

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

August 22, 1997

Pat Tower
Enron Oil & Gas Company
4000 North Big Spring Street
Midland, Texas 79705

**Re: Well Proposal (Morrow Test PTD 9,200')
Chi Operating, Inc. - LD Fed 4 Com No. 1
SW/4SE/4 Section 4-17S-27E (S/2 proration unit)
Eddy County, New Mexico**

Dear Mr. Tower:

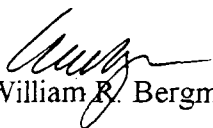
Chi Operating is proposing a Morrow test at the above legal location to be commenced within 45 days of today's date.

Attached is an "AFE" for the drilling of the proposed 9,200' test. Also attached is a proposed Operating Agreement covering the S/2 of Section 4 and a drilling prognosis covering the drilling of said well.

It is Chi's intention to commence with operations before the earliest expiration of the current leases within the proposed proration unit. As stated, it is our intention to start this well very quickly to avoid leasehold expirations. Should you desire to farmout or sell your acreage position, as opposed to participating, please contact me.

Should you have any questions, or wish to discuss our proposal, please do not hesitate to contact me at 915-685-5001 or 915-520-4248.

Sincerely,


William R. Bergman

NEW MEXICO
OIL CONSERVATION DIVISION

_____**EXHIBIT**_____ 3

CASE NO. 11857

CHI ENERGY, INC.

P.O. BOX 1799
MIDLAND, TEXAS 79702

August 22, 1997

Mr. Don Davis
Burlington Resources Oil & Gas Company
3300 North "A" Street
Midland, Texas 79705

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SW/4SE/4 Section 4-17S-27E (S/2 proration unit)
Eddy County, New Mexico**

Dear Mr. Davis:

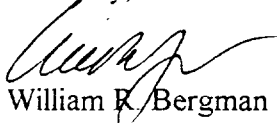
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Sincerely,



William R. Bergman

CHI ENERGY, INC.

P.O. BOX 1799

MIDLAND, TEXAS 79702

August 22, 1997

Ms. Kathy Porter
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

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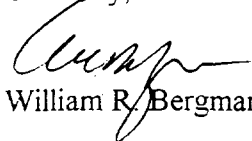
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