

PENNZOIL PLACE • P. O. BOX 2967 • HOUSTON, TEXAS 77252-2967 • (713) 546-4000

October 16, 1987

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Rio Pecos Corporation 110 West Louisiana Suite 460 Midland, Texas 79701

Attention: Mr. Scott Wilson

	THE PERSON NAMED IN COLUMN TWO IS NOT THE OWNER.	
	BEFORE EXAMINER CATANACH	
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Re: #1 M. H. Medlin S/2 NW/4 of Section 14, T16S - R37E Lea County, New Mexico

Gentlemen:

Pennzoil Company hereby proposes to drill a 12,200' Strawn-Atoka test at a legal location 1980' FNL and 660' FWL of Section 14, T16S-R37E, by January 1, 1988. A copy of our AFE is enclosed for your review.

We request that Rio Pecos Corporation either participate in our proposed well or farmout its interest in the NW/4 Section 14-16S-37E to Pennzoil, on the following terms:

- 1. Upon completion of the Initial Test Well as a producer, Pennzoil will earn an assignment of 100% of Rio Pecos' interest in the proration unit assigned to the well limited to 100' below TD drilled. Rio Pecos will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Rio Pecos having the option to convert said overriding royalty interest at payout to a 25% W.I. proportionately reduced.
- 2. Pennzoil will have the option of commencing a one hundred eighty (180) day continuous drilling program to earn the balance of the farmout acreage under the same terms as the ITW.

Should Rio Pecos elect to participate, please return an executed copy of the enclosed AFE, and an A.A.P.L. Form 610-1982 Model Form Operating Agreement will be forwarded to you for your review and execution.

Rio Pecos Corporation October 16, 1987 Page 2

Please be advised that due to Pennzoil's lease expirations in January of 1988, we plan to make application to compulsory pool the $\rm S/2~NW/4$ of Section 14-16S-37E on the next available Commission docket.

Your prompt consideration of our proposal will be appreciated. Should you have any questions, please feel free to contact me at 713/546-6195.

Yours very truly,

PENNZOIL COMPANY

Greg Davis
Land Specialist

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