

OCT 08 1987

PS Form 3811, Jan. 1979

● SENDER: Complete items 1, 2, and 3. Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
 Show to whom and date delivered.....
 Show to whom, date and address of delivery.....
 RESTRICTED DELIVERY
 Show to whom and date delivered.....
 RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery. \$ ____
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 ARCO Oil & Gas
 P. O. Box 1610
 Midland, Texas 79701

3. ARTICLE DESCRIPTION:

REGISTERED NO.	CERTIFIED NO.	INSURED NO.
	P335 323 630	

 (Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE Addressee Authorized agent

4. DATE OF DELIVERY: *STEPHEN R. Curney* POSTMARK: 10/2/87

5. ADDRESS (Complete only if requested):
 10-5-87

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS: *SK*

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

O/A-Erwin #1 ☆GPO : 1979-228-848

P 335 323 630

RECEIPT FOR CERTIFIED MAIL
 NOT VALID FOR CONTRACT PROVISIONS
 NOT FOR INTERNATIONAL MAIL
 (See Reverse)

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

PS Form 3800, Nov. 1976

TOTAL POSTAGE AND FEES
 POSTMARK OR DATE
 10/2/87

Before Using this Provision
 32
 Case No. _____

October 2, 1987

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

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 Reed, deceased	0.0104167

We would appreciate your confirmation of the above interest.

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

Type Project (check 1 only)

- Exploratory Recompletion (Zone Change Only) Disposal
 Development Plug and Abandon (Previously Producing Well) Depth 14,700
 Injection Water Supply

Form B-2 Add Change Delete

Group Code _____

AFE Number _____

Location Code _____

Property/Well Name Erwin #1

Department Number 730

Project Description Complete

County Lea St. NM

Net Working Interest 1.00

Operator Mitchell Energy Corp

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

COMPLETION COSTS

INTANGIBLE

	<u>Amount</u>
22 Overhead	\$3,000
23 Company Labor and Services	_____
24 Contract Labor and Services	35,000
25 Air/Marine Transportation	_____
26 Other Transportation	11,000
27 Plugging and Abandonment	_____
28 Rig Mobilization and Demobilization	_____
29 Supervision - Company and/ or Contract	4,000
30 Site Preparation and Clean-up	4,000
31 Subsurface Casing Equipment	4,000
32 Squeeze Cement and Service	_____
33 Completion Fluids	3,000
34 Pump Truck Services	2,000
35 Rental Tools	15,000
36 Bits and Reamers	_____
37 Insurance	_____
38 Wireline Services	_____
39 Fishing Tools and Services	_____
*53 Tertiary Injectants	_____
68 Fencing	500
83 Daywork Contract Fee	15,000
84 Cement and Cement Services - Primary	20,000
85 Acidizing and Fracturing	10,000
*86 Cased Hole Logging and Perforating	15,000
94 Miscellaneous Services and Contingency	7,500

TOTAL INTANGIBLE COSTS 149,000

TANGIBLE

69 Tubinghead Equipment (Including Valves)	4,500
70 Casing-Production and/or Liner <u>14,700' 20#/ft 5 1/2" N-80</u>	160,800
71 Tubing <u>14,500' 2 7/8" N-80 6.5#/ft</u>	62,500
72 Packers and Subsurface Equipment	_____
73 Production Tree (Including Valves)	_____
74 Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	11,000
75 Separating Equipment	_____
76 Treating Equipment <u>4' x 20' heater treater</u>	7,000
77 Artificial Lift Equipment	110,000
78 Line Pipe	2,000
79 Valves and Fittings Beyond Wellhead	4,000
80 Miscellaneous Equipment	4,200
81 Platform and Structures	_____
82 Metering Equipment	_____
87 Pumps	_____
90 Electrical Equipment	_____
91 Instrumentation Equipment	_____
96 Dehydrators and Dryers	_____
TOTAL TANGIBLE COSTS	366,000

TOTAL COMPLETION COSTS

515,000

* Invalid for disposal and water supply wells.

P=1