

March 22, 1985

316710 -001

EDDY COUNTY, NEW MEXICO

Your Ref: Fort "18" Com #1
1980' FSL & 660' FWL Section 18,
T-24-S, R-29-E
Eddy County, New Mexico
N.E. Malaga Area

HNG Oil Company
P. O. Box 2267
Midland, Texas 79702

Attention: Mr. Bill Lewis

Gentlemen:

Reference is made to B. Craig Duke's letter dated January 11, 1985, addressed to Getty oil Company (Texaco Inc.) inviting us to participate in the drilling of a 12,400' Atoka test to be located 1980' FSL and 660' FWL of Section 18, T-24-S, R-29-E, Eddy County, New Mexico. HNG proposed the forming of the W/2 of Section 18 for the said proration unit with Texaco owning the E/2 of the SW/4 of Section 18. The dry hole cost for the proposed test will be approximately \$1,000,000 and the completed well cost will be \$1,500,000, with a spud date on or before March 30, 1985.

Your letter also advised that if Texaco did not elect to participate in the drilling of the above mentioned test, then would we farmout the E/2 SW/4 to HNG, reserving an overriding royalty interest equal to the difference between the present leasehold burden and 25% with the option to convert the said overriding royalty to a 25% working interest after payout.

Please be advised that Texaco would not be interested in participating in the said well with the proposed unit covering the W/2 of Section 18 nor would we be interested in farming out our acreage.

However, we would like to propose the drilling of a 12,400' Atoka test to be located 1980' FWL and 660' FSL of Section 18, T-24-S,

DEPT. ENGINEER	ROLLER
Applicant	SA
DATE	8560

OIL CONSERVATION DIVISION
CASE NO. 8558
APRIL 24, 1985
TEXACO EXHIBIT NO.

HNG Oil Company

-2-

March 22, 1985

R-29-E. The proration unit will cover the S/2 Section 18. It is our understanding that HNG owns an oil and gas lease under the SW/4 SW/4 of Section 18 and a farmout covering rights below 3000' under the NW/4 SW/4 of Section 18. Therefore, we would like to invite HNG to participate in our proposed well with a dry hole cost of approximately \$947,000 and a completed well cost of approximately \$1,558,000.

We would appreciate your advising us of your decision in order that we can spud the said well within the near future.

Yours very truly,

E. H. Watkins
Manager - Land and Leasing
Texaco Inc.

By _____
B. L. Tidwell
For Texaco Producing Inc.

BLT-ES

File-R.F.-W.B.