

001 07 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: Richard Stewart
Kaneb Operating Company, Ltd.
400 Wilco Building
Midland, Texas 70701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 P689308345

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
Seamus H. Harkness

4. DATE OF RECEIPT: 10/5/87 POSTMARK: 10/2/87

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆ GPO : 1979-300-459

Erwin #1

P 6 8 9 3 0 8 3 4 5
 RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL

(See Reverse)

PS Form 3800, June 1985

Sent to: Richard Stewart	
Kaneb Operating Company	
Street and No. 400 Wilco Building	
P.O., State and ZIP Code Midland, Texas 79701	
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 10/2/87	

Fold at line over top of envelope to the right of the return address

Case No. 31

File

October 2, 1987

Kaneb Operating Company, Ltd.
400 Wilco Building
Midland, Texas 79701

Attention: Mr. Richard Stewart
Division Landman

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	0.6957316
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	0.0104167
Reed, deceased	

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 proposes Kanab farmout their interest in Lots 1, 2, 3, 4 and S/2 N/2 Section 3 under the following general terms:

1. Mitchell would propose to commence the drilling of a Devonian test well at a location approximately 330' FNL & 1,800' FWL of Section 3, T-15-S, R-35-E, Lea County, New Mexico, on or before December 15, 1987, and agrees to drill said well to a depth of 14,700' or a depth sufficient to adequately test the Devonian formation whichever is the lesser depth.
2. Upon completion of the above well as a producer of oil and gas in paying quantities, Mitchell will earn 100% of Kanab's interest included in the proration unit for the well, subject to Kanab's reservation of an overriding royalty interest equal to the difference by which 25% exceeds existing lease burdens, convertible at your election at payout to a 25% working interest, proportionately reduced. In addition to the above, Mitchell would earn 50% interest in Kanab's acreage in Lots 1, 2, 3, 4 and S/2 N/2 Section 3 outside of the proration unit for the earning well. Rights earned would be limited to 100' below total depth drilled.

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

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

- | | | |
|--------------------------------------|------------------------------------|---|
| <input type="checkbox"/> Exploratory | <input type="checkbox"/> Injection | <input type="checkbox"/> Water Supply |
| <input type="checkbox"/> Development | <input type="checkbox"/> Disposal | <input checked="" type="checkbox"/> Depth <u>14,700'</u>
<u>Devonian</u> |

Form B-1 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Erwin No. 1
(East Morton Field)

Project Description Drill

Net Working Interest . - - - - -

Group Code _____

Location Code _____

Department Number _____

County Lea St. N.M.

Operator MEC

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

DRILLING COSTS

INTANGIBLE

	<u>Amount</u>
10 Dry Hole Abandonment	
11 Rig Mobilization and Demobilization	
12 Power and Fuel	
13 Water	
14 Solids Control Equipment Rental	9,000
*15 Directional Equipment and Services	
16 Fishing Tools and Services	
17 Subsurface Casing Equipment	4,000
18 Contract Labor and Services	16,000
19 Supervision - Company and/or Contract	8,400
50 Road and Site Preparation	25,000
51 Footage Contract Fee	280,000
52 Daywork Contract Fee	25,200
53 Mud and Chemicals	40,000
54 Bits and Reamers	
55 Drilling Tool and Equipment Rental	4,500
56 Cement and Cement Services	22,100
*57 Open Hole Logging-Testing	45,000
*58 Drill Stem Testing	12,700
59 Coring and Analysis	
60 Transportation	5,000
61 Air/Marine Transportation	
63 Overhead	10,000
64 Insurance	
65 Company Labor and Services	
*66 Prospect Generation	10,000
67 Miscellaneous Services and Contingency	53,100
TOTAL INTANGIBLE COSTS	570,000

TANGIBLE

21 Casing-Drive Pipe & Conductor <u>16" - 60'</u>	
	2,500
40 Casing - Surface <u>13-38" - 400'</u>	8,400
41 Casing - Intermediate <u>8-5/8" - 6000'</u>	80,000
42 Casinghead Equipment (Including Valves)	4,000
43 Casing Spool (Including Valves)	
44 Miscellaneous Equipment	5,100
TOTAL TANGIBLE COSTS	100,000

TOTAL DRILLING (DRY HOLE) COSTS

670,000

* Invalid for disposal and water supply wells.

MEDC 252-02 APPROVED-KANEB OPERATING COMPANY, LTD.
BY: _____ Prepared By: _____

CSA:ff

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 #1Department Number 730Project Description CompleteCounty Lea St. NMNet Working Interest 1.00 _____Operator Mitchell Energy Corp

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

COMPLETION COSTS

INTANGIBLE

	Amount
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.
 APPROVED-KANEB OPERATING COMPANY, LTD.

201 P-2