

Santa Fe Energy Resources, Inc.

CERTIFIED MAIL - RETURN RECEIPT

April 8, 1997

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

ATTN: Ms. Georgia Fenton

Re: Well Proposal
ABE Unit #2
T-21-S, R-33-E
Sec. 21: W/2
Lea County, New Mexico
Spessartine Prospect

Gentlemen:

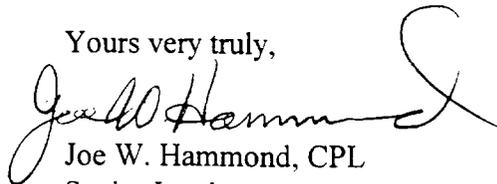
Santa Fe Energy Resources, Inc. proposes the drilling of a 15,100' Morrow test well at a location of 660' FSL & 660' FWL of Section 21, T-21-S, R-33-E, Lea County, New Mexico. The spacing unit for this well will encompass the W/2 of Section 21.

Our records indicate your ownership of a leasehold interest in the E/2SW/4 of Section 21, and in that regard, Santa Fe requests your review and election of one of the following.

- a) Participate in the drilling of the well by returning an executed copy of the enclosed AFE. A Joint Operating Agreement is also enclosed for your review and execution.
- b) Farmout your right, title and interest in the drilling and spacing unit delivering to Santa Fe a 81.25% NRI Lease.
- c) Sell your interest to Santa Fe in the drilling and spacing unit for \$100.00 per net acre bonus delivering an 80% NRI Lease.

Should an alternative type of trade to the above be of interest to you, please do not hesitate to contact me at 686-6736. Your early response is appreciated.

Yours very truly,


Joe W. Hammond, CPL
Senior Landman

JWH/efw (EWOR1776)
Encls a/s

Central Division
550 W Texas, Suite 1330
Midland, Texas 79701
915/687-3551

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT 3

CASE NO. 11787



SANTA FE ENERGY RESOURCES, INC.

GENERALIZED WELL COST ESTIMATE

WELL NAME Abe Unit 2 abeunit2.XLS
 LOCATION 660' FSL & 660' FWL, Sec. 21-21S-33E, Lea Co., N.M.
 DESCRIPTION Drill and Complete a 15,100' Morrow Gas Well

ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501-000	TANGIBLE WELL COSTS			
501-041	Conductor Csg		4,000	4,000
501-041	Surface Csg	13-3/8" 48.0 ppf H-40 ST&C @1650'	22,688	22,688
501-041	Protection Csg	9-5/8" 40.0 ppf K-55 ST&C @ 5,200'	67,600	67,600
501-041	Intermediate Csg	7" 26.0 ppf S-95 & P-110 LT&C @ 12,250'	147,000	147,000
501-041	Prod Csg			
501-041	Prod Liner	4-1/2" 13.50 ppf S-95 LT&C 11,750'-15,100'		30,150
501-042	Tubing	2-3/8" 4.7 ppf P-105 AB-Mod EUE @ 15,100'		75,500
501-043	Wellhead		5,000	40,000
501-044	Pmpg Unit			
501-045	Prime Mover			
501-050	Other Dwn Hole Equip	Liner Top Packer & Hanger		11,000
501-050	Rods			
501-050	Subsurface Pmps			
501-055	Csg Equip		4,000	6,000
501-055	Electrical			
501-055	Misc. Tangibles			
501-055	Rod Equip			
501-055	Tubing Equip			5,000
	TOTAL TANGIBLE COSTS		250,288	408,938
541-000	LEASE FACILITY COSTS			
541-050	Flowlines			4,000
541-050	Labor			8,000
541-050	Other Prod Equip	Separator, GPU & Dehyd Unit		30,000
541-050	Tank Facilities			19,000
	TOTAL LEASE FACILITY COSTS		-	61,000
511-000	INTANGIBLE WELL COSTS			
511-021	Location	Dirt Work & Damages Payment	15,000	15,000
511-022	Fencing		2,000	4,000
511-026	Drilling Water		40,000	40,000
511-031	Contractor Moving Exp		40,000	40,000
511-032	Cont Footage or Turnkey			
511-032	Contractor Daywork	35 + 35 days @ \$6400/7200 /day	476,000	476,000
511-033	Drig Fluid & Additives		75,000	75,000
511-034	Bits & Reamers		100,000	100,000
511-036	Coring & Core Analyses	Rotary Sidewall Cores (25)	15,000	15,000
511-037	Cement		70,000	90,000
511-039	Inspection & Tstg of Tang		15,000	25,000
511-041	Directional Drig Surveys			
511-042	Drilling Equip Rental		50,000	50,000
511-043	Open Hole Logging	CNL/LDT/DLL/MSFL/FMI (2 Runs)	65,000	65,000
511-044	Drill Stem Tstg	One Test over the Morrow	10,000	10,000
511-045	Mud Logging	\$450/d X 50 days	22,500	22,500
511-051	Transportation		15,000	25,000
511-052	Completion Unit	10 days X \$1500/day		15,000
511-053	Completion Tool Rental			15,000
511-054	Cased Hole Logs & Perfig			13,000
511-055	Stimulation			30,000
511-056	Rigsite Supervision	70 + 10 X \$400/day	28,000	32,000
511-072	Administrative Overhead		10,000	15,000
511-099	Fishing Tools & Exp			
511-099	Testing: BHP, GOR, 4 Pt Pot			7,557
	Abandonment Cost		7,602	
	Other Intangibles			
0.1	Contingency (10%)		105,610	118,063
	TOTAL INTANGIBLES		1,161,712	1,298,063
	TOTAL COSTS		1,412,000	1,768,000

OPERATION DEPT APPROVAL (Initials)
 APPROVAL DATE *M. L. Carter* 4/6/19

ENGINEERING DEPT APPROVAL (Initials)
 APPROVAL DATE *UDF*

SFER APPROVAL
 APPROVAL DATE *D. D. Delala*

NON-OPERATOR APPROVAL
 APPROVAL DATE

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete item 1 and/or 2 for additional services.
- Complete item 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. Addressee's Address
2. Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

MS. GEORGIA FENTON
PHILLIPS PETROLEUM COMPANY
4001 PENBROOK
ODESSA TX 79762

4a. Article Number

P 168 442 125

4b. Service Type

- | | |
|--|---|
| <input type="checkbox"/> Registered | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Insured |
| <input checked="" type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD |

7. Date of Delivery

4-10-97 *gm*

5. Received By: (Print Name)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature: (Addressee or Agent)

X *Ross Walters*

Thank you for using Return Receipt Service.