

File

CHANDLER AND SAVAGE  
PETROLEUM CONSULTANTS

341 MID-AMERICA BLDG.  
MIDLAND, TEXAS 79701

ROBERT E. CHANDLER  
JOHN D. SAVAGE

PHONE (915) 684-6649

May 22, 1985

Mr. Tom Hobbs. Landman  
Sun Exploration and Production Company  
Box 1861  
Midland, Texas 79702

Re: NE/4 SW/4 Section 7-22S-38E  
Lea County, New Mexico

Dear Mr. Hobbs:

Chandler and Savage have acquired the oil and gas leasehold rights of 50% of the captioned 40-acre tract. It is our understanding that Sun Exploration and Production Company owns an oil and gas lease of the remaining 50%.

We desire to drill a well to about 8,000 feet to test the Granite Wash zone and therefore propose for your consideration that this test well be commenced on or before November 15, 1985. We attach an AFE in the amount of \$506,200 which is the estimated amount to complete the test well into the tanks.

Chandler and Savage will be designated operator and a standard operating agreement will be executed with the charges for supervision and operations in line with your normal experience for wells of this depth in this area. The funds for your 50% interest are to be placed in escrow in advance of drilling and are to be payable out of escrow as costs of the test well are accrued. We request your expeditious review and decision regarding the test well.

We had hoped to offer a farmout proposal for your consideration as an alternative in the event you would prefer not to join in drilling this proposed well. However, we have reviewed the economics which pertain to your 50% interest and are unable to offer any consideration for your leasehold for the following reasons:

- 1) The wells offsetting this 40-acre tract are in the late stage of depletion and expected reserves and production rates are too low.

BEFORE EXAMINER STOGNE OIL CONSERVATION DIVISION	
Chandler	EXHIBIT NO. 3
CASE NO.	8686

- 2) Your 50% interest is burdened by an existing ORR in addition to the normal landowner's royalty. More serious is the existence of an extremely heavy burden of a number of complicated production payments and/or ORR's which according to our research amount to the equivalent of a 50% net profits interest payable from any oil and gas production attributable to your 50% interest.

The combination of the above factors of expected low production rates and low reserves and also the extremely heavy existing burdens on any production preclude our being able to offer Sun anything for its 50% leasehold.

As there is a time limitation on our right to drill, we feel it necessary that we start a well by November 15, 1985. Therefore, we request that your ~~refusal~~<sup>refusal</sup> be furnished us in ample time that we may pursue an application for pooling your interest in a timely way. We feel that we would need to file an application for a hearing in Santa Fe by July 22, 1985.

Thank you for your consideration and review of our proposal. We look forward to your decision.

Yours very truly,

*6/s R E Chandler*

Attachment (1)

WELL NAME BELCHER "K" WELL NO. 1  
 LOCATION NE1/4 SW1/4 SECTION 7-22S-38 E  
 COUNTY LEA STATE NEW MEXICO FIELD DRINKARD AREA

TANGIBLE COST:				DRY HOLE	PRODUCER		
1. Acreage Cost				\$	\$		
2. Commission							
3. Legal Fees				5,000	5,000		
EQUIPMENT:							
4. Casing	2,400	ft. of	8 5/8"	@ \$ 8.50	Per ft.	20,400	20,400
	6,000		5 1/2" 15.5 #	6.00			36,000
	2,000		5 1/2" 17 #	8.00			16,000
Tubing	8,000	ft. of	2 3/8"	@ \$ 1.90	Per ft.		15,200
5. Casing Head						2,000	2,000
6. Xmas Tree							3,000
7. Pumping Unit							45,000
8. Engine							2,500
9. Sucker Rods							12,000
10. Pump							2,000
11. Tank Battery							15,000
12. Separator or Treater							6,000
13. Flow Lines							1,000
14. Other						5,000	25,000
	ANCHORS, BATTERY CONNECTIONS,						
	UNIT BASE, ELECTRICAL & MISC.						
TOTAL TANGIBLES:				\$	32,400	\$	206,100

INTANGIBLES:							
15. Surveying				\$	600	\$	600
16. Roads & Location					5,000		5,000
17. Damages					6,000		6,000
18. Drilling Cost	8,000	Ft. @	\$ 13.00	Per ft.	104,000		104,000
19. Day Work			3 DAYS AT \$4,500/D		13,500		13,500
20. Cementing & Services			SURFACE SX. @ \$		15,000		15,000
			LONG STRING SX. @ \$				30,000
			SX. @ \$				
21. Drilling Fluids			MUD & WATER		25,000		25,000
22. Drill Stem Test							
23. Mud Logging							
24. Electric Logging					25,000		25,000
25. Perforating							5,000
26. Acidizing & Fracturing							21,000
27. Completion Rig							9,000
28. Other			LABOR TO BUILD BATTERY, HAULING,		26,000		26,000
			ELECTRICAL INSTALL. MISC. INCL.				
			PLUGGING IF DRY HOLE				
29. Geology					5,000		5,000
30. Engineering					6,000		8,000
31. Overhead					2,000		2,000
				TOTAL INTANGIBLES: \$	233,100	\$	300,100
				TOTAL COST OF WELL: \$	265,500	\$	506,200

APPROVED \_\_\_\_\_  
 BY \_\_\_\_\_