

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' Isl & 2310' Isl (NWSE) | Lease No: NM-33031 | TD: 1,350 ft | |
| Sec: 21, T20N, R5W | Spacing: 320 acres | Operator: Merriam 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% |
| Total | \$117,343 | 100.000000% | 100.000000% | 100.000000% | 100.000000% |

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 | Footage cost | 1,350ft @ | \$6.50 per foot | | 8,775 |
| | Daywork | 0.5 days @ | \$2,750 per day | | 1,375 |
| Cement & Cementing | Surface | | | | 2,000 |
| | Production | | | | 3,750 |
| Company Supervision | | 4 days @ | \$400 per day | | 1,600 |
| Onsite Geologist | | 0.5 days @ | \$500 per day | | 250 |
| Open hole logs | | | | | 4,500 |
| Trucking: | Haul water | | | | 1,100 |
| | Haul casing | | | | 1,000 |
| | Haul mud | | | | 250 |
| Drilling mud | | | | | 1,350 |
| Casing: | Surface | 7", 23 lb/ft good used | 240 feet @ | \$6.50 per foot | 1,560 |
| | 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 |

TOTAL SUNK WELLBORE COSTS

\$43,893

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 |

TOTAL SURFACE EQUIPMENT

\$25,920

III. COMPLETION & TIE-IN COSTS

| | | | | | |
|---|-----------------|--------------|-----------------|--|--------|
| Completion Rig | | | | | 5,800 |
| 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 | Completion | 4 days @ | \$400 per day | | 1,600 |
| | 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 |

TOTAL COMPLETION & TIE-IN COSTS

\$47,530

TOTAL ESTIMATED COST

117,343

M E R R I O N

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:

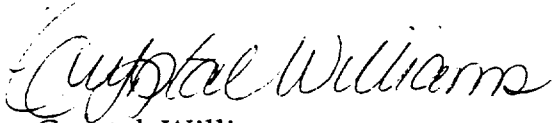
By now you should have received a copy of our letter sent to the OCD requesting to be on the August 26 docket for force-pooling the interests involved in the above captioned well.

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 box(es) for additional service(s) requested.
1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery (Extra charge)

| | |
|---|--|
| 3. Article Addressed to: <u>Phillip Petro.</u> <u>2025 Hwy. 64 NE 3004</u> <u>Farm, NM 87401</u> | 4. Article Number <u>P081445131</u> |
| Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise | |
| 5. Signature - Addressee <u>X</u> | 8. Addressee's Address (ONLY if requested and fee paid) Always obtain signature of addressee or agent and DATE DELIVERED. |
| 6. Signature - Agent <u>X J. Sandval</u> | |
| 7. Date of Delivery <u>8-16-93</u> | |

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

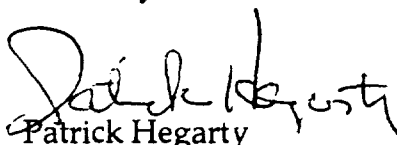
5. Merrion reserves the right to assign or transfer its rights under this Agreement to any third party of its choosing.

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 | |
| Post Office ZIP Code | |
| Postage | \$ |
| Registration Fee | |
| Postage Insurance Fee | |
| Return Receipt (Money Order) | |
| Return Receipt (Signature) | |
| Return Receipt (Delivery) | |
| Return Receipt (Signature and Delivery) | |
| Return Receipt (Signature and Delivery and Address) | |
| Return Receipt (Signature and Delivery and Address and Postage Insurance) | \$ |
| Postmark or Date | |

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.

3. Article Addressed to:

Elwood Oil Company
PO Box 7500
Bartlesville, OK 74005

5. Signature (Addressee)

6. Signature (Agent)

FFB 01 1991

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

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

4a. Article Number

P 081715028

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)

PS Form 3811, November 1990 *U.S. GPO: 1991-287-006

DOMESTIC RETURN RECEIPT