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PENNZOIL COMPANY

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

October 20, 1987

Mobil Producing Texas & New Mexico Inc. P. O. Box 633

Midland, Texas 79702

Attention: Mr. Kent Johnston

BEFORE EXAMINER CATANACH

CIL CONSERVATION DIVISION

LAMBIL EXHIBIT NO. 3

CASE NO

9268

Re: #1 Simmons

E/2 SW/4 of Section 3,

T17S - R37E

Lea County, New Mexico

Gentlemen:

Pennzoil Company hereby proposes to drill an 11,900' Strawn-Atoka test at an unorthodox location 1310' FSL and 1980' FWL of Section 3, T17S-R37E, by December 1, 1987. A copy of our AFE is enclosed for your review. Also enclosed is a copy of the New Mexico Oil Conservation Division Order R-8199 which approves our unorthodox location.

We request that Mobil either participate in our proposed well or farmout its interest in the SW/4 of Section 3-17S-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 Mobil's interest in the proration unit assigned to the well limited to 100' below TD drilled. Mobil will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Mobil 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 Mobil 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.

Mobil Producing Texas & New Mexico Inc. October 20, 1987 Page 2

Please be advised that due to Pennzoil's lease expirations in early 1988 and due to our availability of money which needs to be spent by year end, we plan to make application to compulsory pool the E/2 SW/4 Section 3-17S-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

GD:jt

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