



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



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February 2, 1993

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& SHERIDAN
Attorneys at Law
P. O. Box 2208
Santa Fe, New Mexico 87504

RE: CASE NO. 10628
CASE NO. 10629
ORDER NO. R-9838

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Sally Leichtle
Sally E. Leichtle
Administrative Secretary

cc: BLM Roswell Office
Steve Keene
J. Bruce

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& SHERIDAN, P.A.
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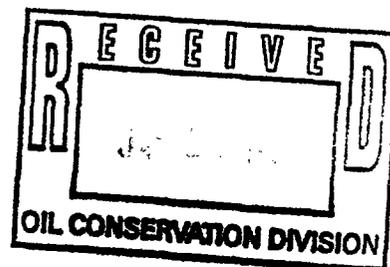
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January 22, 1993

HAND-DELIVERED

Michael E. Stogner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503



Re: Case Nos. ~~10628~~ and 10629 (Consolidated)
Application of Yates Petroleum Corporation for Compulsory Pooling and an
Unorthodox Gas Well Location, Eddy County, New Mexico.

Application of Santa Fe Energy Operating Partners, L.P. for Compulsory
Pooling and an Unorthodox Gas Well Location, Eddy County, New Mexico.

Dear Mr. Stogner:

Enclosed is a proposed Order of Yates Petroleum Corporation in the above-referenced cases
which you requested at the December 17, 1992 Examiner hearing.

If you need anything further from Yates Petroleum Corporation to proceed with your
consideration of this matter, please advise.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Carr".

WILLIAM F. CARR

WFC:mlh

Enclosure

cc w/enc.: Jim Bruce, Esq.
Yates Petroleum Corporation

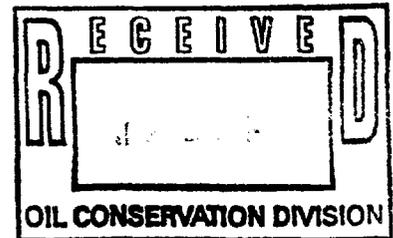
STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

Case Nos. 10628 and 10629 (Consolidated)
Order No. R-_____

APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY POOLING
AND AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.



**YATES PETROLEUM CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of January, 1993, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Petroleum Corporation ("Yates") seeks an order pooling all mineral interests in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, in all formations developed on 640-acre spacing including the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and in all formations developed on 320-acre spacing underlying the South half of Section 27. These units are to be dedicated to the Yates Pardue "ALZ" Federal Com. No. 1 Well to be reentered and drilled to the Morrow formation at an unorthodox location 1140 feet from the South line and 1350 feet from the North line (Unit N) of Section 27 (Case 10628).

(3) At the hearing, this application was consolidated for purposes of testimony with the application of Santa Fe Energy Operating Partners, L. P. ("Santa Fe") for an order pooling all mineral interests in (A) Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, for all formations developed on 640-acre spacing; (B) in the West half of Section 27 for all formations developed on 320-acre spacing; (C) in the SW/4 of Section 27 for all formations developed on 160-acre spacing and (D) in the W/2 SW/4 of Section 27 for all formations developed on 80-acre spacing. These units are to be dedicated to a well to be drilled at an unorthodox location 204 feet from the South line and 660 feet from West Line (Unit M) of said Section 27. (Case 10629).

(4) The evidence presented at the hearing established:

- (A) The primary objective for each party in developing this acreage is the Upper Pennsylvanian (Canyon) formation with the Morrow formation being a secondary objective.
- (B) Both parties hope to complete a well on this pooled unit which will be an oil well in the Upper Pennsylvanian formation and expect the well, if successful, to perform like oil wells in the Dagger Draw Upper Penn Pools.
- (C) Both locations were demonstrated to be structurally high enough to encounter sufficient dolomite thickness above the oil/water contact for potential oil production.
- (D) There is substantial risk associated with either proposal for the development of this acreage.

(5) Yates application should be granted for the following reasons:

- (A) Yates proposed well at a location 1040 feet from the South line and 1350 feet from the West line of Section 27 will more efficiently and effectively drain the acreage dedicated to it than would a well at the location proposed by Santa Fe is only 204 feet from the South line of Section 27.
- (B) The costs to reenter the Yates Pardue "ALZ" Federal Com. No. 1 Well will be substantially less than the costs of drilling a new well to test the Upper Pennsylvanian and Morrow formations in this area.

- (C) Yates has more experience drilling, completing and producing wells in this area as it operates more than 100 wells in the Dagger Draw Pools while Santa Fe operates none. Furthermore, the only Morrow well which Santa Fe operates in the immediate area is the offsetting well to the South in Section 34, which Santa Fe damaged during completion.
 - (D) Development of this section with lay down units as proposed by Yates will result in an efficient development pattern for there are Morrow sands under each lay down spacing unit which could be commercially productive. (See testimony of Gene Davis, Santa Fe's Geological Witness and Santa Fe Exhibits 8 and 9).
 - (E) With lay down units as proposed by Yates, each party would own 7/8ths of the acreage in a spacing or proration unit.
 - (F) Although Santa Fe has proposed special casing requirements for its proposed well because of the problems with lost circulation which it encountered when drilling the offsetting Righthand Canyon "34" No. 1 Well, the Yates Pardue "ALZ" Federal Com. No. 1 Well has been successfully drilled through the zone in which Santa Fe encountered these problems with lost circulation and special casing requirements should not be necessary.
- (6) Santa Fe's application should be denied.
- (7) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, the application of Yates Petroleum Corporation should be approved by pooling all mineral interests, whatever they may be, in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico for all wells developed on 640-acre spacing and in the South half of Section 27 for all formations developed on 320-acre spacing. These units should be dedicated to the Yates Pardue "ALZ" Federal Com. No. 1 Well at an unorthodox location 1140 feet from the South line and 1350 feet from the West line of Section 27.
- (8) Yates should be designated the operator of the subject well and units.
- (9) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(10) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of the reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(13) \$5,400 per month while drilling and \$540 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(15) Upon the failure of the operator of said pooled units to commence the drilling of the well to which said units are dedicated on or before May 1, 1993, the order pooling said unit should become null and void and of no effect whatsoever.

(16) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation in Case 10628 is granted and all mineral interest, whatever they may be in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico are hereby pooled for all formations developed on 640-acre spacing which includes but is not necessarily limited to the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool, and all mineral interest in the South half of said Section 27 are hereby pooled for all formations developed on 320-acre spacing or proration units. Said units shall be dedicated to Yates Pardue "ALZ" Federal Com. No. 1 Well located at an unorthodox location 1140 feet from the South line and 1350 feet from the West line (Unit N) of Section 27.

PROVIDED HOWEVER THAT, the operator of said units shall reenter and commence drilling to deepen said well on or before the 1st day of May, 1993.

PROVIDED FURTHER THAT, in the event said operator does not reenter and commence drilling to deepen said well on or before the 1st day of May, 1993, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order Paragraph No. (1) of this order should not be rescinded.

(2) The application of Santa Fe Energy Operating Partners, L.P., for compulsory pooling and an unorthodox gas well location in Case 10629 is denied.

(3) Yates Petroleum Corporation is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well costs in advance as provided above shall pay to the operator its pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) The operator shall distribute said costs and charges withheld from production to the parties who advance the well costs.

(10) \$5,400 per month while drilling and \$540 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(12) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(14) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(16) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director

S E A L

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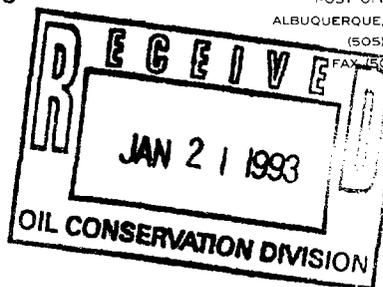
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January 21, 1993



*NOT LICENSED IN NEW MEXICO

VIA HAND DELIVERY

Michael E. Stogner
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87503

Re: Case Nos. 10,629 and 10,628

Dear Mr. Stogner:

Enclosed is a proposed Order in the above matters, submitted by Santa Fe Energy Operating Partners, L.P.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY

James Bruce
James Bruce

JB:frs
c: William F. Carr, Esq. (w/encl.)

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

Case No. 10,629

APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY POOLING
AND AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

Case No. 10,628

PROPOSED ORDER OF THE DIVISION

(Submitted by Santa Fe Energy Operating Partners, L.P.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of February, 1993, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of these causes and the subject matter thereof.

(2) These causes were consolidated for hearing at the request of the parties.

(3) The applicant in Case No. 10,629, Santa Fe Energy Operating Partners, L.P. (Santa Fe), seeks approval to drill its proposed Rocky Top Fed. 27 No. 1 Well at an unorthodox location 204 feet from the South line and 660 feet from the West line (Unit M) of Section 27, Township 21 South, Range 24 East, N.M.P.M., Eddy County, New Mexico (the Santa Fe Well).

(4) Santa Fe also seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in said Section 27:

- (a) The entire section to form a standard gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes, but is not necessarily limited to, the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool;
- (b) the $W\frac{1}{2}$ to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent;
- (c) the $SW\frac{1}{4}$ to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; and,

- (d) the $W\frac{1}{2}SW\frac{1}{4}$ to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within said vertical extent.

Said units are to be dedicated to the above-described Santa Fe Well.

(5) The applicant in Case No. 10,628, Yates Petroleum Corporation (Yates), seeks approval to re-enter an existing wellbore, designated by Yates as the Pan Am Pardue ALZ Fed. No. 1 Well, located at an unorthodox location 1,140 feet from the South line and 1,350 feet from the West line (Unit N) of Section 27, Township 21 South, Range 24 East, N.M.P.M., Eddy County, New Mexico (the Yates Well).

(6) Yates also seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in said Section 27:

- (a) The entire section to form a standard gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes, but is not necessarily limited to, the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool;
- (b) the $S\frac{1}{2}$ to form a standard 320-acre gas spacing and proration unit for any and all formations and/or

pools developed on 320-acre gas spacing within said vertical extent; and

- (c) the SW $\frac{1}{4}$ to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent.

Said units are to be dedicated to the above-described Yates Well.

(7) Marathon Oil Company, an offset operator, entered its appearance in both cases.

(8) There are interest owners in the proposed units who have not agreed to pool their interests.

(9) There are two primary target zones in Section 27, the Cisco/Canyon formation and the Morrow formation.

(10) Santa Fe presented geological evidence on the Cisco/Canyon which showed:

- (a) Both proposed wells are located on the east flank of the Indian Basin-Upper Pennsylvanian Gas Pool (the Indian Basin Pool).
- (b) The Cisco/Canyon consists of two different rock types: Dolomite, which acts as an oil, gas, and water reservoir; and limestone, which occurs as a non-reservoir cap on top of the dolomite facies.
- (c) The Santa Fe Well and the Yates Well will encounter the dolomitized portion of the Cisco/Canyon, which should be productive of oil, water, and gas. Neither well will be a gas well.

- (d) The Cisco/Canyon on the east-southeast flank of the Indian Basin Pool is geologically similar to the North Dagger Draw-Upper Pennsylvanian Pool and the South Dagger Draw-Upper Pennsylvanian Associated Pool (the Dagger Draw Pools).
- (e) Cisco Canyon drill stem test data from six wells suggests the possibility of the existence of an oil pool similar to the Dagger Draw Pools on the east-southeast flank of the Indian Basin Pool, and a production test of several months' duration needs to be conducted in order to determine its producibility.
- (f) Because of the potential of the Cisco/Canyon, the production test results have wider application than to just the Santa Fe Well or the Yates Well.
- (g) Santa Fe originally proposed a location within 200 feet of the proposed Yates Well re-entry. However, a recently obtained sample log on the Yates Well shows that the Cisco/Canyon dolomite reservoir is capped by 100 feet of non-porous limestone in this wellbore. The Santa Fe Right Hand Canyon Federal 34 No. 1 Well (the Right Hand Canyon Well), located 3,250 feet south-southwest of the proposed Yates Well re-entry, encountered only 10 feet of non-porous limestone on top of the dolomite reservoir rock. Thus, thinning of the limestone cap occurs

to the south of the Yates Well and the Santa Fe Well has a better chance of encountering the dolomite at a higher structural position than the proposed Yates Well re-entry.

- (h) The Anadarko Pardue Farms No. 1 Well (the Pardue Farms Well), located 2,000 feet north of the proposed Yates Well re-entry, encountered the Cisco/Canyon dolomite at a structurally flat position relative to the Yates Well. The Pardue Farms Well production tested the top of the Cisco/Canyon dolomite (See Santa Fe Exhibit 12), and recovered a large volume of water with a minor show of oil. A similar result could be expected from a dolomite production test of the proposed Yates Well. However, the proposed Santa Fe Well location will gain approximately 75 feet of structure from the Yates Well, thereby allowing the opportunity to production test the prospective dolomite reservoir in a previously untested and higher structural position. This could be critical to the working interest owners' evaluation of this formation due to lack of knowledge of the Cisco/Canyon reservoir in this area.
- (i) The Santa Fe Well location is only slightly unorthodox in the Cisco/Canyon because oil wells

will probably be developed on 40 acre spacing like the oil wells in the Dagger Draw Pools.

(11) The geological testimony presented by Yates on the Cisco/Canyon was similar to that presented by Santa Fe. However, Dr. David Boneau, Yates' engineering witness and Yates' chief engineer, stated that he considered the potential for an oil rim in the Cisco/Canyon on the east-southeast flank of the Indian Basin Pool only a "theory," admitted that he felt the chances of its occurrence were minimal, and stated that he was "skeptical" of the idea.

(12) Santa Fe presented geological evidence on the Morrow formation which showed:

- (a) Santa Fe has drilled and is in the process of completing its Right Hand Canyon Well, located 1,980 feet from the North line and 660 feet from the West line of Section 34, Township 21 South, Range 24 East, N.M.P.M.
- (b) The Right Hand Canyon Well flowed dry gas at rates up to 1.5 MCFGPD on a drill stem test from the basal Upper Morrow sandstone.
- (c) The Pardue Farms Well, located 2,310 feet from the North line and 1,980 feet from the West line of Section 27, Township 21 South, Range 24 East, N.M.P.M., is bypassed in the basal Upper Morrow sandstone.

- (d) The Santa Fe Well, midway between the Right Hand Canyon Well and Pardue Farms Well, is ideally located to test the basal Upper Morrow sandstone.
- (e) The Santa Fe Well is 2,184 feet from the Right Hand Canyon Well, which is sufficient to prevent interference between the two wells. In addition, the offset operators, Marathon Oil Company and Santa Fe, have waived objection to the location of the Santa Fe Well.
- (f) The proposed Yates Well is located 2,000 feet south-southwest of the Pardue Farms Well. If the Yates Well is completed as a Morrow producer and the Pardue Farms Well is re-entered and completed in the Morrow, they will be closer together than the Santa Fe Well is to the Right Hand Canyon Well.

(13) Yates presented geological evidence that its location is comparable to the Santa Fe Well location for a Morrow test.

(14) Santa Fe presented engineering evidence which showed:

- (a) The SW $\frac{1}{4}$ of Section 27 is an area of extreme relief with canyons and ridges dominating the topography.
- (b) The Santa Fe Well location is, topographically, the best location when geology is also considered.
- (c) Santa Fe's Right Hand Canyon Well lost circulation in the Cisco/Canyon in Section 34. This required the setting of a 7 inch liner in a 7-1/2 inch

wellbore, making a successful completion attempt in the Cisco/Canyon unlikely. Lost circulation in the Cisco/Canyon has been encountered in the other two wells drilled in Section 34 and in the Pardue Farms Well in Section 27. Thus, in order to assure a successful test of both the Morrow and Cisco/Canyon, a new wellbore needs to be drilled in Section 27 using 9-5/8 inch casing in the event circulation is lost and a liner is required.

- (d) Yates' proposed re-entry has only 8-5/8 inch casing, which is insufficient for a liner.
- (e) Based on the results of the Right Hand Canyon Well, the Morrow should be tested in Section 27.
- (f) If circulation is lost in the Cisco/Canyon in the proposed Yates Well, the entire Cisco/Canyon interval might not be adequately tested. Furthermore, the Morrow could not be tested, requiring the drilling of an additional Morrow test well in the SW $\frac{1}{4}$ of Section 27.
- (g) The wellbore for the Yates Well is approximately 27 years old, and its physical condition is unknown. A wellbore of similar age, the Anadarko Fed. AE No. 1 Well in the SE $\frac{1}{4}$ of Section 34, Township 21 South, Range 24 East, N.M.P.M., had holes in the casing and recently had to be re-plugged.

(h) The AFE for the Yates Well is, on its face, lower than the AFE for the Santa Fe Well. However, Yates and Santa Fe are joint interest owners in 25 wells in the Dagger Draw Pools, and in those wells Yates has underestimated AFE costs by an average of 30%. As a result, the Santa Fe and Yates AFE's are roughly equivalent.

(i) Drilling a new well at Santa Fe's location will ensure that both the Cisco/Canyon and Morrow are adequately tested.

(15) Yates' engineer admitted that losing circulation in the Cisco/Canyon in the Yates Well would prevent a test of the complete Cisco/Canyon interval, and would result in the Morrow not being tested.

(16) Yates' proposed re-entry is based primarily on cost savings, but will not ensure that both the Morrow and Cisco/Canyon are adequately tested.

(17) Santa Fe presented land testimony which showed:

- (a) The two primary leaseholders in this area are Santa Fe (and its partners) and Yates (and its partners).
- (b) Santa Fe first approached Yates in January 1992 about unitizing a six section area. The outline of the six section unit was based on Cisco/Canyon geology.

- (c) Santa Fe negotiated with Yates continuously during a nine or ten month period about drilling wells in this area, with no response from Yates.
- (d) Due to the failure of Yates to commit its interests in the proposed unit or in a test well, Santa Fe commenced its Right Hand Canyon Well in July 1992.
- (e) Santa Fe and its partners assumed all the risk in drilling the Right Hand Canyon Well.
- (f) Due to the results of the Right Hand Canyon Well, and due to Yates' refusal to unitize the six section area, Santa Fe in September 1992 proposed a one section unit comprising all of Section 27 based on Cisco/Canyon well spacing.
- (g) Each applicant owns (with its partners) 50% of Section 27.

(18) The Santa Fe Well's structural advantage over the Yates Well in the Cisco/Canyon formation is critical in order to adequately test the Cisco/Canyon reservoir.

(19) Although the AFE for the Santa Fe Well is somewhat higher than the AFE for the Yates Well re-entry, the Santa Fe Well will insure that both the Morrow and Cisco/Canyon formations will be adequately tested.

(20) Based on Finding Paragraph Nos. 9, 10, 12, 14, 15, 16, 17, 18, and 19, the Santa Fe Well location should be approved.

(21) Both Santa Fe and Yates are qualified to be operator. Because Santa Fe has actively pursued this prospect for

approximately a year, and because of its experience as operator of the offsetting Right Hand Canyon Well, Santa Fe should be named operator of the well.

(22) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of production in any pool completion resulting from this order, the Santa Fe application should be approved by pooling all mineral interests, whatever they may be, within said units, and the Yates application should be denied.

(23) Santa Fe should be designated the operator of the subject well and units.

(24) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(25) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(26) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs, but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(27) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(28) \$4,500.00 per month while drilling and \$450.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(29) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(30) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before _____, 1993, the order pooling said units should be come null and void and of no further effect whatsoever.

(31) Should all the parties to this force-pooling reach voluntary agreement subsequently to entry of this order, this order should thereafter be of no further effect.

(32) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS, THEREFORE, ORDERED THAT:

(1) The application of Yates Petroleum Corporation (Case No. 10,628) is hereby denied.

(2) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the following described areas in Section 27, Township 21 South, Range 24 East, N.M.P.M., Eddy County, New Mexico, are hereby pooled in the following manner:

- (a) The entire section to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre gas spacing within said vertical extent, which presently includes, but is not limited to, the Undesignated Indian Basin-Upper Pennsylvanian Pool and the Undesignated Indian Basin-Morrow Gas Pool;
- (b) the $W\frac{1}{2}$ to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent;
- (c) the $SW\frac{1}{4}$ forming a standard 160-acre gas spacing and proration unit for any and all formations and/or

pools developed on 160-acre spacing within said vertical extent; and,

(d) the W $\frac{1}{2}$ SW $\frac{1}{4}$ forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre oil spacing within said vertical extent.

(3) Said units are to be dedicated to a single well to be drilled at an unorthodox location 204 feet from the South line and 660 feet from the West line (Unit M) of said Section 27.

(4) Santa Fe Energy Operating Partners, L.P. is hereby designated the operator of the subject well and units.

PROVIDED, HOWEVER, THAT, the operator of said units shall commence the drilling of said well on or before the _____ day of _____, 1993, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the base of the Morrow formation.

PROVIDED, FURTHER, THAT, in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 1993, Decretory Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director

and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(5) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(6) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(7) The operator shall furnish the Division and each known working interest owner an itemized schedule of well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected with 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided, however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(8) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well

costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(9) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(10) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(11) \$4,500.00 per month while drilling and \$450.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(13) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(14) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(15) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(16) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(17) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

William J. LeMay
Director

S E A L

HINKLE, COX, EATON, COFFIELD & HENSLEY

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December 2, 1992

*NOT LICENSED IN NEW MEXICO

VIA HAND DELIVERY

Florene Davidson
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87503

Re: Case Nos. 10,623 and 10,629

28

Dear Florene:

Enclosed are an original and two copies of Santa Fe Energy's Response in Opposition to the Motion to Quash Subpoena filed by Yates Petroleum. Please have copies forwarded to the Examiner and to Mr. Stovall.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY

James Bruce
James Bruce

JB:frs
Enclosure
c: William F. Carr, Esq.

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RECEIVED
DEC 02 1992
OIL CONSERVATION DIVISION

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF SANTA FE ENERGY OPERATING
PARTNERS, L.P. FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS
WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

RECEIVED

DEC 01 1992

Case No. 10,629

MS

IN THE MATTER OF THE APPLICATION
OF YATES PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

OIL CONSERVATION DIVISION

Case No. 10,628

**RESPONSE OF SANTA FE ENERGY OPERATING
PARTNERS, L.P. TO MOTION TO QUASH
SUBPOENA DUCES TECUM**

Santa Fe Energy Operating Partners, L.P., for its Response to the Motion to Quash Subpoena *Duces Tecum*, filed by Yates Petroleum Corporation, states:

1. As to the Walt Canyon "AMA" Fed. No. 1 Well, if Yates has no "tight hole" data, then Santa Fe will not oppose the Motion to Quash.

2. As to the Hickory "ALV" Fed. No. 1 Well, Santa Fe opposes the Motion to Quash for the following reasons:

(a) The requested data is relevant: Both Santa Fe and Yates seek to pool the upper Pennsylvanian formations (undesigned Indian Basin-Upper Pennsylvanian Pool) in their Applications. The upper Penn extends across a wide area,¹ which indicates that data

¹The Indian Basin-Upper Pennsylvanian Gas Pool is 7-9 miles wide and 6-9 miles long. The South Dagger Draw-Upper Pennsylvanian Associated Pool is 2-3 miles wide and 4-1/2 miles long. The North Dagger Draw-Upper Pennsylvanian Pool is 3-4 miles wide and 5 miles long. See Division nomenclature orders. All of

from the Hickory well² is relevant even though it is a few miles away from the wells proposed by Santa Fe and Yates. The particular area which is the subject of the Santa Fe and Yates Applications is on the southeast side of the Indian Basin-Upper Pennsylvanian Gas Pool, in an area with few upper Penn producers. Thus, all data from this area is critical not only to Santa Fe, but also to the Division, in deciding these cases.

In addition, Yates in its Application seeks to re-enter a well in Section 27. Santa Fe believes that Yates will use the results of the Hickory well re-entry to support its application to re-enter the well in Section 27 as described in its Application. Again, this shows the relevancy of the data requested by Santa Fe.

Finally, Yates cannot be allowed to make determinations of relevancy. That issue is for the Division to decide. There is a presumption in favor of discovery, and the term "relevant" is liberally construed in favor of the party seeking discovery. See SCRA (1986) 1-026, and cases cited thereunder. Discovery is meant to enable a party to obtain the fullest possible knowledge of the facts before hearing. *Marchiando v. Brown*, 98 N.M. 394 (1982).

For the foregoing reasons, the data is relevant and the Division should compel Yates to comply with the subpoena.

(b) Data cannot be withheld because it is proprietary:

the above pools are contiguous, which indicates the wide areal extent of the producing upper Penn formations.

²Upon information and belief, the Hickory well (a re-entry) was completed in the upper Penn.

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Proprietary data is subject to discovery. In order to minimize the dissemination of Yates' data, Santa Fe is willing to enter into a confidentiality agreement regarding production of the data.

WHEREFORE, Santa Fe Energy Operating Partners requests that the Division order Yates Petroleum Corporation to comply with the Subpoena as to data from the Hickory "ALV" Fed. No. 1 Well.

HINKLE, COX, EATON, COFFIELD
& HENSLEY

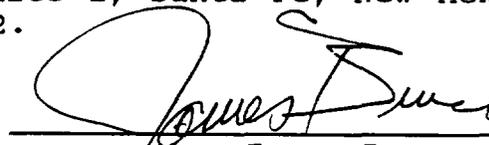


James Bruce
Post Office Box 2068
Santa Fe, New Mexico 87504-2068
(505) 982-4554

Attorneys for Santa Fe Energy
Operating Partners, L.P.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Response of Santa Fe Energy Operating Partners, L.P. to Motion to Quash Subpoena *Duces Tecum* was hand-delivered to William F. Carr, Esq., 110 North Guadalupe, Suite 1, Santa Fe, New Mexico 87501, this 2nd day of December, 1992.



James Bruce

CAMPBELL, CARR, BERGE

& SHERIDAN, P.A.

LAWYERS

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November 30, 1992

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

RECEIVED

NOV 30 1992

OIL CONSERVATION DIVISION

Re: Case No. 10628

Application of Yates Petroleum Corporation for Compulsory Pooling and an Unorthodox Gas Well Location, Eddy County, New Mexico

Case No. 10629

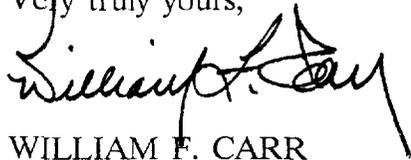
Application of Santa Fe Energy Operating Partners, L.P., for Compulsory Pooling and an Unorthodox Gas Well Location, Eddy County, New Mexico

Dear Mr. LeMay:

Yates Petroleum Corporation requests that the hearings in the above-referenced cases be continued from December 3, 1992 to the Examiner hearings scheduled for December 17, 1992. James Bruce, attorney for Santa Fe Energy Operating Partners, L.P., concurs in this request.

Your attention to this matter is appreciated.

Very truly yours,


WILLIAM F. CARR

ATTORNEY FOR YATES PETROLEUM CORPORATION

WFC:mlh

cc: James G. Bruce, Esq.
Hinkle, Cox, Eaton, Coffield & Hensley
218 Montezuma Street
Santa Fe, New Mexico 87501

Brent May
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

10628

HINKLE, COX, EATON, COFFIELD & HENSLEY

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NORMAN D. EWART
DARREN T. GROCE*
MOLLY MCINTOSH

*NOT LICENSED IN NEW MEXICO

November 23, 1992

VIA HAND DELIVERY

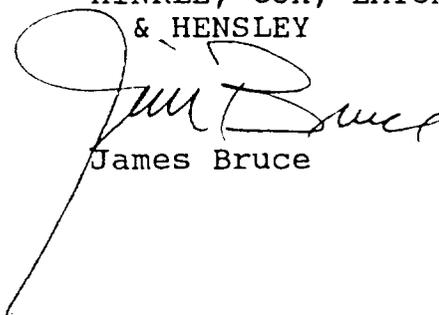
Florene Davidson
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87503

Dear Florene:

Enclosed is a Subpoena which Santa Fe Energy Operating Partners, L.P. requests that the Division issue to Yates Petroleum Corporation. When it is signed by Mr. LeMay, would you please call me or my secretary, Fran, so that we may pick it up. Please call me if you have any questions.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY



James Bruce

JB: frs
Enclosure

JGB5\92656.c

RECEIVED
NOV 23 1992
OIL CONSERVATION DIVISION

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

CASE NO. 10,629

AND

APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS
WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

CASE NO. _____

SUBPOENA DUCES TECUM

TO: Yates Petroleum Corporation
c/o William F. Carr, Esq.
110 North Guadalupe
Santa Fe, New Mexico 87501

Pursuant to the power invested in this Division, you are
commanded to appear at 9:00 a.m. on December 1, 1992 at the offices
of Hinkle, Cox, Eaton, Coffield & Hensley, 218 Montezuma Avenue,
Santa Fe, New Mexico 87501, and produce and make available for
copying all the following documents under the possession or control
of Yates Petroleum Corporation:

1. All open hole logs;
2. All cased hole logs;
3. All drilling, completion, and test data;
4. All production history and data;
5. Authorizations for Expenditure; and
6. A tabulation or schedule of actual well costs,

with respect to the following two wells:

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- (a) Hickory "ALV" Fed. No. 1, located 1,650 feet FNL and 1,650 feet FWL of Section 17, Township 22 South, Range 24 East, N.M.P.M., Eddy County, New Mexico; and
- (b) Walt "AMA" Fed. No. 1, located in Section 3, Township 22 South, Range 24 East, N.M.P.M., Eddy County, New Mexico.

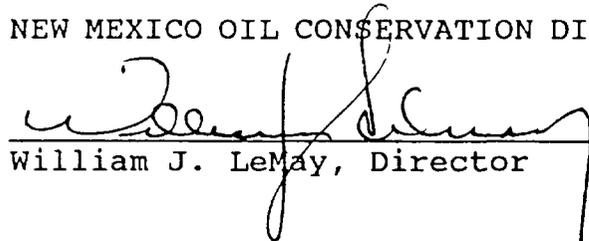
INSTRUCTIONS

This Subpoena *Duces Tecum* seeks all information available to you or in your possession, custody or control from any source, wherever situated, including but not limited to information from any file, record, document, employees, former employees, counsel and former counsel. It is directed to each person to whom such information is a matter of personal knowledge.

When used herein, "you" or "your" refers to the person or entity to whom this Subpoena *Duces Tecum* is addressed to, including all of its attorneys, officers, agents, employees, directors, representatives, officials, departments, divisions, sub-divisions, subsidiaries, or predecessors.

NEW MEXICO OIL CONSERVATION DIVISION

By:



William J. LeMay, Director

ISSUED this 23rd day of November 1992 at Santa Fe, New Mexico.