

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

September 17, 1998

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Merit Energy Company
12222 Merit Drive
Dallas, Texas 75251-2217

Re: Viper "3" Fed. #1 Well
Surface Location: 1,600' FEL and 2,200' FSL
Bottom Hole Location: 1,650' FNL and 1,650' FEL
Section 3, T-20-S, R-33-E
Lea County, New Mexico
Viper Prospect

Gentlemen:

Nearburg Exploration Company, L.L.C. (Nearburg) hereby proposes the drilling of the captioned well at the above location to a depth to adequately test the Morrow formation, estimated to be 13,700', dedicating the N/2 of Section 3 as a 320 acre spacing unit. Enclosed with this proposal letter is Nearburg Producing Company's AFE setting forth the estimated costs to drill and complete this well. Also enclosed please find Nearburg's form of Operating Agreement, which we propose to govern the drilling of this well designating Nearburg Producing Company as operator.

We invite you to participate in the drilling of this well or, in the alternative, to either grant Nearburg an acceptable farmout or term assignment of your interest to be included in the N/2 of Section 3. If you elect to participate in the drilling of this well, please execute the extra set of signature pages to the Operating Agreement and a copy of the enclosed AFE and return to the attention of the undersigned.

If we can be of further assistance, please feel free to contact the undersigned.

Yours very truly,



Duke Roush
Senior Landman

DR/dw
encl.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12087 Exhibit No. — 5
Submitted By:
Nearburg Exploration Co.
Hearing Date: November 19, 1998

P 497 370 025

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Sent to	
 Merit Energy Company 12222 Merit Drive Dallas, Texas 75251-2217	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	Viper "3" Fed. #1

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER: ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ 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.		Viper "3" Fed. #1 Viper Truck	
3. Article Addressed to:  Merit Energy Company 12222 Merit Drive Dallas, Texas 75251-2217		4a. Article Number 0497 370.025	
5. Received By: (Print Name) Tura Jones		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
6. Signature: (Addressee or Agent) X Tura Jones		7. Date of Delivery 12/1/98	
PS Form 3871, December 1994		8. Addressee's Address (Only if requested and fee is paid) Domestic Return Receipt	

102595-97-8-0179

Thank you for using Return Receipt Service.

Nearburg Producing Company

Exploration and Production
Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Viper "3" Federal WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 13,700' (TVD)
LOCATION: SHL: 1,600' FEL & 2,200' FSL, BHL: 1,650' FEL & 1,650' FNL, Section 3, T20S, R33E, Lea County, NM
FIELD: Buffalo Penn Gas East PROSPECT: Viper EXPLORATORY, DEVELOPMENT, WO: E
DESCRIPTION OF WORK: Drill directionally to BHL and complete as a flowing Morrow gas producer.

DATE PREPARED: 8/6/98 EST. SPUD DATE: 1998 EST. COMPLETION DATE:
ACCOUNTING WELL NUMBER:
COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG FT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	1522.305		NA		0
Surface Csg 1,350 Ft @ 25.00 \$/Ft	1522.310	33,750	NA		33,750
Intermediate Csg 3,750 Ft @ 27.50 \$/Ft	1522.315	103,125	NA		103,125
Protection Csg 1,700 Ft @ 14.50 \$/Ft	1522.320	24,650	NA		24,650
Production Csg 13,843 Ft @ 10.00 \$/Ft	NA		1522.325	138,430	138,430
Protection Liner Ft @ \$/Ft	1522.330	0	NA		0
Production Liner Ft @ \$/Ft	NA		1522.335	0	0
Tubing 13,400 Ft @ 3.25 \$/Ft	NA		1522.340	43,550	43,550
Rods Ft @ \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350		0
Tank Battery	NA		1522.355	10,000	10,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522.360	15,000	15,000
Well Head Equipment & Christmas Tree	1522.365	3,500	1522.365	12,000	15,500
Subsurface Well Equipment	NA		1522.370	6,000	6,000
Flow Lines	NA		1522.375	25,000	25,000
Saltwater Disposal Pump	NA		1522.380		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.390		0
Vapor Recovery Unit	NA		1522.395		0
Other Well Equipment	NA		1522.400		0
ROW and Damages	NA		1522.405	2,500	2,500
Surface Equipment Installation Costs	NA		1522.410	7,500	7,500
Elect. Installation	NA		1522.415		0
ESTIMATED TOTAL TANGIBLES		165,025		262,980	428,005
ESTIMATED TOTAL WELL COSTS		1,109,705		410,490	1,520,195

NPC APPROVAL	DATE
PREPARED BY: <i>H.R. Willis</i>	8/6/98
APPROVED BY: <i>E. Scott Kimbrough</i>	8/6/98
APPROVED BY: <i>[Signature]</i>	9/18/98
APPROVED BY: <i>[Signature]</i>	9/18/98

WI APPROVAL: COMPANY MERIT ENERGY COMPANY 6.389000%

BY _____

TITLE _____

DATE _____