

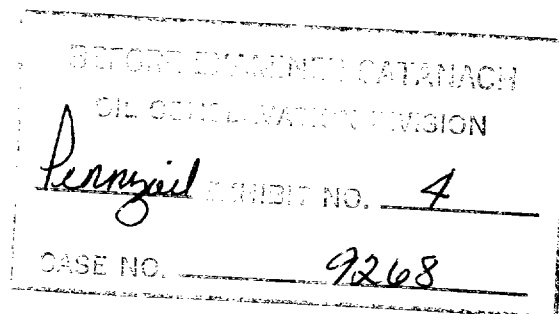


PENNZOIL PLACE • P. O. BOX 2967 • HOUSTON, TEXAS 77252-2967 • (713) 546-4000

October 20, 1987

Amerada Hess Corporation  
1201 Louisiana; Suite 700  
Houston, Texas 77002

Attention: Bill Hough



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 Amerada Hess 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 Amerada's interest in the proration unit assigned to the well limited to 100' below TD drilled. Amerada will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Amerada 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 Amerada 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.

Amerada Hess Corporation  
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*  
Greg Davis  
Land Specialist

GD:jt

<p>● <b>SENDER:</b> Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. <u>The return receipt fee will provide you the name of the person delivered to and the date of delivery.</u> For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.</p> <p>1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. <input type="checkbox"/> Restricted Delivery ↑(Extra charge)↑</p>	
3. Article Addressed to:  MR. BILL HOUGH AMERADA HESS CORP 1201 LOUISIANA - STE 700 HOUS, TX 77002	4. Article Number B 91500248 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input checked="" type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>Chester S</i>	
7. Date of Delivery OCT 21 1987	
PS Form 3811, Mar. 1987 U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT	

Co.		Dept.		Play No.		AFE No.		AFE Title or Location Name (25)																											
2		5		1		6		1		4		0		7		4		3		8		9		3		8		S I M M O N S    N O .    1    D , C & E ,							
COMPANY Pennzoil Company												DIVISION Western												DISTRICT 36											
WELL NAME AND NO. Simmons No. 1												FIELD OR AREA Shipp												UNDEVELOPED LEASE NO.											
OPERATOR Pennzoil Company												COUNTY OR PARISH Lea												STATE New Mexico											
PROJECT DESCRIPTION Drill, complete and equip a 11,900' Strawn oil well 1310' FSL and 1980' FWL of sect. 3,T17S,R37E												LEASE NAME AND NO. Simmons												PROPOSED FORMATION Strawn											
<input checked="" type="checkbox"/> Single <input type="checkbox"/> Triple				<input type="checkbox"/> Dual				<input checked="" type="checkbox"/> Oil <input type="checkbox"/> Gas				<input type="checkbox"/> Expl. <input checked="" type="checkbox"/> Dev.				<input checked="" type="checkbox"/> New <input type="checkbox"/> Workover				Deepen <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No															
<input checked="" type="checkbox"/> Land <input type="checkbox"/> Bay				<input type="checkbox"/> Marsh <input type="checkbox"/> Gulf				DATE TO START				DATE TO COMPLETE				DAYS TO DRILL 34				PROPOSED DEPTH 11,900'															
Gross				Net				Budget Code 4 1 0 7		Ls./Assoc. Prop. No.				Assoc. AFE No.				Joint Venture <input type="checkbox"/> No <input type="checkbox"/> Yes				Operator <input type="checkbox"/> 2-Co. <input type="checkbox"/> 3-Outsd.				State Code									
Country/ Ph. Code		Civil Dist.		Conveyed <input type="checkbox"/> Yes <input type="checkbox"/> No		Report to Code				Costing Location Mktg				Environmental Cost % Air    % Water    % Land - Other				% Safety and Health																	
JUSTIFICATION																																			
INTANGIBLES																																			
CONTRACT DRILLING												11,900 ft. @ \$				13.00 /ft.				SUB 489		DRY HOLE 154,700				COMPLETION		TOTAL 154,700							
CONTRACT DAY WORK		DRILLING												days @ \$				/day				490													
		CORING AND DRILL STEM TEST												4 days @ \$				4,000 /day				490		16,000				16,000							
		LOGGING, SFT. AND PERFORATING												2 days @ \$				4,000 /day				490		8,000				8,000							
		OTHER												10 days @ \$				1,300 /day				490						13,000							
		TOTAL CONTRACT DAY WORK																				490													
COMPANY PAYROLL												\$195/day								501		6,630				1,950		8,580							
EMPLOYEE BENEFITS												\$105/day								505		3,570				1,050		4,620							
TRANSPORTATION AND HAULING																				545		10,000				5,000		15,000							
ACCESS CANAL CONSTRUCTION																				476															
LOCATION, ROADS, PITS OR KEYWAY																				472		7,500				3,000		10,500							
BITS, COREHEADS, ETC.																				492															
MUD MATERIALS																				475		15,000				1,500		16,500							
CEMENT AND CEMENTING SERVICES																				473		21,000				8,000		29,000							
CENTRALIZERS, SHOES, SCRATCHERS AND NON-SALVABLE PACKERS																				491		1,000				1,000		2,000							
MUD LOGGING												20 days @ \$350/day								474		7,000						7,000							
FORMATION TESTING												1 DST								482		4,500						4,500							
LOGGING AND SIDE WALL CORING																				478		26,000				3,000		29,000							
PERFORATING																				479						7,500		7,500							
TOOL RENTAL INCLUDING SMALL DIAMETER DRILL PIPE																				488		6,000				3,000		9,000							
TESTING TUBULAR GOODS																				484		6,000				10,000		16,000							
INTERNAL COATING																				485															
STIMULATION TREATMENT																				480						7,500		7,500							
OTHER SPECIAL WELL SERVICES												includes 60' core								494		16,000						16,000							
MISCELLANEOUS COSTS AND CONTINGENCIES												10%								599		31,000				6,550		37,550							
TOTAL INTANGIBLES																						399,900				72,050		411,950							
TANGIBLES																																			
CASING		ft.		in.		lb.		Gr.		@ \$		440																							
		400		13-3/8		48		H-40		21.39		440		8,550						8,550															
		4,200		8-5/8		28		S-80		13.06		440		54,850						54,850															
		11,900		5-1/2		17		N-80		9.48		440						112,800		112,800															
TUBING												443																							
		11,500		2-7/8		6.5		N-80		4.49		443						51,600		51,600															
CASING HEADS																444		4,000				9,500		13,500											
CHRISTMAS TREE																445						8,000		8,000											
RETRIEVABLE PACKERS																448						6,000		6,000											
OTHER WELL EQUIPMENT																4																			

Co.		Dept.		Play No.		AFE No.		AFE Title or Location Name (25)			
25		1		6140		7438938		SIMMONS NO. 1 D.C. & E.			
COMPANY Pennzoil Company						DIVISION Western			DISTRICT 36		
WELL NAME AND NO. Simmons No. 1						FIELD OR AREA Shipp			UNDEVELOPED LEASE NO.		
OPERATOR Pennzoil Company						COUNTY OR PARISH Lea			STATE New Mexico		
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<input checked="" type="checkbox"/> Single		<input type="checkbox"/> Triple		<input checked="" type="checkbox"/> Oil		<input type="checkbox"/> Gas		<input type="checkbox"/> Expl.		<input checked="" type="checkbox"/> Dev.	
<input type="checkbox"/> Dual				<input type="checkbox"/> X Oil		<input type="checkbox"/> Gas		<input type="checkbox"/> Expl.		<input checked="" type="checkbox"/> Dev.	
<input checked="" type="checkbox"/> Land		<input type="checkbox"/> Bay		DATE TO START		DATE TO COMPLETE		DAYS TO DRILL		PROPOSED DEPTH	
<input type="checkbox"/> Marsh		<input type="checkbox"/> Gulf						34		11,900'	
Gross		Net		Budget Code		Ls./Assoc. Prop. No.		Assoc. AFE No.		Joint Venture	
										Operator	
										State Code	
County/Ph. Code		Civil Dist.		Conveyed		Report to Code		Costing Location Mktg		Environmental Cost	
				<input type="checkbox"/> Yes <input type="checkbox"/> No						% Air	
										% Water	
										% Land - Other	
										% Safety and Health	
JUSTIFICATION											

### DETAIL OF PRODUCTION EQUIPMENT AND OTHER COSTS

[illegible]

### SUMMARY OF ESTIMATED COST

1	PROPERTY ADDITIONS				
6	REMOVAL COST				
5	SALVAGE				
			TOTAL COST	100.00000 %	104,800
CO. OWNERSHIP		%	COMPANY COST		%
APPROVAL	DATE		APPROVAL	DATE	AUTHORIZATION
					DATE
JOINT INTEREST APPROVAL					
COMPANY NAME:					%
APPROVAL				DATE	