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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

May 2, 2000

HAND DELIVERED

Mr. David R. Catanach
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Mrs. Lyn Hebert, Esq.
Division Attorney
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FIRST SUPPLEMENTAL RESPONSE TO MOTION TO DISMISS OR CONTINUE

Re: Case 12393
Application of Santa Fe Snyder Corporation
for compulsory pooling, Lea County, New Mexico

Re: Case (pending) 12423
Application of Southwestern Energy Production Company
for compulsory pooling, Lea County, New Mexico

Dear Mr. Catanach and Mrs. Hebert

This morning, Southwestern Energy Production Company ("Southwestern") filed a Reply in Support of its Motion to Continue and in doing so raised two new claims.

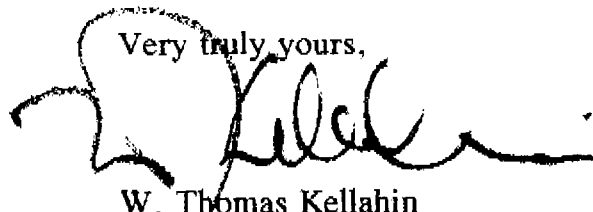
First, it claimed that Santa Fe Snyder Corporation's ("Santa Fe") well proposal was invalid because Concho's assignment to Santa Fe "violated" a maintenance of uniform interest provision in the Concho-Southwestern Joint Operating Agreement ("JOA") dated March 15, 1999. Southwestern claimed that this provision was not waived by Southwestern until April, 2000 but failed to submit any documentation to support its claim.

NMOCD Case 12393
Santa Fe Snyder Corporation's
First Supplemental Response
-Page 2-

The reason that Southwestern failed to provide a copy of the April 7, 2000 letter agreement between Southwestern and Concho is that it specifically provided that this JOA was "terminated in all respects" as to Section 17 **retroactive** to November 30, 1999.(see copy attached). The consequence of making this termination retroactive to November 30, 1999, is that Southwestern "validated" Santa Fe's December 1, 1999 well proposal. By its own actions, Southwestern abandoned any claim that Santa Fe's well proposal "violated" the JOA provision. Finally, Southwestern incorrectly presumes that Santa Fe's assignment from Concho was subject to this JOA. A review of Santa Fe's term assignment from Concho attached as Exhibit A to its Response filed yesterday, conclusively demonstrates that Santa Fe's interest is **not** subject to this JOA. Whatever claim, if any, Southwestern had on this issue, it had only against Concho and not Santa Fe.

Second, in an interesting move, Southwestern also has attempted to avoid the consequence of the BLM letter dated May 1, 2000 by now contending it will amend its compulsory pooling application to ask for the pooling of the N/2 as an alternative to its original application to pool the W/2 of this section. The problem for Southwestern is that its well proposal of March 9, 2000 was specifically limited to the W/2 of this section. Southwestern now seeks a pooling order for a spacing unit it did not propose.

Santa Fe renews its request that the Division deny Southwestern's request and proceed to hear Santa Fe's application on May 4, 2000 for the reasons set forth in the attached response.

Very truly yours,

W. Thomas Kellahin

cc: James Bruce, Esq.,
Attorney for Southwestern
Santa Fe Snyder Corporation
Attn: Steve Smith

-- 7-00: 3:31PM: SOUTHWESTERN ENERGY

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CONCHO RESOURCES INC.

Suite 410

110 W. Louisiana

Midland, Texas 79701

(915) 683-7443

Fax 683-7441

April 7, 2000

VTA FAX (281) 618-4757

Southwestern Energy
Production Company
2350 N. Sam Houston
Parkway East
Suite 300
Houston, TX 77032

ATTENTION: Mr. Samuel Thompson

Re: Gasella Prospect
T-23-S, R-34-E
Sections 5, 8, 9, 16 and 17
Lea County, New Mexico

Gentlemen:

This letter sets forth the agreement between Concho Resources Inc. ("Concho") and Southwestern Energy Production Company ("Southwestern") regarding the captioned acreage. Concho and Southwestern, in consideration of the covenants and promises made herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby agree as follows:

1. Concho and Southwestern entered into that certain (a) Term Assignment dated March 15, 1999, recorded in Book 963, Page 175 of the Records of Lea County, New Mexico, covering the N/2 of Section 17-23S-34E, N.M.P.M., Lea County, New Mexico, United States Lease Serial Number NMM 97157 (the "517TA"); (b) Term Assignment dated March 15, 1999, recorded in Book 959, Page 545 of the Records of Lea County, New Mexico, covering the W/2 NE/4, SE/4 NE/4, W/2, and E/2 SE/4 of Section 16, T-23-S, R-34-E, N.M.P.M., Lea County, New Mexico (the "516TA"); and (c) Joint Operating Agreement dated March 4, 1999, covering Sections 5, 8, 9, 16 and 17, T-23-S, R-34-E, N.M.P.M., Lea County, New Mexico (the "JOA").
2. The 516TA terminated by its own terms on March 15, 2000, as there was no well being drilled or otherwise producing oil or gas in paying quantities at such date, and Southwestern therefor lost all right, title and interest in the lands covered thereby.

4- 7-00: 3:13 PM: SOUTHWESTERN ENERGY

: 28' 518 4767

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3. The W/2 of Section 9, T-23-S, R-34-E, is now subject to that certain Operating Agreement dated March 15, 1999, between Concho, Southwestern and Phillips Petroleum Company, and such lands are no longer subject to the JOA in any respect.
4. As of the date hereof, the JOA is effective only as to Sections 5, 8 and 17, and the E/2 of Section 9, T-22-S, R-34-E, N.M.P.M., Lea County, New Mexico.
5. Within five days from receipt of an executed copy of this agreement from Southwestern, Concho will grant to Southwestern, in recordable form, an extension of the primary term of the §17TA for an additional four months from September 15, 2000, such that the primary term of the §17TA shall end on January 15, 2001. *② SIX MONTH MARCH ②*
6. From and after the date hereof, but effective as of November 30, 1999, the JOA shall be deemed to be terminated in all respects as to all lands other than the E/2 of Section 9, T-23-S, R-34-E, N.M.P.M., Lea County, New Mexico, and is hereby amended and modified accordingly.

If this agreement meets with your approval, please execute and return one copy by fax and mail on or before 5:00 p.m., Daylight Savings Time, Friday, April 7, 2000.

Very truly yours,

[Signature]
Michael M. Gray
Senior Landman

MMG/lhc

AGREED THIS 7th day of April, 2000:

SOUTHWESTERN ENERGY PRODUCTION COMPANY

By: *[Signature]*
Its: V.P. Exploration *②*