

Case 12119

**Santa Fe Snyder Corporation**

VIA FAX AND U.S. MAIL  
(505) 827-8177

July 23, 1999

Ms. Lori Wrotenbery, Director  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Proposed Amendments to Rule 104

Dear Ms. Wrotenbery:

Please allow this letter to represent Santa Fe Snyder Corporation's position on the NMOCD's efforts to amend Rule 104.

The proposed amendments to Rule 104 would change the existing rule in two major ways. First, they would allow all deep gas wells proposed within 320 acre spacing units to be located within 660 feet of any outer boundary of the quarter section on which the well is located. Second, they would allow one infill well in each 320 acre gas well spacing unit without requiring notice or hearing before the NMOCD.

While Santa Fe has no objection to the proposed rule changes concerning well location setbacks, Santa Fe is opposed to the proposed changes to Rule 104 as they are currently written allowing infill wells without notice or a hearing before the NMOCD in the event of an objection.

Santa Fe's opposition to allowing infill wells without notice or hearing is based upon the impact this change would have on past and future compulsory pooling orders, as well as contractual relations between oil & gas industry partners. The impact is far reaching and has not been addressed in the proposed changes to Rule 104. Solving the problems that would arise because of this impact would require either (i) additional changes to Rule 104, (ii) revamping existing compulsory pooling procedures, (iii) case by case hearings before the NMOCD to examine all relevant facts, technical and otherwise, or (iv) some combination of the above.

As was pointed out at the July 15<sup>th</sup> Commissioner's hearing, Santa Fe is not alone in its concern about the impact the proposed changes to Rule 104 will have on compulsory pooling. At your request, a work committee is being formed to evaluate the impact, identify problems and recommend solutions. I have gladly accepted a position on this committee and will be asking other industry professionals to join the committee due to the importance of the issues to be addressed.

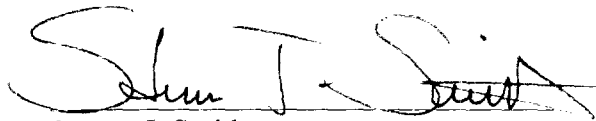
We agree that changing Rule 104 to eliminate administrative processes that are antiquated and cumbersome is a desirable goal. However, changing Rule 104 without first thoroughly evaluating and addressing the impact on compulsory pooling and contractual relations between industry partners would be a mistake. Doing so would certainly result in the drilling of unnecessary wells and waste.

In the interest of maintaining an equitable environment conducive to future oil and gas exploration in the State of New Mexico, we at Santa Fe Snyder Corporation strongly urge the NMOCD not to implement the proposed changes to Rule 104 until a work committee has had time to evaluate the impact the changes would have and has recommended solutions.

Please feel free to call me at (915) 686-6712 if you have any questions.

Sincerely,

**SANTA FE SNYDER CORPORATION**

A handwritten signature in dark ink, appearing to read "Steven J. Smith", is written over a horizontal line.

Steven J. Smith  
Senior Staff Landman

SJS/

cc: Tom Kellahin  
Rick Poppiano – Oxy USA Inc.  
Bob Shelton – Nearburg Exploration Company  
Randy Patterson – Yates Petroleum Corporation  
Frank Estep – Enron Oil & Gas Company