

ARCO Oil and Gas Company
Central District
Post Office Box 1610
Midland, Texas 79702
Telephone 915 688 5200

OCT 09 1987



October 8, 1987

Mitchell Energy Corporation
1000 Briercroft Savings Building
200 North Loraine
Midland, Texas 79701

Attention: Mr. Joe R. Lazenby

Re: Working Interest Unit Proposal
Erwin No. 1
N/2 Section 3, T-15-S, R-35-E
Lea County, New Mexico
S-NM-7003-98

Gentlemen:

This is in response to your letter dated October 2, 1987 proposing the formation of a working interest unit covering the N/2 of Section 3, T-15-S, R-35-E, Lea County, New Mexico, for the drilling of a 14,700' Devonian test in the NW/4 of the section. You requested that ARCO either join in the drilling of this well or lease its interest to Mitchell for same. ARCO would prefer to evaluate joining in the well or granting Mitchell a Lease Agreement on the following terms:

- 1) Commencement of drilling operations at a legal location in the NW/4 of Section 3, T-15-S, R-35-E, Lea County, New Mexico will occur within 90 days from the date of a formal agreement.
- 2) Mitchell will have the right to drill to 14,700' or to a depth sufficient to thoroughly test the Devonian formation, whichever is the lesser depth.
- 3) If the test well is completed as a commercial producer Mitchell will earn a lease from ARCO covering 100% of ARCO's mineral interest in the NW/4 of said Section 3, from the surface to 100' below total depth drilled.
- 4) ARCO will reserve a proportionately reduced 25% royalty and the option to convert 1/16 of the royalty (6.25%) to a proportionately reduced 30% working interest upon payout of the test well.

All terms and conditions of any Operating Agreement or Lease Agreement will be subject to ARCO's final management approval.

Received by _____
UNIT OPERATIONS DIVISION
Date Recd. 30
Case No. _____

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If these terms are agreeable to you, please let me know and we will begin evaluating your proposal. In the meantime, we will review joining the working interest unit. If you have any questions please call me at (915) 688-5520.

Very truly yours,


Rita A. Buress
Landman

RAB:sdn
3-052