

*1st proposed*

*file*

April 25, 1990

CERTIFIED MAIL

Texaco Inc.  
P. O. Box 2100  
Denver, Colorado 80201

Attention: Mr. Gary Cox

RE: Proposed Delaware Test  
Milky Way State #1  
MILKY WAY PROSPECT  
Lea County, New Mexico

BEFORE EXAMINER STOGNER

Oil Conservation Division

*Mitchell* Exhibit No. 3

Case No. 9966



Gentlemen:

Mitchell Energy Corporation proposes the formation of a 160.00 acre working interest unit made up of the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, and the drilling of a well to test and evaluate the Delaware formation at a depth of approximately 6,700'. The well would be located approximately 1,980' FSL and 330' FEL of said Section 17. At this time, we anticipate the proration unit for the test well will consist of the NE/4 SE/4 of said Section 17.

The test well and subsequent operations within the proposed working interest unit will be governed by the terms of an AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as operator. A copy of said operating agreement will be forwarded to you in the next few days. At this time, we anticipate spudding the well on or before July 31, 1990.

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

<u>INTEREST OWNERS</u>	<u>UNIT INTEREST</u>
Mitchell Energy Corporation	0.5000000
Texaco Inc.	0.2775000
Rowan Petroleum, Inc.	0.2225000

We would appreciate your confirmation of the above interest at your earliest possible convenience.

2

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 to the undersigned.


Should you elect not to participate in said well, Mitchell proposes Texaco either sell all of its right, title and interest in and to State of New Mexico Oil and Gas Lease V-1565 insofar as said lease covers the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, for \$100.00 per net acre or farmout its interest in said lands under the following general terms:

1. Mitchell would propose to commence the drilling of a Delaware test well at a location approximately 1,980' FSL & 330' FEL of Section 17, T-18-S, R-35-E, Lea County, New Mexico, on or before July 31, 1990, and agrees to drill said well to a depth of 6,700' or a depth sufficient to adequately test the Delaware Formation, whichever is the lesser depth.
2. Upon completion of the above well as a producer of oil and/or gas in paying quantities, Mitchell will earn 100% of Texaco's interest included in the proration unit for the well, subject to Texaco's reservation of an overriding royalty interest equal to the difference by which 25% exceeds existing lease burdens, convertible at payout upon your election to a proportionately reduced 25% working interest. In addition to the above, Mitchell would earn 50% of Texaco's interest in that portion of the farmout acreage not included in the proration unit for the earning well. Rights earned would be limited to 100' below total depth drilled.

The lease which is the subject of this proposal will expire unless actual drilling operations are commenced on or before August 1, 1990. Accordingly, we ask that you respond to this proposal no later than May 14, 1990, in order that we may proceed with our drilling plans.

Respectfully,

MITCHELL ENERGY CORPORATION

  
Larry D. Cunningham  
District Landman

LDC/SJS/jm

**SENDER:** 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. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery  
↑(Extra charge)↑ ↑(Extra charge)↑

3. Article Addressed to: Texaco Inc. P. O. Box 2100 Denver, Colorado 80201  Attn: Mr. Gary Gox	4. Article Number P547240916  Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input 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>T. D. W. S.</i>	
7. Date of Delivery <i>4-27</i>	

PS Form 3811, Mar. 1987

★ U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

P 547 240 916

## RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1983-403-517

Sent to	<i>Texaco Inc.</i>
Street and No.	
P.O., State and ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	<i>4/25/96</i>

PS Form 3800, Feb. 1982

4 JEL

May 3, 1990

EXPRESS MAIL - CERTIFIED

Texaco Inc.  
P. O. Box 2100  
Denver, Colorado 80201

Attention: Mr. Gary Cox

RE: Proposed Delaware Test  
Milky Way State #1  
MILKY WAY PROSPECT  
Lea County, New Mexico




Dear Mr. Cox:

Reference is made to Mitchell Energy Corporation's letter dated April 25, 1990, wherein Mitchell proposed the formation of a working interest unit to be made up of the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, and the drilling of a 6,700' Delaware test at a legal location in the SE/4 of said Section 17. In connection therewith, enclosed is a copy of the AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as Operator referenced in said letter along with duplicate signature pages for said Operating Agreement. Duplicate copies of the AFE Cost Estimates for Dry Hole Costs and Completed Well Costs were to have been enclosed with the April 25th letter, however, due to an oversight, none were sent. Enclosed herewith are said AFE Cost Estimates.

If you elect to participate in the drilling of the proposed well, please execute and return one (1) copy each of the enclosed AFE Cost Estimates and one (1) signature page to the Operating Agreement to this office not later than May 14, 1990.

Sincerely,

MITCHELL ENERGY CORPORATION



Steven J. Smith  
Senior Landman

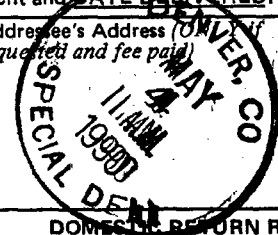
SJS/jm

Enclosures

**SENDER:** 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. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery  
†(Extra charge)† †(Extra charge)†

3. Article Addressed to:  TEXACO INC. 4601 D.T.C. Denver, Colorado 80237	4. Article Number <del>2547240919</del> <b>RB 2301255</b> Type of Service: <input type="checkbox"/> Registered <span style="margin-left: 40px;"><input type="checkbox"/> Insured</span> <input checked="" type="checkbox"/> Certified <span style="margin-left: 40px;"><input type="checkbox"/> COD</span> <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
5. Signature — Addressee <input checked="" type="checkbox"/>	8. Addressee's Address (Only if requested and fee paid) <div style="text-align: center;">  </div>
6. Signature — Agent <input checked="" type="checkbox"/> <i>[Signature]</i>	
7. Date of Delivery	

PS Form 3811, Mar. 1987

★ U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

P 547 240 919

### RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1983-403-517	Sent to <i>Texaco Inc.</i>	
	Street and No. <i>P.O. Box 2100</i>	
	P.O., State and ZIP Code <i>Denver, Colorado 80201</i>	
	Postage	\$
	Certified Fee	
	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt Showing to whom and Date Delivered	
	Return receipt showing to whom, Date, and Address of Delivery	
	TOTAL Postage and Fees	\$
Postmark or Date		

PS Form 3800, Feb. 1982

## AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

## Type Project (check 1 only)

☒ Exploratory      ☐ Injection      ☐ Water Supply  
☐ Development      ☐ Disposal      ☐ Depth 6700'

Form B-1      ☐ Add      ☐ Change      ☐ Delete

AFE Number \_\_\_\_\_

Property/Well Name Milky Way Fed No. 1Project Description DrillNet Working Interest .50 \_\_\_\_\_

Group Code \_\_\_\_\_

Location Code \_\_\_\_\_

Department Number 712County Lea St. NMOperator MEC

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

## DRILLING COSTS

## INTANGIBLE

Amount

10	Dry Hole Abandonment	
11	Rig Mobilization and Demobilization	
12	Power and Fuel	
13	Water	
14	Solids Control Equipment Rental	10,000
*15	Directional Equipment and Services	
16	Fishing Tools and Services	
17	Subsurface Casing Equipment	2,500
18	Contract Labor and Services	10,000
19	Supervision - Company and/or Contract (15 days @ \$500/day)	7,500
50	Road and Site Preparation	25,000
51	Footage Contract Fee (6700' @ \$13.50/ft)	90,500
52	Daywork Contract Fee (2 days @ \$3800/day)	7,600
53	Mud and Chemicals (mud-up 5500')	20,000
54	Bits and Reamers	
55	Drilling Tool and Equipment Rental	3,000
56	Cement and Cement Services	22,000
*57	Open Hole Logging-Testing (incl 12 days ML @ \$350/day)	4,200
*58	Drill Stem Testing	
59	Coring and Analysis	
60	Transportation	4,500
61	Air/Marine Transportation	
63	Overhead	5,000
64	Insurance	
65	Company Labor and Services	
*66	Prospect Generation	10,000
67	Miscellaneous Services and Contingency	10,000
TOTAL INTANGIBLE COSTS		\$231,800

## TANGIBLE

21	Casing-Drive Pipe & Conductor	
40	Casing - Surface 400' - 13 3/8" 48# K-S @ \$23.62/ft	\$9,450
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S @ \$14.00/ft	46,900
42	Casinghead Equipment (Including Valves) (3000 psi)	3,500
43	Casing Spool (Including Valves) (3000 psi)	5,000
44	Miscellaneous Equipment	
TOTAL TANGIBLE COSTS		\$64,850

TOTAL DRILLING (DRY HOLE) COSTS

\$296,650

\* Invalid for disposal and water supply wells.

MEDC 252-02

APPROVED - TEXACO INC.

Prepared By:

G. W. Tullos

Rev. 4/29/85

BY: \_\_\_\_\_

Date Prepared:

3/9/90

G.W.I. - 0.2775000

# AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

## Type Project (check 1 only)

- ☒ Exploratory     ☐ Recompletion (Zone Change Only)     ☐ Disposal  
☐ Development     ☐ Plug and Abandon (Previously Producing Well)     Depth 6700'  
☐ Injection     ☐ Water Supply

Form B-2     ☐ Add     ☐ Change     ☐ Delete

AFE Number \_\_\_\_\_

Property/Well Name Milky Way Fed. #1

Project Description Complete

Net Working Interest . 5 0 0 0 \_\_\_\_\_

Group Code \_\_\_\_\_

Location Code \_\_\_\_\_

Department Number 730

County Lea St. NM

Operator MEC

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

### COMPLETION COSTS

#### INTANGIBLE

	Amount
22 Overhead	\$2,000
23 Company Labor and Services	
24 Contract Labor and Services	10,000
25 Air/Marine Transportation	
26 Other Transportation	2,000
27 Plugging and Abandonment	
28 Rig Mobilization and Demobilization	
29 Supervision - Company and/ or Contract	2,000
30 Site Preparation and Clean-up	1,000
31 Subsurface Casing Equipment	2,000
32 Squeeze Cement and Service	
33 Completion Fluids	1,000
34 Pump Truck Services	2,000
35 Rental Tools	4,000
36 Bits and Reamers	
37 Insurance	
38 Wireline Services	
39 Fishing Tools and Services	
*53 Tertiary Injectants	
68 Fencing	
83 Daywork Contract Fee	6,000
84 Cement and Cement Services - Primary	15,000
85 Acidizing and Fracturing	40,000
*86 Cased Hole Logging and Perforating	7,000
94 Miscellaneous Services and Contingency	2,000

TOTAL INTANGIBLE COSTS

\$96,000

#### TANGIBLE

69 Tubinghead Equipment (Including Valves)	\$3,500
70 Casing-Production and/or Liner <u>6700' - 5 1/2" 17# K-55</u>	54,300
71 Tubing <u>6600' - 2 7/8" J-55</u>	26,000
72 Packers and Subsurface Equipment	
73 Production Tree (Including Valves)	
74 Storage Tanks <u>2-400 bbl steel &amp; 1-400 bbl fiberglass</u>	13,000
75 Separating Equipment	
76 Treating Equipment <u>4x20 Heater treater</u>	7,900
77 Artificial Lift Equipment <u>C-320-305-100 w/76 rod string &amp; pump</u>	39,000
78 Line Pipe	1,000
79 Valves and Fittings Beyond Wellhead	
80 Miscellaneous Equipment	1,300
81 Platform and Structures	
82 Metering Equipment	
87 Pumps	
90 Electrical Equipment	
91 Instrumentation Equipment	
96 Dehydrators and Dryers	
TOTAL TANGIBLE COSTS	146,000

TOTAL COMPLETION COSTS

\$242,000

\* Invalid for disposal and water supply wells.

MEUC 252-03 APPROVED - TEXACO INC.

Rev. 4/29/85

BY: \_\_\_\_\_

G.W.I. - 0.2775000

Prepared By: \_\_\_\_\_

Date Prepared: \_\_\_\_\_

*Jim Blount*  
Jim Blount

3/8/90

RB230125599

POST OFFICE  
TO ADDRESSEE

ORIGIN	Destination	Postage
		8.75
		.90
ACCEPTANCE		
		9.65

Express Mail  
Corporate  
Account No.Federal Agency  
Account No.:

FROM:

MITCHELL ENERGY CORP.  
400 W. ILLINOIS, #1000  
MIDLAND TX 79701-4318MAILING LABEL  
Service Analysis & Proof of Delivery

DESTINATION	Date of Delivery	Time of Delivery	<input type="checkbox"/> A.M. <input type="checkbox"/> P.M.
<input checked="" type="checkbox"/> Signature of Addressee or Agent			
DELIVERY WAS ATTEMPTED	Date:	Time: <input type="checkbox"/> A.M. <input type="checkbox"/> P.M.	
Signature of Delivery Employee	1.	2.	
Waiver of Signature and Indemnity (Domestic Only)		I wish delivery to be made without obtaining the signature of the addressee or the addressee's agent (if in the judgment of the delivery employee, the article can be left in a secure location) and I authorize the delivery employee to sign that the shipment was delivered and understand that the signature of the delivery employee will constitute valid proof of delivery.	
SIGNED:			
TO:		Telephone Number: _____	
TEXACO INC. 4601 D.T.C. Denver, Colorado 80237 ATTN: MR. GARY COX			

RETAIN THIS NUMBER-CUSTOMER  
RECEIPT WILL BE MAILED TO YOU.

RB230125599





Texaco USA  
Western E&P Region

PO Box 2100  
Denver CO 80201  
4601 DTC Boulevard  
Denver CO 80237

MAY 07 1990

May 3, 1990

TEXACO INC.  
343390 (36) - St. of New Mexico V-1565  
SE¼ of Section 17, T-18-S, R-35-E  
Lea County, New Mexico  
(F/O 90-106)

Mitchell Energy Corporation  
1000 Independence Plaza  
400 W. Illinois  
Midland, Texas 79701

Attn: Mr. Larry D. Cunningham

Gentlemen:

We have received your proposal dated April 25, 1990. Your request will be reviewed shortly, after which we will be back in touch with you. Please call (303) 793-4512 should you have any questions on this matter.

Very truly yours,

TEXACO INC.

David L. Sleeper  
Southwest Division

DLS:lmb  
3/1

*talked on the phone  
numerous times*