



April 19, 2004

A Unocal Company

Working Interest Owners  
(See Attached Address List)

Via Fax, Certified/Overnight Mail

RE: **Douglas Com #2 (AFE 1040300)**  
Surface Location: 2400' FNL & 300' FEL  
Proposed Bottom Hole Location: 990' FSL & 990' FEL  
Section 7-22S-27E  
Eddy County, New Mexico  
Avalon Prospect 3529

Dear Working Interest Owner:

HEC Petroleum, Inc. (an indirect subsidiary of Pure Resources, L.P.), as operator, proposes to drill the Douglas Com #2 well at the above surface location to an approximate depth of 11,700' to evaluate the Morrow formation for an estimated total cost of \$2,033,300. A more detailed description of the estimated total cost is set out in the accompanying Cost Estimate.

The subject operation is proposed pursuant to Operating Agreement dated April 1, 1976 with Belco Petroleum Corporation, Operator (HEC is successor in interest). Please execute and return one copy of this letter to HEC within 30 days from receipt to evidence whether or not you desire to participate in the cost of the well. Parties electing not to participate will be subject to a 100% / 300% non-consent penalty. The interest of any party that does not participate in the cost of a well will be shared pro-rata by the participating parties.

Please evidence your election by marking the appropriate space below, your election to participate in HEC's well control insurance and your election on the attached letter(s) concerning marketing your share of production. If available, please fax one executed copy of this letter along with the marketing letter(s) to the attention of Kathy Neeper at (432) 498-8656 and return the signed originals in the return envelope provided herewith.

If you desire to receive information from the subject operations, please return instructions for delivery with this ballot. Technical questions should be directed to Ken Krawietz and land questions to the undersigned.

Sincerely,

J. Robert Ready  
Land Director

\_\_\_\_ I/We elect TO participate in the above-described operations on the Douglas Com #2; and

I/We \_\_\_\_\_ ACCEPT \_\_\_\_\_ DECLINE – Option to participate in operator's well control insurance

(If declining well control insurance, please provide an insurance certificate from your insurance carrier or a letter from you stating that you are self-insured.)

\_\_\_\_ I/We elect NOT TO participate in the above-described operations on the Douglas Com #2.

THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2004.

\_\_\_\_\_  
INDIVIDUAL OR COMPANY NAME

BY: \_\_\_\_\_ PHONE NUMBER: \_\_\_\_\_ EMAIL: \_\_\_\_\_

TITLE: \_\_\_\_\_ FAX NUMBER: \_\_\_\_\_

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13302 Exhibit No. 3  
Submitted by:  
HEC Petroleum, Inc.  
Hearing Date: July 22, 2004

WORKING INTEREST OWNERS  
DOUGLAS COM #2  
EDDY COUNTY, NEW MEXICO

GW	OWNER-NAME	ADDRESS	CITY	ST	ZIP	PHONE	FAX	EMAIL
0.74231900	HEP PARTNERS, L.P.	500 W. ILLINOIS	MIDLAND	TX	79701	432-498-8600	432-498-8656	land@pureresources.com
0.08215490	BEREN CORP AS AGENT	P O BOX 20380	WICHITA	KS	67208	316-265-3311	316-265-2994	
0.00069470	JAMES E EARNEST ESTATE	RT 3, BOX 17	PECULIAR	MO	64078	816-758-5208		
0.00196450	BETTY CROWLEY PR AND EXEC	P O BOX 606	CARLSBAD	NM	88221	505-885-8302	505-628-0183	
0.06529010	ENERSTAR RESOURCES O&G LLC	P O BOX 1418	CARLSBAD	NM	88220			
	CORRINE GRACE							
	CALEB LORING III & E J SULLIVAN							
0.06194680	D RICHARDSON COEXECS	PO BOX 5600	BEVERLY FARMS	MA	01915-0512	978-921-0452	978-927-6321	
0.00075650	GEORGE E & ELIZABETH I HUTTO	1804 INDIAN SCHOOL NW #15	ALBUQUERQUE	NM	87104			
0.01402750	BRYANT E KIRK	2222 CEE GEE STREET	SAN ANTONIO	TX	78217	210-828-2228	210-828-2001	
	ARMANDO LAREZ							
0.00261010	DORA A LAREZ	PO BOX 538	CARLSBAD	NM	88220			
		131 CIRCUNVALACION SUR						
		COL LAS FUENTES ZAOPAN						
0.01402750	RONALD T MAY	GUADALAJARA JALISCO	MEXICO		45070	523-631-8099		malv222@yahoo.com
0.00121360	OLIVIA NAVARRO	300 CALLE QUIETA	LOS LUNAS	NM	87031-8725			
0.00710140	R C BENNETT COMPANY	P O BOX 264	MIDLAND	TX	79702			
0.00589340	HAROLD S WINSTON	P O BOX 101235	FORT WORTH	TX	76185-1235	817-738-5400		
1.000000000								

# Authority For Expenditure

Page 1



☐ GAS  
☒ OPERATIONS  
☐ LAND

1040300

DATE

4/13/2004

ASSET TEAM / DEPARTMENT NWT	PROSPECT NAME & NUMBER Avalon 3529	FIELD Carlsbad South	RESPONSE DATE
WELL NAME Douglas Com #2	WELL SURFACE LOCATION Approx. 2400 FNL & 300' FEL Sec 7 T22S R27E BHL 990 FSL & 990 FEL		
OPERATOR Pure Resources (HEC)	OTHER'S AFE NO.	COUNTY Eddy	STATE New Mexico
			PROPERTY CODE 591825-0002

## EXPENDITURE DESCRIPTION:

Recommendation is to drill and equip Douglas Com #2 Morrow gas well. TD 11700 TVD

Surface location is outside city limits and adjacent to Douglas Com #1 pad. Bottom hole location is not accessible and is within city limits of Carlsbad

Location is on trend with recently drilled Mead wells which indicated some depletion in main sands but still with significant reserves. Some sands are original pressure.

Location is on trend with Strawn production in a east west direction Strawn will be DST'd and if commercial a dual completion will be made

Wolfcamp and Delaware are also productive in the area

WI = 74.2319% NRI = 59.97806%

## LAND RECOMMENDATION ATTACHED

☒ YES ☐ NO DATE \_\_\_\_\_

PURE ENTITY: ☒ YES ☐ NO

NAME: HEP Partners, L.P.

## CASING POINT ELECTION

☒ YES ☐ NO

## CHANGE OF WELL STATUS:

☒ YES ☐ NO

LAST WELL ON LEASE/UNIT?

☐ YES ☒ NO

OTHER PRODUCING WELLS?

☒ YES ☐ NO

PRODUCING FM: Morrow

LAST PRODUCED: Active

DATE & REASON: New Well

## BUDGETED

☐ YES ☒ NO

## CHARGE

☒ CAPITAL

☐ EXPENSE

☐ PUD / DEVELOPMENT

☒ UPR / DEVELOPMENT

☐ EXPLORATION

☐ FACILITIES

☐ P & A

PREPARED BY: NWT Team	DATE 4/13/2004	OPERATIONS	
LANDMAN	DATE APPROVED	ESTIMATED GROSS DRILLING COSTS \$ 1,436,400.00	
RESERVOIR ENGINEER <i>[Signature]</i>	DATE APPROVED 4/13/04	PURE WI 74.231900%	PURE NET DRILLING COST \$ 1,066,267.01
GEOLOGY	DATE APPROVED	ESTIMATED GROSS COMPLETION COSTS \$ 596,900.00	
GEOPHYSICS	DATE APPROVED	PURE WI 74.231900%	PURE NET COMPLETION COST \$ 443,090.21
OPERATIONS SUPERINTENDENT	DATE APPROVED	TOTAL AUTHORITY	
ASSET MANAGER / BUSINESS DEVELOPMENT MANAGER	DATE APPROVED	ESTIMATED TOTAL GROSS COSTS \$ 2,033,300.00	
LAND MANAGER	DATE APPROVED	PURE WI 74.231900%	
DRILLING	DATE APPROVED	PURE NET TOTAL COST \$ 1,509,367.22	
EXPLORATION MANAGER	DATE APPROVED		
PRESIDENT	DATE APPROVED		

DouglasCom#2AFE.xls (AFE p.1)

# PURE RESOURCES

## AUTHORIZATION FOR EXPENDITURE

DATE: 4/7/04

PREPARED BY: Patrick Drennon, Sierra Engineering

AFE NO.:

1040300

LEASE/WELL: Douglas Corn #2

PROPOSED DEPTH: 11,700' (TVD)

SURFACE LOCATION: 2400' FNL 300' FEL Sec. 7 T22S R27E

COUNTY &amp; STATE: Eddy County, New Mexico

PROPOSAL: Drill and complete in multiple Morrow intervals

FIELD: Carlsbad South

☐ EXPENSE

## INTANGIBLE COSTS

☒ CAPITAL

# UNITS

\$/UNIT

DRY-HOLE  
COSTCOMPLETION  
COSTTOTAL  
COST

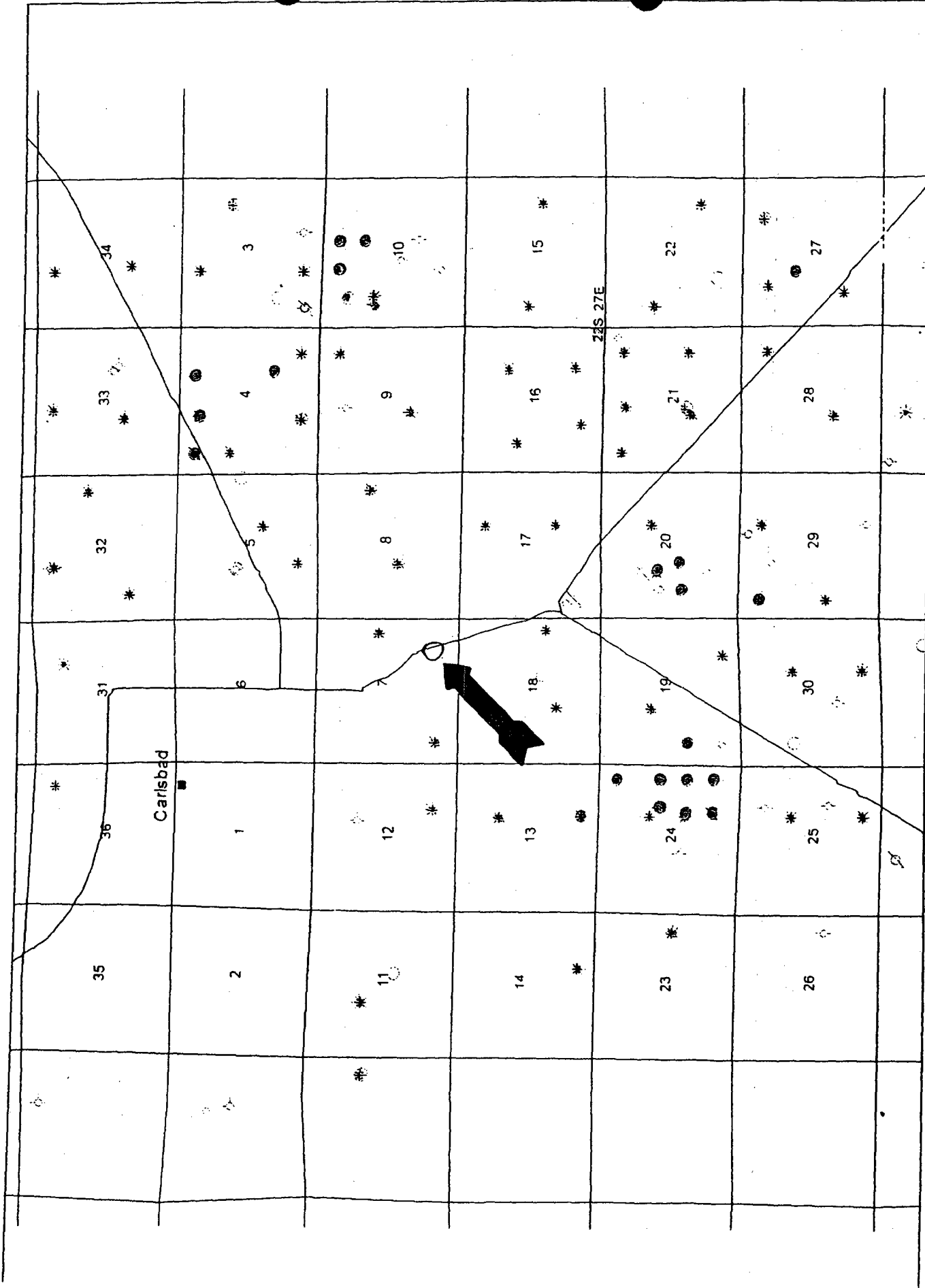
1 Access & Damages			\$8,000		\$8,000
2 Locations & Roads			\$45,000	\$5,000	\$50,000
3 Rig Move			\$25,000		\$25,000
4 Day Work	51	8,800	\$448,800	\$26,400	\$475,200
5 Footage					
6 Bits & Reamers			\$92,000		\$92,000
7 Fuel			\$65,000	\$5,000	\$70,000
8 Water			\$35,000	\$15,000	\$50,000
9 Mud Materials			\$52,500	\$2,000	\$54,500
10 Cementing			\$32,000	\$25,000	\$57,000
11 Pipe Inspection			\$5,000	\$2,000	\$7,000
12 Coring & Testing					
13 Logging & Perforating			\$35,000	\$22,000	\$57,000
14 Casing Crews & Tools			\$6,500	\$6,000	\$12,500
15 Stimulation				\$130,000	\$130,000
16 Completion Unit	12	2,000		\$24,000	\$24,000
17 Transportation			\$10,000	\$3,000	\$13,000
18 Equipment Rental			\$18,000	\$45,000	\$63,000
19 Geological Expense					
20 Engineering Expense			\$6,000	\$3,000	\$9,000
21 Contract Labor					
22 Supervision & Overhead	65	800	\$52,000	\$20,000	\$72,000
23 Other Drilling/Completion Expense			\$19,000	\$5,000	\$24,000
24 Drillstring Rental			\$12,000	\$3,000	\$15,000
25 Directional Drilling Services			\$175,000		\$175,000
26 Fishing Tools & Services					
27 Conductor Casing Expense			\$7,000		\$7,000
28 Legal & Insurance					
29 Contingencies (% INT)			\$50,000	\$10,000	\$60,000
30 TOTAL INTANGIBLES			\$1,198,800	\$351,400	\$1,550,200

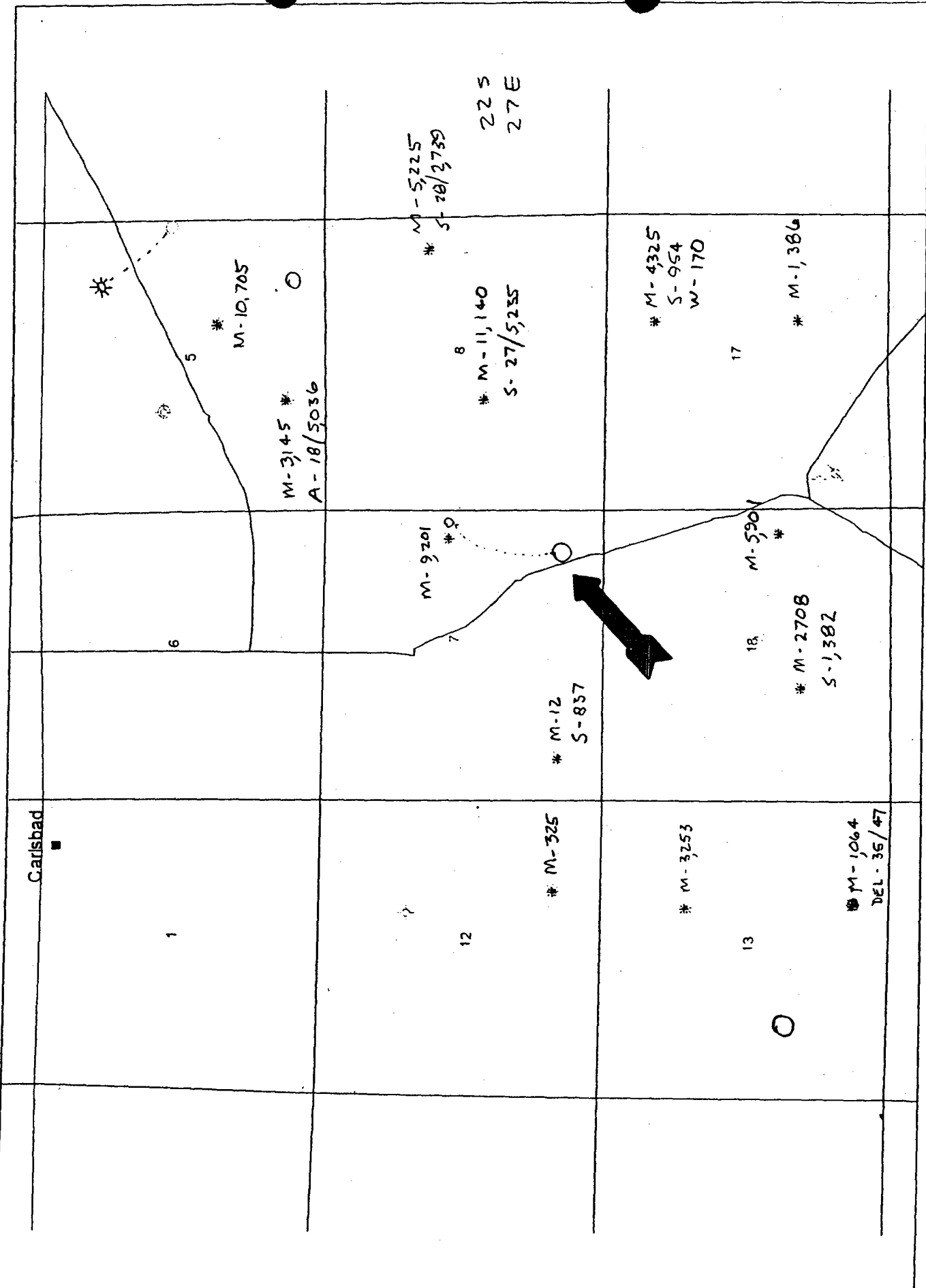
## TANGIBLE COSTS

	SIZE	# FT	\$/FT		
31 Surface Casing - 400' of H40 STC	13.375	48	\$28.00	\$11,200	\$11,200
32 Intermediate Casing - 1800' of K55 LTC	9.625	40	\$23.00	\$41,400	\$41,400
33 Intermediate Casing					
34 Intermediate Casing					
35 Production Casing - 10,000' of P110 LTC	7	26 & 29	\$17.50	\$175,000	\$175,000
36 Production Liner - 2,000' of P110 STC	4 1/2 - 5	11.6 18	\$12.50	\$25,000	\$25,000
37 Liner Equipment				\$25,000	\$25,000
38 Tubing - 11,500' N80 Prem L-80 BPD	2.875	6.5	\$5.50	\$63,300	\$63,300
39 Tubing					
40 Flowline					
41 Sucker Rods					
42 Pump Unit					
43 Wellhead Equipment				\$10,000	\$12,000
44 Insert Pump					\$22,000
45 Subsurface Equipment (Packer)				\$10,200	\$10,200
46 Producing Facilities				\$110,000	\$110,000
47 Tanks					
48 Electrical Equipment					
49 Contingencies (% TAN)					
50 TOTAL TANGIBLES			\$237,600	\$245,500	\$483,100
51 TOTAL WELL COST			\$1,436,400	\$596,900	\$2,033,300

## Time: 10:46 AM

Operator: WESTALL RAY  
Field Name: CARLSBAD SOUTH





# NOTICE

The attached AFE includes costs for material which may not be obtainable at normal or list prices due to the shortage of steel which the industry is currently experiencing. Please be advised that the AFE along with this letter notifies you of the premium pricing situation as per the Accounting Procedure and COPAS MFI 12. If we do not receive notice of intent to furnish material in kind within 10 days of receipt of this notice, we will bill the joint account for our actual costs to acquire, transport, and make the material suitable for use, less any discounts received. Due to the current volatility of the market, actual cost may be more than stated on the AFE.



April 20, 2004

A Unocal Company

R C BENNETT COMPANY  
P O BOX 264  
MIDLAND TX 79702

Re: Douglas Com #2  
Eddy County, New Mexico

Gentlemen:

We are currently updating our records to determine which working interest owners will be marketing their share of natural gas, natural gas liquids (NGL), and crude oil production from the referenced well(s). HEC Petroleum, Inc. is currently the operator. If you do not have a market for your share of the production, HEC can market it for you and make distribution to you. Please advise as to your plans for marketing your share of production.

**Please designate, your option, in the space provided below and return to the undersigned.**

1. \_\_\_\_\_ I/We will market (take in kind) our share of GAS production.
2. \_\_\_\_\_ I/We would like HEC to market our share of GAS production
3. \_\_\_\_\_ I/We will market (take in kind) our share of NGL production.
4. \_\_\_\_\_ I/We would like to have HEC market our share of NGL production.
5. \_\_\_\_\_ I/We will market (take in kind) our share of CRUDE production.
6. \_\_\_\_\_ I/We would like to have HEC market our share of CRUDE production.

\_\_\_\_\_  
Company Name

\_\_\_\_\_  
Company Contact

\_\_\_\_\_  
Telephone and Fax number

Should you desire HEC to market any of the above, please sign and return the enclosed three page marketing letter along with this election form. You may fax these forms to 432-498-8656.

Thank you for your time and cooperation in this matter. Should you have any additional questions, please do not hesitate to call me.

Sincerely,

John E. Lodge  
Land Manager

JEL:kn  
Enclosure





A Unocal Company

April 20, 2004

R C BENNETT COMPANY  
P O BOX 264  
MIDLAND, TX 79702

Re: Douglas Com #2  
Eddy County, New Mexico

Gentlemen:

You as a Working Interest Owner (hereinafter referred to as "Seller"), have requested that HEC Petroleum, Inc. ("HEC"), market the natural gas, crude oil, and natural gas liquids, (hereinafter referred to individually and collectively, as the case may be, as "Product"), on your behalf, from the referenced well(s)/unit, as previously indicated. HEC is willing to accommodate your request under the following terms and conditions:

1. By executing this Agreement, Seller represents to HEC that its share of Product from the referenced well(s)/unit is not subject to any purchase agreement, processing agreement or marketing arrangement, and is not dedicated to a particular purchaser or market. By execution of this Agreement, HEC shall be authorized, but not obligated, to market Seller's share of Product (including applicable royalty interests) on the same basis as HEC markets its own Product. HEC agrees to use reasonable efforts to market Seller's Product. HEC makes no warranties or representations concerning any minimum quantity or minimum price.
2. During the term of this Agreement, Seller shall be entitled to receive the "Net Proceeds" from the sale of Product. Net Proceeds shall mean the proceeds received by HEC allocable to Seller's interest, less any transportation, gathering, compression, dehydration, treating, processing, storage charges, and any other third party charges, imbalance fees or penalties incurred or paid by HEC on behalf of Seller in connection with this Agreement. HEC reserves the right, upon thirty (30) days written notice, to charge a reasonable administrative fee for marketing Seller's Product.
3. HEC shall account for any Product sold on behalf of Seller by HEC's company check or other mutually satisfactory means. Payment shall be sent or mailed to Seller by the end of the month following the month that the proceeds of sales are actually received by HEC. Should any third-party purchaser(s) fail to timely pay for any portion of the Product, HEC shall use reasonable and commercial means to collect payments due but shall have no other obligation relative to such payments.

4. Upon written request, and until such time as HEC gives Seller thirty (30) days prior written notice of its election to do otherwise, HEC shall distribute on behalf of Seller all common royalties, common overriding royalties, and production payments, and shall remit to the proper government agencies severance taxes attributable to Seller's Product. All such payments shall be made on behalf of Seller and shall be deducted from the payments owing Seller. Seller shall be responsible for payment of its separate burdens against its interest not described in this paragraph 4. Seller shall be responsible for providing HEC with a correct list of payees (including current addresses) and HEC shall be entitled to rely on such information. Seller shall promptly notify HEC of any changes in payees. HEC reserves the right to deduct from Seller's net proceeds any amounts owed to HEC and past due for Seller's operating expenses, whether or not related to the oil and gas leases, wells, units or properties covered by this Agreement.
5. From time to time during the term of this Agreement, the Product balancing accounts of Seller and other owners in the referenced well(s)/unit may become over or under produced. Seller hereby requests that HEC manage and allocate Seller's Product and attempt to maintain, on a reasonable basis, a balance between all parties in the Product produced from the subject well(s)/unit.
6. **TO THE EXTENT THAT THIS AGREEMENT CONSTITUTES AN AGENCY RELATIONSHIP, OR ANY ASPECT OF THIS AGREEMENT CONSTITUTES A FIDUCIARY RELATIONSHIP OF ANY KIND, BETWEEN HEC AND THE UNDERSIGNED, THE PARTIES HERETO AGREE THAT SUCH RELATIONSHIP, IF ANY, SHALL BE LIMITED TO MARKETING OF PRODUCT AND THAT HEC SHALL ACT AS A REASONABLY PRUDENT OPERATOR HEREUNDER. THE UNDERSIGNED AGREES THAT HEC SHALL NEVER BE HELD LIABLE AS A FIDUCIARY IN CONNECTION WITH MARKETING SERVICES PROVIDED PURSUANT TO THIS AGREEMENT AND RELEASES HEC FROM ANY AND ALL FIDUCIARY DUTIES AND FROM ANY AND ALL CLAIMS OR LIABILITY ARISING FROM ANY BREACH OF ANY FIDUCIARY DUTIES IN CONNECTION WITH SUCH MARKETING SERVICES.**

**SELLER AGREES TO RELEASE AND DEFEND, INDEMNIFY, AND HOLD HEC, ITS PARTNERS, EMPLOYEES AND REPRESENTATIVES, HARMLESS FROM ALL CLAIMS, SUITS, ACTIONS, DEBTS, ACCOUNTS, LIABILITIES, DAMAGES, LOSSES, COSTS AND EXPENSES OF ANY TYPE OR DESCRIPTION ARISING FROM, OUT OF, OR RELATING TO THE SALE OR MARKETING OF PRODUCT BY HEC, INCLUDING BUT NOT LIMITED TO ANY IMBALANCE FEES, PENALTIES, OR INTEREST CHARGED BY ANY THIRD PARTY ATTRIBUTABLE TO ANY PRODUCT NOMINATED ON BEHALF OF SELLER, EVEN IF SUCH CLAIMS ARISE OUT OF HEC'S NEGLIGENCE. IN THE EVENT OF A CONFLICT BETWEEN THE TERMS OF THIS AGREEMENT AND ANY APPLICABLE JOINT OPERATING AGREEMENT, THE TERMS AND PROVISIONS OF THIS AGREEMENT SHALL PREVAIL.**

7. No assignment of any interest subject to this Agreement shall be binding on HEC until HEC receives suitable evidence of such assignment acceptable to HEC. This Agreement may only be amended or modified by written instrument executed by both parties hereto. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors, heirs and assigns.
8. This Agreement shall be governed by and construed according to the laws of the State of Texas without reference to conflict of laws principles or rules. In the event of a dispute as to the meaning or application of the terms of this Agreement, this Agreement shall be construed fairly and reasonably and neither more strongly for nor against either party.
9. This Agreement shall become effective the first day of the month following the date of receipt by HEC of a fully executed counterpart, and shall continue in effect for twelve (12) months, and thereafter on a month-to-month basis until cancelled by either party upon thirty (30) days written notice to the other party.

If you are in agreement with the above, please return one copy of this letter indicating your acceptance to the undersigned.

Sincerely,

**HEC RESOURCES, L.P.**



John E. Lodge  
Land Manager

AGREED TO AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2004.

**R C BENNETT COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_