

ENRON OIL & GAS COMPANY

Examiner	_____
Case No.	<u>9901</u>
EXHIBIT NO.	<u>4</u>

PACIFIC ENTERPRISES OIL COMPANY (USA)

February 27, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

Enron Oil and Gas Company
Post Office Box 2267
Midland, Texas 79702

Attention: Mr. Robert McCommon

RE: Dark Canyon Prospect #5661
Eddy County, New Mexico

W/2 Section 21, T-23-S, R-26-E
Federal Comm #21-1 Well

Gentlemen:

Reference is made to our January 26, 1990 letter and attached Authority For Expenditure thereto regarding our proposal to drill a 12,000' Morrow test well 1980' FNL and 660' FWL of Section 21, T-23-E, R-26-E, Eddy County, New Mexico, with estimated drilling and completion costs being \$454,000.00 and \$298,000.00 respectively, with said test well's drilling unit (Strawn/Atoka/Morrow) being a federal communitized unit covering the W/2 of said Section 21.

Please be advised that due to a leasehold owner within the SW/4 of said Section 21, Pacific will be required to apply for Compulsory Force Pooling of the W/2 of said Section 21 for the drilling of said test well.

Therefore, we respectfully request that you advise of your election within thirty (30) days from the date of this letter.

If you have any questions, please contact the undersigned.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



Terry Gant
Landman

TG/dsr

Enclosure

PACIFIC ENTERPRISES OIL COMPANY (USA)

January 26, 1990

SOUTHWEST REGION
200 N. Lorraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
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Enron Oil and Gas Company
Post Office Box 2267
Midland, Texas 79702

Attention: Mr. Robert McCommon

636-3600

RE: Dark Canyon Prospect #5661
Eddy County, New Mexico

NW/4SW/4 and SW/4SW/4 of
Section 21, T-23-S, R-26-E
USA Lease #NM-39135 & 43534
Proposed Federal Comm. #21-1 Well

Gentlemen:

Pacific Enterprises Oil Company (USA) hereby proposes to drill a 12,000' Morrow test well 1980' FNL and 660' FWL of Section 21, T-23-S, R-26-E, Eddy County, New Mexico in the near future, with estimated drilling and completion well costs being \$454,000.00 and \$298,000.00 respectively (see attached AFE), with said test well's drilling unit (Strawn/Atoka/Morrow) being a Federal Communitized Unit covering the W/2 of said Section 21.

Pacific is the owner of an undivided 25% leasehold interest under the NW/4 of said Section 21 and according to our information, you are the 100% leasehold owner of the NW/4SW/4 (78% NRI) and SW/4SW/4 (80% NRI) of said Section 21.

Therefore, we respectfully request your advisement as to your election to either (1) participate in this proposed operation through the formation of a Working Interest Unit covering the W/2 of said Section 21, subject to a mutually acceptable Joint Operating Agreement, or (2) farmout your interest in the NW/4SW/4 and SW/4SW/4 of said Section 21 to Pacific on the following terms:

1. 120 day term (actual drilling).
2. Required depth and location - 12,000' or to a depth sufficient to penetrate and test the Morrow Formation, whichever, is the lesser, at the legal location stated above.
3. Produce to earn - 100% of Farmor's rights in and to said test well's drilling unit, limited to rights from the surface down to 100' below total depth, at a 75% net revenue interest.

4. Conversion Option - At payout of said test well, Farmor shall have the option to convert its overriding royalty interest to a 25% working interest.
5. Unit Basis - Farmor agrees to allow Farmee the right to pool and unitize its interest into a 320 acre drilling unit consisting of the W/2 of said Section 21 for Strawn/Atoka/Morrow production, with Farmor's overriding royalty interest and conversion working interest being proportionately reduced to such unit.
6. Additional Development - If said test well does not earn the NW/4SW/4 and SW/4SW/4 of said Section 21, then Farmee shall have the option to drill additional wells pursuant to a 180 day continuous drilling program, earning in the same manner and fashion as said test well, with the required depth for such additional wells being the same as said test well or to the deepest productive horizon encountered in any preceeding well, whichever is lesser.

If you have any questions or need any additional information, please contact the undersigned; your prompt attention is appreciated.

Very truly yours,

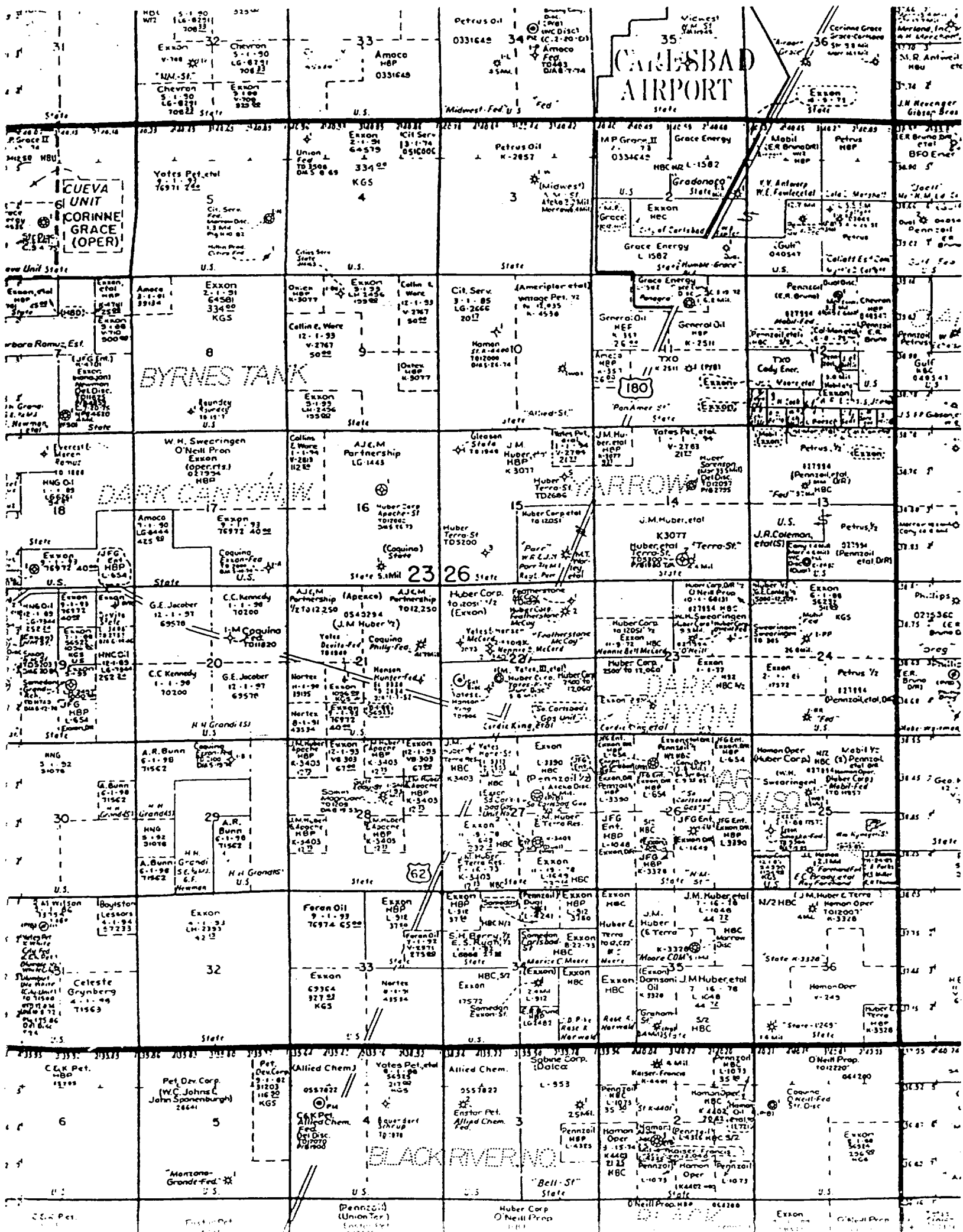
PACIFIC ENTERPRISES
OIL COMPANY (USA)



Terry Gant
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Enclosure



ORIGINAL

AUTHORITY FOR EXPENDITURE

DIVISION: Permian Basin Exploration Team DATE: 1-26-90
DEPARTMENT: Exploration and Development Midland, Texas
PROSPECT: Dark Canyon
LOCATION: 1980' FNL and 660' FWL of Section 21, T-23-S, R-26-E
 Eddy County, New Mexico

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
TOTAL	\$752,000.00

JUSTIFICATION:

Proposed 12,000' well to test the Morrow Formation.
See attached detailed Drilling and Completion Cost Estimate.

PARTICIPANTS	WORKING INTEREST	COST	GROSS AFE AMOUNT	\$752,000.00
Pacific Enterprises Oil Company (USA), etal	75%	\$564,000	APPROVED ____ DISAPPROVED ____	
Enron Oil & Gas Co.	25%	\$188,000		
	TOTAL	\$752,000		

COMPANY REPRESENTATIVE

ENRON OIL AND GAS COMPANY
COMPANY

DATE

/January/1990

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

Prospect: Dark Canyon

Field Carlsbad, South

Well Location

N/2 Sec 21

Legal Description T-23-S, R-26-E

County Eddy

State NM

Proposed Depth 12,000'

Objective Formation Morrow/Strawn

AFE No. _____

Terra H.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey - Stake Location	1	1,000	xxx	0	1,000
Permits & Hearings	2	700	83	0	700
Building Road, bridges, canals	3	5,500	84	0	5,500
Building Location & Pits	4	11,400	85	1,000	12,400
Insurance (for Terra only)	5	3,700	86	0	3,700
Move in - Rig up - Rig down - Move out	6	0	87	0	0
Rat Hole	7	0	xxx	0	0
Footage Contract <u>12,000'</u> @ <u>\$18/ft</u>	8	216,000	xxx	0	216,000
Day work contract <u>4/3 days</u> @ <u>\$4,000/day</u>	9	17,000	88	10,000	27,000
Turnkey Agreement	10	0	90	0	0
Rig for Completion <u>\$1400/day</u> x 10 days	xxx	0	101	14,000	14,000
Drill Bits	12	0	102	500	500
Rental Equipment	13	9,000	103	3,000	12,000
Fishing Tools & Service	14	0	104	0	0
Company Labor	15	0	107	2,000	2,000
Auto & Travel	16	0	108	400	400
Contract Labor	17	13,500	113	5,000	18,500
Trucking, Hauling, Service Equipment	18	3,000	114	3,000	6,000
Power & Fuel	19	0	115	0	0
Water	20	18,000	116	4,000	22,000
Mud & Chemicals	21	20,000	117	0	20,000
Drill Pipe, Casing, Rod Inspection	22	1,500	125	3,600	5,100
Formation Testing (incl 2 DST)	23	10,000	xxx	0	10,000
Coring _____ ft of core @ \$_____/ft	24	0	xxx	0	0
Mud Logging	25	9,600	xxx	0	9,600
Logs	26	16,000	126	4,000	20,000
Temperature Survey	27	0	148	0	0
Bottom Hole Pressure Test	28	0	149	3,500	3,500
Directional Services	29	0	152	0	0
Engineering, Geological, Geophysical	30	0	153	0	0
Cmtg, Conductor or Surf Csg (incl Float equip)	31	7,000	xxx	0	7,000
Cmtg, Inter-m or Prod Csg (incl Float equip)	32	14,000	154	8,000	22,000
Squeeze Jobs	33	0	155	0	0
Perf or Shooting	34	0	156	8,000	8,000
Frac	xxx	0	157	20,000	20,000
Swabbing	36	0	158	0	0
Plugging, if dry	37	10,000	159	0	10,000
Damage Claims	38	2,500	165	1,500	4,000
Cleaning Location	39	0	166	2,000	2,000
District Expense	40	8,800	172	2,500	11,300
Communications	41	200	177	200	400
Environmental & Safety Equipment	42	500	178	500	1,000
Misc Material & Service (Contingency)	43	10,100	179	5,300	15,400
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TOTAL INTANGIBLES		409,000		102,000	511,000

/January/1990

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	
TOTAL					
Surface Casing					
600' of 13-3/8" OD H-40 48#/ft., 8rd, ST&C @ 18.50/ft.	50	11,100	xxx	0	11,100
Intermediate Casing					
2000' of 8-5/8" OD, 24#/ft., 8rd ST&C @ \$9.00/ft.					
800' of 8-5/8" OD, 32#/ft., 8rd ST&C @ \$12.50/ft.	51	28,000	xxx	0	28,000
Production Casing					
800' of 5-1/2" OD, 17#/ft, N-80 @ \$8.80/ft.					
10,100' of 5-1/2" OD, 17#/ft, N-80 @ \$8.25/ft.					
2000' of 5-1/2" OD, 17#/ft, S-95 @ \$12.00/ft.	xxx	0	52	114,400	114,400
Liner					
___ft of ___" OD, ___#/ft @ \$___/ft	xxx	0	53	0	0
Tubing					
11,600' of 2-3/8" OD, N-80, 4.7#/ft, 8rd, EUE @ \$3.15/ft	xxx	0	54	36,600	36,600
Xmas Tree & Tubing Head Components	55	4,000	182	9,000	13,000
Pumping Unit or Prime Mover	xxx	0	56	0	0
Production Platform - Mat. & Labor	xxx	0	58	0	0
Rods	xxx	0	59	0	0
Subsurface Pump	xxx	0	60	0	0
Tanks	xxx	0	61	3,000	3,000
Circulating Pump	xxx	0	63	0	0
Dehydrator	xxx	0	64	0	0
Heater Treater or Gunbarrel	xxx	0	65	0	0
Separator/FHKO	xxx	0	66	8,000	8,000
Flowline & Connection 500' ft of 2" OD FG Linepipe @ \$2/ft	xxx	0	68	1,500	1,500
Meter, Meter Run & Connections	xxx	0	70	5,000	5,000
Buildings	xxx	0	71	0	0
Packer	xxx	0	72	5,000	5,000
Miscellaneous Equipment (fittings, etc.)	73	1,900	185	3,500	5,400
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TOTAL TANGIBLES		45,000		186,000	231,000
Installation of Tubing	xxx	0	54	0	0
Installation of Pumping Unit & Prime Mover	xxx	0	56	0	0
Installation of Tanks	xxx	0	61	1,000	1,000
Installation of Dehydrator	xxx	0	64	0	0
Installation of Heater Treater or Gun Barrel	xxx	0	65	0	0
Installation of Separator/FHKO	xxx	0	66	2,000	2,000
Installation of Flowline	xxx	0	68	5,000	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000	2,000
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TOTAL INTANGIBLE INSTALLATION COSTS		0		10,000	10,000
Est. 5280' gas sales line \$48,000+		409,000		102,000	511,000
		45,000		186,000	231,000
		0		10,000	10,000
TOTAL WELL COST COMPLETED		454,000		298,000	752,000

Prepared by:

C. Robert McPherson III

Date

1/11/90

Approved by:

A.B.B.

Date

1/13/90