

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

September 17, 1998

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Merit Energy Company
12222 Merit Drive
Dallas, Texas 75251-2217

Re: Viper "3" Fed. #1 Well
Surface Location: 1,600' FEL and 2,200' FSL
Bottom Hole Location: 1,650' FNL and 1,650' FEL
Section 3, T-20-S, R-33-E
Lea County, New Mexico
Viper Prospect

Gentlemen:

Nearburg Exploration Company, L.L.C. (Nearburg) hereby proposes the drilling of the captioned well at the above location to a depth to adequately test the Morrow formation, estimated to be 13,700', dedicating the N/2 of Section 3 as a 320 acre spacing unit. Enclosed with this proposal letter is Nearburg Producing Company's AFE setting forth the estimated costs to drill and complete this well. Also enclosed please find Nearburg's form of Operating Agreement, which we propose to govern the drilling of this well designating Nearburg Producing Company as operator.

We invite you to participate in the drilling of this well or, in the alternative, to either grant Nearburg an acceptable farmout or term assignment of your interest to be included in the N/2 of Section 3. If you elect to participate in the drilling of this well, please execute the extra set of signature pages to the Operating Agreement and a copy of the enclosed AFE and return to the attention of the undersigned.

If we can be of further assistance, please feel free to contact the undersigned.

Yours very truly,



Duke Roush
Senior Landman

DR/dw
encl.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12087 Exhibit No. — **5**
Submitted By:
Nearburg Exploration Co.
Hearing Date: November 19, 1998

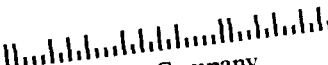
P 497 370 025

US Postal Service

Receipt for Certified Mail

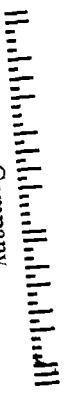
No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
 Merit Energy Company 12222 Merit Drive Dallas, Texas 75251-2217	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date Viper "3" Fed. #1	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER: ■ Complete items 1 and/or 2 for additional services. ■ Complete items 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. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to:  Merit Energy Company 12222 Merit Drive Dallas, Texas 75251-2217		4a. Article Number 0497 370.025	
5. Received By: (Print Name) Vera Jones		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
6. Signature: (Addressee or Agent) X [Signature]		7. Date of Delivery 12/1/98	
PS Form 3871, December 1994		8. Addressee's Address (Only if requested and fee is paid) Domestic Return Receipt	

Thank you for using Return Receipt Service.

Nearburg Producing Company

Page 1 of 2

Exploration and Production
Dallas, Texas**AUTHORITY FOR EXPENDITURE**

LEASE: Viper "3" Federal WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 13,700' (TVD)
 LOCATION: SHL: 1,600' FEL & 2,200' FSL, BHL: 1,650' FEL & 1,650' FNL, Section 3, T20S, R33E, Lea County, NM
 FIELD: Buffalo Penn Gas East PROSPECT: Viper EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill directionally to BHL and complete as a flowing Morrow gas producer.
 Cost estimate does not include fracture stimulation.
 DATE PREPARED: 8/6/98 EST. SPUD DATE: 1998 EST. COMPLETION DATE:
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:				CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage	13,700 Ft @	\$/Ft	1514.101		0	NA		0
Drilling Daywork	D/C\$/day 60	2 5800	1514.103		348,000	1515.105	11,600	359,600
Drilling Turnkey			1514.110			1515.110		0
Rig Mobilization and Demobilization			1514.115		25,000	1515.115	3,000	28,000
Road & Location Expense			1514.120		25,000	1515.120		25,000
Damages			1514.125		5,000	1515.125		5,000
Directional Drilling - Tools and Service			1514.130		80,000	1515.130		80,000
Drilling Fluids			1514.135		55,000	1515.135	1,000	56,000
Fuel, Power, and Water			1514.140		20,000	1515.140	2,000	22,000
Supplies - Bits			1514.145		60,000	1515.145	1,000	61,000
Supplies - Casing Equipment			1514.150		4,000	1515.150	8,000	12,000
Supplies - Liner Equipment			1514.155		13,500	1515.155		13,500
Supplies - Miscellaneous			1514.160		1,000	1515.160	500	1,500
Cement and Cmt. Services - Surface Csg			1514.165		7,000	NA		7,000
Cement and Cmt. Services - Int. Csg			1514.170		12,500	NA		12,500
Cement and Cmt. Services - Prod. Csg			NA			1515.175	30,000	30,000
Cement and Cmt. Services - Other			1514.175		8,000	1515.175		8,000
Rental - Drilling Tools and Equipment			1514.180		20,000	1515.180		20,000
Rental - Miscellaneous			1514.185		15,000	1515.185	3,000	18,000
Testing - Drill Stem / Production			1514.190		8,000	1515.195	2,500	10,500
Open Hole Logging			1514.200		40,000	NA		40,000
Mudlogging Services			1514.210		15,000	NA		15,000
Special Services			1514.190			1515.190		0
Plug and Abandon			1514.215		12,000	1515.215	(12,000)	0
Pulling and/or Swabbing Unit			NA			1515.215	12,000	12,000
Reverse Equipment			NA			1515.215	3,000	3,000
Wireline Services			1514.200			1515.205	18,000	18,000
Stimulation			NA			1515.221	12,000	12,000
Pump / Vacuum Truck Services			1514.220		500	1515.220	2,500	3,000
Transportation			1514.225		1,500	1515.225	4,000	5,500
Tubular Goods - Inspection & Testing			1514.230		1,500	1515.230	10,000	11,500
Unclassified			1514.245			1515.245		0
Telephone and Radio Expense			1514.240		1,500	1515.240	500	2,000
Engineer / Geologist / Landman			1514.250		7,500	1515.250	2,500	10,000
Company Labor - Field Supervision			1514.255		25,000	1515.255	7,000	32,000
Contract Labor / Roustabout			1514.265		8,000	1515.265	7,000	15,000
Legal and Professional Service			1514.270		5,000	1515.270	2,000	7,000
Insurance			1514.275		21,300	1515.275		21,300
Overhead			1514.280		13,000	1515.280	3,000	16,000
SUBTOTAL					858,800		134,100	992,900
Contingencies (10%)					85,880		13,410	99,290
ESTIMATED TOTAL INTANGIBLES					944,680		147,510	1,092,190

Nearburg Producing Company

Exploration and Production

Dallas, Texas

Page 2 of 2

AUTHORITY FOR EXPENDITURE

LEASE: Viper "3" Federal

WELL NUMBER: 1

PROPOSED TOTAL DEPTH: 13,700' (TVD)

LOCATION: SHL: 1,600' FEL & 2,200' FSL, BHL: 1,650' FEL & 1,650' FNL, Section 3, T20S, R33E, Lea County, NM

FIELD: Buffalo Penn Gas East

PROSPECT: Viper

EXPLORATORY, DEVELOPMENT, WO: E

DESCRIPTION OF WORK: Drill directionally to BHL and complete as a flowing Morrow gas producer.

DATE PREPARED: 8/6/98

EST. SPUD DATE: 1998

EST. COMPLETION DATE:

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	1520.305		NA		0
Surface Csg 1,350 Ft @ 25.00 \$/Ft	1520.310	33,750	NA		33,750
Intermediate Csg 3,750 Ft @ 27.50 \$/Ft	1520.315	103,125	NA		103,125
Protection Csg 1,700 Ft @ 14.50 \$/Ft	1520.320	24,650	NA		24,650
Production Csg 13,843 Ft @ 10.00 \$/Ft	NA		1522.325	138,430	138,430
Protection Liner Ft @ \$/Ft	1520.330	0	NA		0
Production Liner Ft @ \$/Ft	NA		1522.335	0	0
Tubing 13,400 Ft @ 3.25 \$/Ft	NA		1522.340	43,550	43,550
Rods Ft @ \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350		0
Tank Battery	NA		1522.355	10,000	10,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522.360	15,000	15,000
Well Head Equipment & Christmas Tree	1520.365	3,500	1522.365	12,000	15,500
Subsurface Well Equipment	NA		1522.370	6,000	6,000
Flow Lines	NA		1522.375	25,000	25,000
Saltwater Disposal Pump	NA		1522.380		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.390		0
Vapor Recovery Unit	NA		1522.395		0
Other Well Equipment	NA		1522.400		0
ROW and Damages	NA		1522.405	2,500	2,500
Surface Equipment Installation Costs	NA		1522.410	7,500	7,500
Elect. Installation	NA		1522.415		0
ESTIMATED TOTAL TANGIBLES		165,025		262,980	428,005
ESTIMATED TOTAL WELL COSTS		1,109,705		410,490	1,520,195

NPC APPROVAL	DATE
PREPARED BY: <i>H.R. Willis</i>	8/6/98
APPROVED BY: <i>E. Scott Kimbrough</i>	8/6/98
APPROVED BY: <i>[Signature]</i>	9/18/98
APPROVED BY: <i>[Signature]</i>	9/18/98

WI APPROVAL: COMPANY

MERIT ENERGY COMPANY

6.389000%

BY

TITLE

DATE