

Santa Fe Snyder Corporation
VIA FAX AND CERTIFIED MAIL
Fax (281) 618-4757

December 9, 1999

Southwestern Energy Production Company
2350 N. Sam Houston Parkway East, Suite 300
Houston, Texas 77032
ATTN: Mr. Samuel Glenn Thompson

Re: Well Proposal
Paloma Blanco "17" Federal #1
1,980' FNL & 660' FWL
Section 17, T-23-S, R-34-E
Lea County, New Mexico
PALOMA PROSPECT - NM-0964

Ladies and Gentlemen:

Santa Fe Snyder Corporation (Santa Fe) hereby proposes to drill a 13,700' Morrow test at a location 1,980' FNL & 660' FWL of Section 17, T-23-S, R-34-E, Lea County, New Mexico. If the well is successfully completed in the Morrow formation, a proration unit consisting of the N/2 of Section 17 would be established. Based upon our most current title information, Southwestern Energy Production Company appears to own an undivided 50% of the operating rights in the N/2 of said Section 17. If this is incorrect, please advise.

Enclosed for your review and further handling are duplicate original AFE Well Cost Estimates for the proposed well. Should you choose to participate in the proposed well, please execute and return one copy of this letter and one copy of the enclosed AFE. I will be forwarding an Operating Agreement for you review and execution in the next few days.

Sincerely,

SANTA FE SNYDER CORPORATION


Steven J. Smith
Senior Staff Landman

_____ Southwestern Energy Production Company hereby elects to **PARTICIPATE** in drilling the proposed Paloma Blanco "17" Federal #1 Well.

_____ Southwestern Energy Production Company hereby elects **NOT TO PARTICIPATE** in drilling the proposed Paloma Blanco "17" Federal #1 Well.

SOUTHWESTERN ENERGY PRODUCTION COMPANY

By: _____

Title: _____

Date: _____

PalomaBlanco17.doc

Central Division
550 W Texas, Suite 1330
Midland, Texas 79701
915/687-3551

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12393 Exhibit No. 3
Submitted By:
Santa Fe Snyder Corporation
Hearing Date: May 18, 2000

CONFIRMATION REPORT - MEMORY SEND

Time : DEC-09-99 15:26
Fax number: 9156866714
Name : SANTA FE SNYDER CORPORATION

Job : 470
Date : DEC-09 15:24
To : 912816184757
Doc. pages : 03
Start time : DEC-09 15:24
End time : DEC-09 15:26
Pages sent : 03
Job:470

*** SEND SUCCESSFUL ***



Santa Fe Snyder Corporation
550 West Texas Avenue, Suite 1330
Midland, Texas 79701
915-687-3551
FAX 915-686-6714

Fax Cover Sheet

Date:	12/9/99
To:	Sam Thompson - JN Energy
Fax:	(281) 618-4757
From:	Steve Smith
RE:	Paloma Blanco "17" Fel #1

THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED, AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone, and return the original message to us at the above address via U.S. Postal Service. Thank you.

Number of Pages Sent 3 (including cover sheet)

Please call Edith (915) 686-6637 if all pages not received

Fax Cover Sheet

Z 558 008 725

US Postal Service

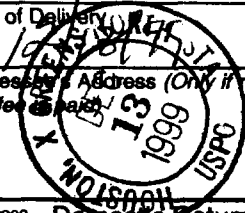
Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse.)

Sent to	
SW Energy Prod. Company	
Street & Number	
2350 N. Sam Houston Pkwy. E.	
Post Office, State, & ZIP Code	
Houston, Texas 77032 Suite 300	
Postage	\$
Certified Fee	
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	\$
Mark or Date	
Paloma "17" Feb #1	

PS Form 3800, April 1995

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.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: ATTN: SAMUEL G. THOMPSON SOUTHWESTERN ENERGY PROD. CO. 2350 N. SAM HOUSTON PKWY. E. SUITE 300 HOUSTON TX 77032		4a. Article Number Z 558 008 725 4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
5. Received By: (Print Name)		7. Date of Delivery	
6. Signature: (Addressee or Agent) X <i>Samuel G. Thompson</i>		8. Addressee's Address (Only if requested and fee is paid) 	

PS Form 3800, December 1994

102596-98-8-0229

Domestic Return Receipt

Thank you for using Return Receipt Service.



SANTA FE ENERGY RESOURCES, INC.

GENERALIZED WELL COST ESTIMATE

WELL NAME Paloma Blanco 17 Fed. No. 1
LOCATION NW/4 Sec. 17, T23S, R34E
DESCRIPTION Drill and Complete a 13,700' Morrow Gas Well

ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501- 000	TANGIBLE WELL COSTS			
501- 041	Conductor Csg	20" Conductor @ 40'	3,000	3,000
501- 041	Surface Csg	13-3/8" 48.0 ppf H-40 ST&C @ 650'	10,673	10,673
501- 041	Protection Csg	9-5/8" 40.0 ppf K-55 ST&C @ 5,000'	61,200	61,200
501- 041	Intermediate Csg	7" 26.0 ppf S-95 & P-110 LT&C @ 11,800'	135,700	135,700
501- 041	Prod Csg			
501- 041	Prod Liner	4-1/2" 13.50 ppf S-95 LT&C 11,600'-14,000'		15,696
501- 042	Tubing	2-3/8" 4.7 ppf P-105 AB-Mod EUE @ 13,700'		40,740
501- 043	Wellhead		5,000	20,000
501- 044	Pmpg Unit			
501- 045	Prime Mover			
501- 050	Other Dwn Hole Equip	Liner Top Packer & Hanger		15,000
501- 050	Rods			
501- 050	Subsurface Pmps			
501- 055	Csg Equip		4,000	6,000
501- 055	Electrical			
501- 055	Misc. Tangibles			
501- 055	Rod Equip			
501- 055	Tubing Equip			3,500
	TOTAL TANGIBLE COSTS		219,573	311,509
541- 000	LEASE FACILITY COSTS			
541- 050	Flowlines			20,000
541- 050	Labor			20,000
541- 050	Other Prod Equip	GPU & Dehyd Unit		40,000
541- 050	Tank Facilities	2 Steel & 1 Fiberglass Tank w/ walkway		12,000
	TOTAL LEASE FACILITY COSTS		-	92,000
511- 000	INTANGIBLE WELL COSTS			
511- 021	Location	Dirt Work & Damages Payment	40,000	40,000
511- 022	Fencing		2,000	2,000
511- 026	Drilling Water		35,000	35,000
511- 031	Contractor Moving Exp		27,000	27,000
511- 032	Cont Footage or Turnkey			
511- 032	Contractor Daywork	56 DAYS @ \$6000/D	336,000	336,000
511- 033	Drlg Fluid & Additives		60,000	60,000
511- 034	Bits & Reamers		60,000	60,000
511- 036	Coring & Core Analyses			
511- 037	Cement		48,000	54,000
511- 039	Inspection & Tstg of Tang		10,000	10,000
511- 041	Directional Drlg Surveys			
511- 042	Drilling Equip Rental		40,000	40,000
511- 043	Open Hole Logging		45,000	45,000
511- 044	Drill Stem Tstg			
511- 045	Mud Logging	\$550/d X 35 days	19,250	19,250
511- 051	Transportation		6,100	6,100
511- 052	Completion Unit	8 days X \$1200/day		9,600
511- 053	Completion Tool Rental			4,500
511- 054	Cased Hole Logs & Perfing			14,000
511- 055	Stimulation			20,000
511- 056	Rigsite Supervision	56 + 10 X \$550/day	30,800	36,300
511- 072	Administrative Overhead		10,000	15,000
511- 099	Fishing Tools & Exp			
511- 099	Testing: BHP, GOR, 4 Pt Pot			10,000
	Abandonment Cost		30,000	
	Other Intangibles	Rig Fuel at \$600/day X 56 days	33,600	33,600
0.1	Contingency (10%)		83,275	87,735
	TOTAL INTANGIBLES		916,025	965,085
	TOTAL COSTS		1,135,598	1,368,594

OPERATION DEPT APPROVAL (Initials)

APPROVAL DATE MRB 9/1/99

SFER APPROVAL

APPROVAL DATE

Mr. B. R. 10/11/99

ENGINEERING DEPT APPROVAL (Initials)

APPROVAL DATE *MRB* *CSL*

NON-OPERATOR APPROVAL

APPROVAL DATE