

October 2, 1987

ARCO Oil & Gas Company
P. O. Box 1610
Midland, Texas 79701

RECEIVED

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MIDLAND LAND DEPARTMENT

Attention: Ms. Rita Buress

RE: Proposed Devonian Test
Erwin No. 1
EAST MORTON PROSPECT
Lea County, New Mexico

Gentlemen:



Mitchell Energy Corporation proposes the formation of a 324.08 acre working interest unit made up of Lots 1, 2, 3, 4 and S/2 N/2 Section 3, T-15-S, R-35-E, Lea County, New Mexico and the drilling of a well to test and evaluate the Devonian section at a depth of approximately 14,700'. The well would be located approximately 330' FNL and 1,800' FWL of Section 3.

The test well and subsequent operations within the proposed working interest unit will be governed by the terms of the enclosed AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as Operator. At this time, we anticipate spud date on or before December 15, 1987.

According to our information, it appears the potential working interest parties and their respective interests within the proposed working interest unit will be as follows:

<u>INTEREST OWNER</u>	<u>UNIT INTEREST</u>
Mitchell Energy Corporation	0.6957136
Kaneb Operating Company, Ltd.	0.2281226
ARCO Oil and Gas Company	0.0313965
Fern Cone	0.0104167
Douglas Cone	0.0062500
Clifford Cone	0.0062500
Kenneth Cone	0.0062500
James Reed McCrory	0.0051839
Estate of William Thomas	0.0104167
Reed, deceased	

We would appreciate your confirmation of the above interest.

Handwritten notes:
2570 RE
1/16 comment WSC 4/26/87

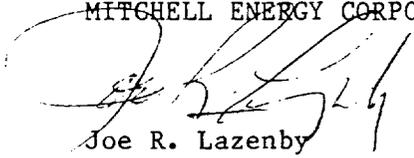
Enclosed herewith are duplicate copies of the AFE Cost Estimates for Dry Hole Costs and Completed Well Costs. If you elect to participate in drilling the proposed well, please execute and return one (1) copy of each of the AFE Cost Estimates. At such time as all participants are known, we will provide you with Exhibit "A" pages to the Operating Agreement reflecting the participants, working interests, leases and interests to be committed to the agreement and appropriate execution by Mitchell Energy.

Should you elect not to participate in the subject well, Mitchell hereby offers to lease your interest in Lots 1, 2, 3, 4 and S/2 N/2 Section 3 for \$200.00 per acre bonus, 1/4 royalty, for a three (3) year term and \$1.00 per acre annual rentals on the attached lease form. If you are in agreement to lease please advise and we will forward a draft and leasing instructions.

We would appreciate your early response so we may proceed with our drilling plans and completion of the Joint Operating Agreement.

Very truly yours,

MITCHELL ENERGY CORPORATION



Joe R. Lazenby
District Landman

JRL/jm

Enclosures