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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 2, 1998

VIA FACSIMILE

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: **MOTION FOR CONTINUANCE**
NMOCD Case 12008
Gaucho Unit Well. 2 and Gaucho Unit Well No. 2-Y
Application of Robert E. Landreth for determination of reasonable
well costs pursuant to Order R-10764, Lea County, New Mexico

Dear Mr. Stogner:

On behalf of Santa Fe Energy Resources, Inc., I would appreciate you continuing the referenced case from the Examiner docket schedule for July 9, 1998 until such time as the interest owners have completed the scheduled audit of well costs involved in this matter.

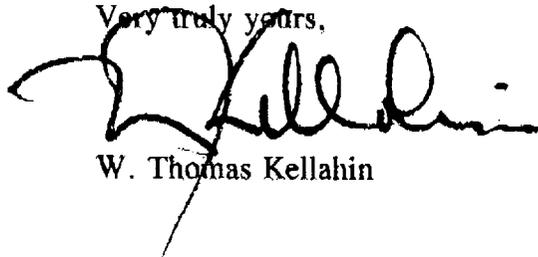
In March, 1997, Santa Fe Energy Resources' Gaucho Unit Well No. 2 was abandoned when substantial circulation was lost while fishing for stuck drill pipe and the rig was then skidded 75 feet and the Gaucho Unit Well No 2-Y was drilled and successfully completed as a producing Atoka gas well. Mr. Landreth went non-consent under the compulsory pooling order issued February 14, 1997. In June, 1998, he now contends that his share of production from the Gaucho Unit Well No. 2-Y should not be used to pay for his share of the costs of the Gaucho Unit Well No. 2.

Mr. Michael E. Stogner
July 2, 1998
Page 2.

Santa Fe Energy Resources, Inc. and Southwest Energy Production Company, two of the working interest owners in these wells, have already agreed to an audit of the costs involved which will include allocating those costs between the two wells. I have enclosed a copy of a March 16, 1998 letter to Mr. Landreth in which he also was invited to participate in this audit which is scheduled to commence on August 17, 1998.

I am not aware of any urgency which would require the Division to conduct a "well cost" hearing prior to the conclusion of a "well cost audit" by the working interest owners. In fact awaiting the outcome of an audit will provide the Division and the parties with the appropriate allocation of well costs, will narrow the issues to be adjudicated by the Division and will avoid having the Division hear this matter more than once.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line. The signature is fluid and cursive.

W. Thomas Kellahin

cfx: Santa Fe Energy Resources, Inc.
Attn: Steve Smith
cfx: William F. Carr, Esq.
Attorney for Robert E. Landreth

Maupin and Associates Inc.
Oil and Gas Auditing and Accounting Services

March 16, 1998

Robert E. Landreth
500 N. Big Spring, Ste. 507
Midland, TX 79701

Re: Joint Interest Audit - Santa Fe Energy Resources, Inc.
Property Name: Gaucho Unit No. 2-Y, Gaucho #4 and Aba Unit #2
Audit Period - Inception to current period

Dear Mr. Landreth:

We have made arrangements with the Operator to conduct an audit of their accounts and records for the subject properties and audit period. The audit will be conducted in Santa Fe's Houston office commencing on August 17, 1998. We estimate the audit field work can be completed by two auditors in two weeks or earlier completion date.

We respectfully request your participation in this audit to the extent of your share of the non-operating interest and your timely execution of the enclosed audit ballot. Audit labor will be calculated based on actual time spent on each property using the current COPAS rate. Actual and reasonable expenses will be prorated based on the labor allocation. Report preparation time will be commensurate with the findings.

Please return the audit ballot to the address listed below for Southwestern Energy Company. All participants will be furnished a copy of the audit report and related subsequent correspondence.

Thank you for your time and attention to this matter.

Sincerely,

Maupin and Associates Inc.

Enclosure

cc. Southwestern Energy Company
Attention: Linda Herberger
P.O. Box 1406
Fayetteville, AR 72702-1406



Santa Fe Energy Resources, Inc.
Mr. Jim Cassel
1518 South Voss, Ste. 1000
Houston, TX 77057

Tom F.Y.I.