



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

October 9, 1996

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO: ALL WORKING INTEREST OWNERS
(See Attached Addressee List)

NM206621 - Rhodes "23" Federal Com. No. 1
Lea County, New Mexico

2640
1980
660

Ladies and Gentlemen:

Texaco Exploration and Production Inc. (TEPI) proposes the drilling of the captioned horizontal well at a surface location 660' FSL and 1100' FWL of Section 23, T-26-S, R-37-E and a bottom hole location of 1980' FSL and 660' FWL of Section 23, T-26-S, R-37-E. Vertical depth will be approximately 3,200 feet. We anticipate a lateral in Sand 4 of the Middle Yates of approximately 500 feet. We plan an additional lateral in Sand 6 of the Middle Yates of approximately 1400 feet. The proration unit for the well will be the SW/4 of Section 23. TEPI owns the W/2 SW/4 and our records reflect that you are an owner in the E/2 SW/4 as set out in the attachment hereto.

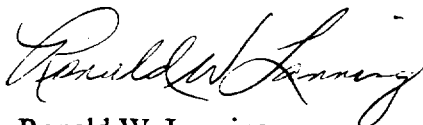
If you would like to join us in the drilling of this well, please execute one original of the attached AFE and return it to me at your earliest convenience. I will then forward an Operating Agreement for your review. If you elect not to join in the drilling of the well, please consider the following options:

- TEPI will purchase your interest for a cash consideration of \$300 per net acre.
- TEPI will purchase a one year term assignment of your interest for \$100 per net acre assuming you can deliver a 75% net revenue interest. You would in turn retain an overriding royalty equal to the difference between 75% and existing burdens.

Please let me hear from you as soon as possible regarding your decision. We anticipate filing a force pooling action with the New Mexico Oil Conservation Division in the very near future.

Please give me a call at (915) 688-4445 if you have any questions.

Very truly yours,


Ronald W. Lanning

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 11656 Exhibit No. 3

Submitted by: Texaco Exploration and Production Inc.

RWL:

Hearing Date: December 19, 1996

ADDRESS LIST

Ms. Leslyn M. Swierc
Burlington Resources Oil & Gas Company
P.O. Box 51810
Midland, Texas 79710

Larry A. Nermyr
HC-57
Box 4106
Sidney, Montana 59270

James E. Burr
3803 Wedgewood Ct.
Midland, Texas 79707

Ruth Sutton
2826 Moss
Midland, Texas 79705

Oil and Gas Leasehold Estate

W/2 SW/4 of Section 23, T26S, R37E

Texaco Exploration and Production Inc.	100.00000%
--	------------

E/2 SW/4 of Section 23, T26S, R37E

Burlington Resources Oil & Gas Company	96.09375% or 76.875 acres
Larry A. Nermyr	1.56250% or 1.250 acres
James E. Burr	1.56250% or 1.250 acres
Ruth Sutton	0.78125% or 0.625 acres

Proration Unit: SW/4 of Section 23, T26S, R37E

Texaco Exploration and Production Inc.	50.000000%
Burlington Resources Oil & Gas Company	48.046875%
Larry A. Nermyr	0.781250%
James E. Burr	0.781250 %
Ruth Sutton	0.390625%

TEXACO EXPLORATION AND PRODUCTION INC.

DENVER PRODUCING DIVISION DRILLING/COMPLETION WELL COST ESTIMATE

LEASE NAME & NO.: Rhodes "23" Federal Com #1
 FIELD: Rhodes Yates COUNTY: Lea
 AREA: Hobbs OBJECTIVE HORIZON: Grayburg/SA
 LOCATION CALL: Surface: 660' FSL, 1100' FWL, Section 23, T26S, R37E
 Bottom: 1980' FSL, 660' FWL, Section 23, T26S, R37E
 ESTIMATE #: FRSID #:

DATE: 10/03/96
 WELL CLASS: Development
 STATE: New Mexico
 TVD: 3200'
 MD: 3332' (Lat 1)
 MD: 4336' (Lat 2)

WELL COST DETAIL

WELL AND LEASE EQUIPMENT

		DAYS:	DRY HOLE	COMPLETION	TOTAL
WELL HEAD &			21	5	26
MISC. EQUIP.	8 5/8" X 5 1/2" x 2 3/8" 3000 psi WP				
	H2S Flanged, Producer		\$ 3,000	4,000	7,000
	" CONDUCTOR		\$		
	" Casing		\$		
1,055	8 5/8" Casing, 24#, WC-50, STC		\$ 9,000		9,000
3,200	5 1/2" Casing, 15.5#, J55, LTC		\$	18,000	18,000
	" Casing		\$		
	" Casing		\$		
3,100	2-3/8" Tubing, 4.7#, J55, EUE		\$	7,000	7,000
	TOTAL TANGIBLE COSTS		\$ 12,000	29,000	41,000

INTANGIBLE DRILLING COSTS

60 - Transportation	\$ 5,000	5,000	10,000
61 - Roads, Dirt Work, Pits	\$ 10,000		10,000
62/63/64 - Rig (RT@9.70\$/ft, \$4.3M/DAY, SU \$1.5)	\$ 100,000	8,000	108,000
65 - Bits	\$ 25,000		25,000
67 - Tx. Sal. Non Rig (MOH)	\$ 4,000	4,000	8,000
69 - Drill Pipe Rental	\$ 15,000		15,000
70 - Directional Tools & Services	\$ 105,000		105,000
71 - Fishing Tools & Services	\$		
72 - Other Rental & Equipment	\$ 25,000	15,000	40,000
73 - Drlg Mud, Additives	\$ 10,000		10,000
74 - Cement & Cementing Services	\$ 4,000	8,000	12,000
75 - Water	\$ 10,000	5,000	15,000
76 - Fuel	\$ 3,000		3,000
77 - Coring	\$		
78 - Testing	\$	4,000	4,000