



ARCO Permian  
 211 West Loop  
 Midland, Texas 79701  
 Telephone 409-689-6200

February 4, 1997

**Certified Mail**  
**Return Receipt Requested**

Amoco Production Company  
 Attention: Mr. Jerry D. West  
 P. O. Box 4891  
 Houston, Texas 77210-4891

Enron Oil & Gas Company  
 Attention: Mr. Patrick J. Tower  
 P. O. Box 2267  
 Midland, Texas 79702

Phillips Petroleum Company  
 Attention: Mr. James S. Welin  
 4001 Penbrook  
 Ouessa, Texas 79710

**BEFORE THE**  
**OIL CONSERVATION DIVISION**  
 Santa Fe, New Mexico

Re: Well Proposal  
 Mimosa 8 State Com. No. 1 Well  
 Township 18 South, Range 28 East  
 Section 8: S/2  
 Eddy County, New Mexico

Case No. 11726 Exhibit No. 4

Submitted by: ARCO Permian a unit of Atlantic Richfield

Hearing Date: March 6, 1997

Gentlemen:

Please be advised that ARCO Permian, a unit of Atlantic Richfield Company, hereinafter referred to as "ARCO", proposes the drilling of a 10,700' Morrow test well at a surface location being approximately 350' FSL and 2003' FWL of Section 8, Township 18 South, Range 28 East, Eddy County, New Mexico. It is currently anticipated that the drilling and proration unit for this well will be the S/2 of said Section 8. Enclosed for your review is a copy of our drilling cost estimate for this well which indicates a dry hole cost of \$450,300 and total completed well cost of \$643,600.

Please indicate your election below of either to participate or not to participate in the drilling of this well and return one (1) copy of this letter to the undersigned. In the event you desire to participate in the drilling of this well, an Operating Agreement will be submitted for your review. In the event that you do not desire to participate in the drilling of this well, then ARCO hereby requests a Farmout of your leasehold interest in the S/2 of Section 8, Township 18 South, Range 28 East, Eddy County, New Mexico on the following basis:

1. Within 180 days of the execution of a formal Farmout Agreement, ARCO will commence or cause to be commenced the drilling of an initial test well at the above referenced location. Thereafter, said well shall be drilled to a depth of 10,700' or to a depth sufficient to adequately test the Morrow formation, whichever is the lesser depth.

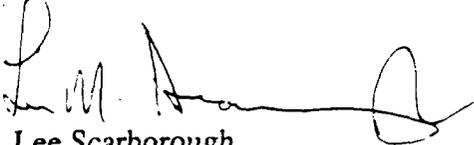
Well Proposal  
Mimosa 8 State Com. No. 1 Well  
February 4, 1997  
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2. Upon completion of a well capable of producing in paying quantities, ARCO shall earn an assignment of all your leasehold interest in the S/2 of said Section 8, insofar as same is included with the proration unit for said well, from the surface down to a depth of 100' below the total depth drilled. You shall retain an overriding royalty interest in an amount being equal to the difference between all existing burdens and twenty percent (20%).
3. Any overriding royalty interest retained by you will be subject to proportionate reduction.
4. Any acreage not previously earned by drilling the initial well, could be earned by the drilling of subsequent wells by not allowing more than 180 days to elapse between the completion of one well and the commencement of the next well.
5. The only penalty for failure to commence the drilling of said initial well would be the termination of said Farmout Agreement.

Should you have any questions or problems concerning this matter, please do not hesitate to contact me by telephone at (915) 688-5270.

Very truly yours,

ARCO Permian



Lee Scarborough  
Land Director, SE New Mexico

LMS/sb

Enclosure

Well Proposal  
Mimosa 8 State Com. No. 1 Well  
February 4, 1997  
Page 3

Amoco Production Company hereby elects TO participate in the drilling of the  
Mimosa 8 State Com No. 1 Well

Amoco Production Company

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

Date: \_\_\_\_\_

Amoco Production Company hereby elects NOT TO participate in the drilling of the  
Mimosa 8 State Com. No. 1 Well

Amoco Production Company

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

Date: \_\_\_\_\_

Amoco Production Company hereby elects to Farmout its leasehold interest to  
ARCO as described above for the drilling of the Mimosa 8 State Com No. 1 Well

Amoco Production Company

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

Date: \_\_\_\_\_

Well Proposal  
Mimosa 8 State Com. No. 1 Well  
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Enron Oil & Gas Company hereby elects TO participate in the drilling of the Mimosa 8 State Com No. 1 Well

Enron Oil & Gas Company

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

Date: \_\_\_\_\_

Enron Oil & Gas Company hereby elects NOT TO participate in the drilling of the Mimosa 8 State Com. No. 1 Well

Enron Oil & Gas Company

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

Date: \_\_\_\_\_

Enron Oil & Gas Company hereby elects to Farmout its leasehold interest to ARCO as described above for the drilling of the Mimosa 8 State Com No. 1 Well

Enron Oil & Gas Company

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

Date: \_\_\_\_\_

Well Proposal  
Mimosa 8 State Com. No. 1 Well  
February 4, 1997  
Page 3

Phillips Petroleum Company hereby elects TO participate in the drilling of the  
Mimosa 8 State Com No. 1 Well

Phillips Petroleum Company

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

Date: \_\_\_\_\_

Phillips Petroleum Company hereby elects NOT TO participate in the drilling of the  
Mimosa 8 State Com. No. 1 Well

Phillips Petroleum Company

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

Date: \_\_\_\_\_

Phillips Petroleum Company hereby elects to Farmout its leasehold interest to  
ARCO as described above for the drilling of the Mimosa 8 State Com No. 1 Well

Phillips Petroleum Company

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

Date: \_\_\_\_\_

Supplement

Original

Well name		<b>Mimosa 8 State Com #1</b>		ID	10,700			
Location								
Section 8, T-18-S, R-28-E, Eddy County, New Mexico								
District			Area of Group		Field			
SE New Mexico Asset Area					Empire South Morrow			
Objective			Morrow		10,400 Ft.			
<input checked="" type="checkbox"/> Development <input type="checkbox"/> Exploratory <input type="checkbox"/> Workover/ Recompletion		Gen I 9171 9172 9171	<input checked="" type="checkbox"/> Single <input type="checkbox"/> Dual <input type="checkbox"/> Multiple		Data Processing Information AFC No. Original/Revision Indicator 1=Original 2=Revision			
<b>Tangible Costs - SUB 500 and 550</b>								
				Drilling	Evaluation	Completion	Born	Total Gross Dollars
1. Tubular goods								
13 3/8 * OD from 0 ft. to 500				10,000			5 1 3	10,000
9 5/8 * OD from 0 ft. to 2600				28,000			5 9 5	28,000
* OD from ft. to								0
5 1/2 * OD from 0 ft. to 10700						32,800	5 5 5	60,000
2 7/8 * OD from 0 ft. to 10,700						42,800	5 2 7	42,800
* OD from ft. to								0
* OD from ft. to								0
2. Casinghead, Tubinghead, Christmas tree				5,000		8,000	5 0 4	13,000
3. Tubing Accessions						4,000	5 0 6	4,000
4. Artificial Lift Accessions							8 0 7	0
5. Well Protective Structures							8 0 8	0
6. Unclassified				1,000		2,000	0 0 0	3,000
7. Additional Bore (Sub 550)								0
Casinghead, Tubinghead, Christmas tree							5 0 4	0
Tubing Accessions							5 0 6	0
Artificial Lift Accessions							5 0 7	0
Well Protective Structures							5 0 8	0
<b>TOTAL TANGIBLES</b>				<b>44,000</b>	<b>0</b>	<b>116,800</b>		<b>160,800</b>
<b>Intangible Costs - SUB 600</b>								
8. Contract Engineering Technical				12,000		4,500	0 1 3	16,500
9. Boat Operations							0 5 3	0
10. Minor Supplies							0 7 8	0
11. Electric Power and Light							2 4 1	0
12. Diesel Fuel							2 4 2	0
13. Natural Gas							2 4 3	0
14. Water				8,000		4,000	2 4 6	12,000
15. Property and Equipment Rentals				1,000		1,000	2 4 8	2,000
16. Security, Safety, and Firefighting				1,000		500	2 5 0	1,500
17. Tubular Testing, and Inspection				1,000		1,000	5 0 3	2,000
18. Trucking Tubulars				1,500		1,500	5 0 9	3,000
19. Casing Accessions				2,000		3,000	5 1 2	5,000
20. Site Preparation and Maintenance				14,000		2,000	5 1 4	16,000
21. Permits, Insurance, and Damages				3,000			5 1 5	3,000
22. Rig Moving Expense							5 1 7	0
23. Shorebases							5 2 1	0
24. Camp Housekeeping							5 2 2	0
25. Reclamation				1,000		1,000	5 2 5	2,000
26. Air Freight and Transportation							5 2 8	0
27. Disposal and Cleanup				4,000		2,000	5 3 1	6,000

Well name	<input checked="" type="checkbox"/> Original <input type="checkbox"/> Supplement		Original/Revision Indicator		
Mimosa 8 State Com #1	AFC No.		1=Original 2=Revision		
Location			1		
Eddy County, New Mexico					
District	SE New Mexico Asset Area				
Intangible Costs (Cont'd) - SUB 600	Drilling	Evaluation	Completion	Born	Total Gross Dollars
28. Contract Footage Drilling q ft. @ \$ 2.00 per foot				5 3 2	0
29. Contract Drilling Daywork Drilling 30 days @ \$ 5,000.00 per day	150,000			5 3 3	150,000
30. Mobilization, Demobilization & Rig Mod.	25,000			5 3 4	25,000
31. Roads and Airtrms				5 3 6	0
32. Completion/Workover Daywork 10 days @ \$ 1,500.00 per day			15,000	5 4 2	15,000
33. Drill String & BHA Rental days @	8,000			5 4 3	8,000
34. Well Control Equipment			1,000	5 4 7	1,000
35. Bts, Underreamers, & Hole Openers					
	45,000		1,000	5 4 8	46,000
36. Drilling Mud and Transportation	22,000			5 5 1	22,000
37. Drilling Mud Equipment and Services	4,000			5 5 2	4,000
38. Completion Fluids				5 5 3	0
39. Open Hole Surveys	25,000			5 5 7	25,000
40. Wireline Work				5 5 9	0
41. Formation Monitoring	6,500			5 6 0	6,500
42. Cased Hole Surveys and perf. Fees			8,000	5 6 1	8,000
43. Surface Well Test Equipment			1,000	5 6 3	1,000
44. Coring and Analysis				5 6 8	0
45. Drill Stem Test Equipment	10,000			5 7 2	10,000
46. Fracturing, Acidizing, and Gravel Pack				5 7 7	0
47. Divers				5 7 8	0
48. Fishing Tool Rental				5 8 0	0
49. Directional Drilling Tool Rental				5 8 1	0
50. Telecommunications & Navigational Needs				5 8 2	0
51. Material Losses				5 8 8	0
52. Capitalized Overhead	33,300			6 0 4	33,300
53. Cement Running Fees for Casing & Tubing					
13 3/8" OD 400 Sacks	4,000			6 1 3	4,000
9 5/8" OD 1000 Sacks	10,000			6 9 5	10,000
5 1/2" OD 1000 Sacks			20,000	6 5 5	20,000
					0
54. Cementing - Squeezes & Plugs				6 9 9	0
55. Unclassified	15,000		10,000	0 0 0	25,000
					0
					0
<b>TOTAL INTANGIBLES</b>	406,300	0	76,500		482,800
<b>TOTAL COST (Tangibles &amp; Intangibles)</b>	450,300	0	193,300		643,600
<b>EVALUATED COST</b>	<b>450,300</b>				
<b>COMPLETED WELL COST</b>	<b>643,600</b>				



February 10, 1997

Phillips Petroleum Company  
4001 Penbrook  
Odessa, Texas 79762

Fax #(915) 368-1554

Attention: Mr. James S. Welin

Re: Mimosa 8 State Com #1 Well  
Township 18 South, Range 28 East  
Section 8: S/2  
Eddy County, New Mexico

Gentlemen:

Reference is made to that certain participation letter dated February 4, 1997 from ARCO Permian, a unit of Atlantic Richfield Company ("ARCO") to Phillips Petroleum Company ("Phillips"), whereby ARCO proposed to drill a 10,700' Morrow test at an unorthodox surface location approximately 350' FSL and 2003' FWL of the above described Section 8. The purpose of this letter is to confirm the commitment of Phillips to ARCO to i) farmout its leasehold interest in the above referenced lands to ARCO for the drilling of said test well, or ii) participate with a working interest in the drilling of said test well, on the following basis:

1) ARCO agrees to make a geological presentation of the referenced area to Phillips on Thursday, February 13, 1997, to assist Phillips in determining if it desires to participate in the drilling of the referenced well.

2) Within seven (7) days (February 20, 1997) after ARCO makes the above mentioned geological presentation to Phillips, Phillips shall provide written notice to ARCO of its desire to either participate in the drilling of said test well or to farmout its leasehold interest to ARCO as hereinafter provided.

3) In the event that Phillips elects to participate in the drilling of the test well, it shall do so to the full extent of its leasehold contribution to the spacing unit allocated to such well. A mutually acceptable Operating Agreement will be entered into by Phillips and ARCO, prior to the drilling of this well, having ARCO designated as operator.

4) In the event Phillips elects not to participate in the drilling of the test well, Phillips will farmout all of its leasehold interest to ARCO covering the S/2 of Section 8, Township 18 South, Range 28 East, Eddy County, New Mexico, on the following basis:

A. Within 180 days of the execution of a formal Farmout Agreement, ARCO will commence or cause to be commenced the drilling of an initial test well at the approximate location described above. Thereafter, said well shall be drilled to a depth of 10,700' or to a depth sufficient to adequately test the Morrow formation, whichever is the lesser.

B. Upon completion of a well capable of producing in paying quantities, ARCO shall earn an assignment of all of Phillips' leasehold interest in the S/2 of said Section 8 insofar and only insofar as same is included within the geographic boundary of the proration unit for said well, from surface down to the base of the deepest producing formation. Phillips shall retain an overriding royalty interest in an amount being equal to the difference between all existing leasehold burdens and twenty-five (25%) percent.

C. Any overriding royalty interest retained by Phillips will be subject to proportionate reduction.

D. The only penalty for failure to commence the drilling of said initial well would be the termination of said Farmout Agreement.

If you are in agreement with all of the terms described above, please so indicate by signing below in the space provided, returning one copy to the undersigned.

Very truly yours,



Lee M. Scarborough  
Land Director, SE New Mexico

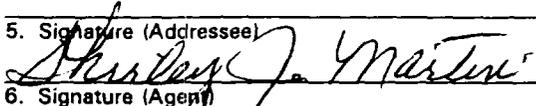
LMS/sb

ACCEPTED AND AGREED TO THIS \_\_\_\_ DAY OF \_\_\_\_\_, 1997.

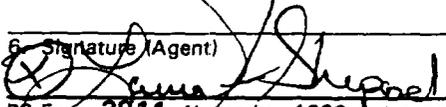
Phillips Petroleum Company

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

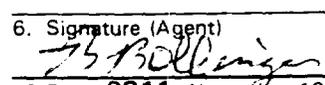
Its: \_\_\_\_\_

<b>SENDER:</b> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.</li> </ul>		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:  Amoco Production Company Attn: Mr. Jerry D. West P. O. Box 4891 Houston, Texas 77210-4891		4a. Article Number P 080 149 505	
		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
		7. Date of Delivery <b>FEB 6 1997</b>	
5. Signature (Addressee) 		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature (Agent)			

PS Form 3811, November 1990 \*U.S. GPO: 1991-287-066 **DOMESTIC RETURN RECEIPT**

<b>SENDER:</b> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.</li> </ul>		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:  Phillips Petroleum Company Attn: Mr. James S. Welin 4001 Penbrook Odessa, Texas 79710		4a. Article Number P 080 149 530	
		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
		7. Date of Delivery <b>2-7-97</b> 	
5. Signature (Addressee)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature (Agent) 			

PS Form 3811, November 1990 \*U.S. GPO: 1991-287-066 **DOMESTIC RETURN RECEIPT**

<b>SENDER:</b> <ul style="list-style-type: none"> <li>• Complete items 1 and/or 2 for additional services.</li> <li>• Complete items 3, and 4a &amp; b.</li> <li>• Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>• Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>• Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>• The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.</li> </ul>		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:  Enron Oil & Gas Company Attn: Mr. Patrick J. Tower P. O. Box 2267 Midland, Texas 79702		4a. Article Number P 080149 506	
		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
		7. Date of Delivery <b>FEB 05 1997</b>	
5. Signature (Addressee)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature (Agent) 			

PS Form 3811, November 1990 \*U.S. GPO: 1991-287-066 **DOMESTIC RETURN RECEIPT**

S	M	T	W	T	F	S
		1	2	3	4	
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

S	M	T	W	T	F	S
					1	
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

**Calls**

Date	Time	Person-Phone Number	Company	Status	Category-Notes
2 5 97	4:03 PM	Georgia Fenton 915-368-1216	Phillips	Left Message	Mimosa 8 re: SESW - 8 - she called - I called back
2 6 97					
2 7 97					
2 8 97					
2 9 97					
2 10 97	3:31 PM	Patrick J. Tower 915-683-7057	Enron Oil & Gas Company	Left Message	Mimosa 8 is our well same as Amoco's?
	4:00 PM	Patrick J. Tower 915-683-7057	Enron Oil & Gas Company	Left Message	Mimosa 8 yes - we moved loc - not sure if Amoco will go w us
2 11 97	10:15 AM	Georgia Fenton 915-368-1216	Phillips	Incoming	Mimosa 8 rec'd participation letter - will sign & review 3D if we will grant 30% BIAPU
	10:47 AM	Jerry D. West 713-366-3588	Amoco Production Company	Incoming	Mimosa 8 rec'd participation letter
2 12 97	10:27 AM	Georgia Fenton 915-368-1216	Phillips	Answered	Mimosa 8 we are unable to grant a 30% BIAPU - she will cancel meeting w Tisdale

