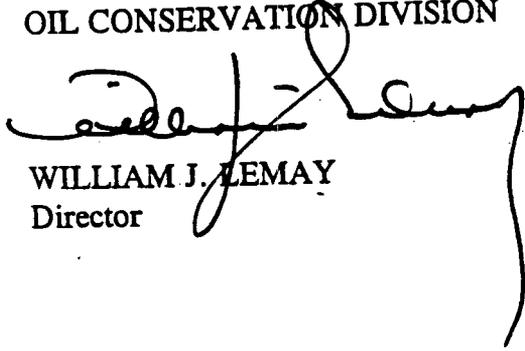
(13) Should all parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the unit and subsequent well dedicated to said unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SEAL

Sec : 22 Twp : 32N Rng : 13W Section Type : NORMAL

L 40.00 Federal owned	K 40.00 Fee owned	J 40.00 Fee owned	I 40.00 Federal owned
M 40.00 Federal owned	N 40.00 Fee owned	O 40.00 Fee owned	P 40.00 Fee owned A

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06
PF07 BKWD PF08 FWD PF09 PRINT PF10 SDIV PF11 PF12

CMD :
OG5SECT

ONGARD
INQUIRE LAND BY SECTION

07/21/97 08:04:19
OGOMES -EMFJ
PAGE NO: 1

Sec : 22 Twp : 32N Rng : 13W Section Type : NORMAL

D 40.00 Fee owned	C 40.00 Fee owned	B 40.00 Fee owned	A 40.00 Federal owned
E 40.00 Fee owned	F 40.00 Fee owned	G 40.00 Fee owned	H 40.00 Federal owned

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06
PF07 BKWD PF08 FWD PF09 PRINT PF10 SDIV PF11 PF12