

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

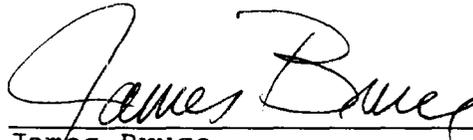
APPLICATION OF KAISER-FRANCIS
OIL COMPANY FOR DIRECTIONAL
DRILLING, EDDY COUNTY,
NEW MEXICO.

CASE NO. 10887
ORDER NO. R-10048

APPLICATION FOR HEARING
DE NOVO

Santa Fe Energy Operating Partners, L.P., an interested party
in the above case, hereby applies for a hearing de novo pursuant to
N.M. Stat. Ann. (1987 Repl.) § 70-2-13 and Division Rule 1220.

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.

JAN 26 1994

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **Application for
Hearing De Novo** was mailed this 26th day of January, 1994, to:

W.Thomas Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Ernest Carroll
Post Office Drawer 239
Artesia, New Mexico 88211



James Bruce

012
San Francisco

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DRAFT

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

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

**DE NOVO
CASE NO. 10887
Order No. R-10048-A**

**APPLICATION OF KAISER-FRANCIS OIL
COMPANY FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on March 10, 1994 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this _____ day of March, 1994, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Kaiser-Francis Oil Company ("Kaiser-Francis"), seeks authority to test and develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools underlying the NE/4 of Section 20 and the W/2 NE/4 and NW/4 of Section 21, Township 23 South, Range 31 East, NMPM, Eddy County New Mexico, by drilling directional into the ten 40-acre standard oil well spacing and proration units comprising said area from ten various surface locations around its periphery in Sections 16, 17, 20, and 21, all in said Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico.

(3) This matter originally came on for hearing at 8:15 a.m. on December 16, 1993 at Santa Fe, New Mexico, before Examiner Jim Morrow and pursuant to this hearing, Division Order No. R-10048 was issued on January 12, 1994, which granted Kaiser-Francis' application.

(4) Also appearing at said December 16, 1993 hearing were Pogo Producing Company, Yates Petroleum Corporation, and Santa Fe Energy Operating Partners, L.P. (Santa Fe).

(5) On January 26, 1994, application for hearing de novo was made by Santa Fe and the matter was set for hearing before the Commission.

(6) On application of Kaiser-Francis to dismiss with prejudice Santa Fe's application for a De Novo hearing, the Commission heard legal argument on March 10, 1994 as to whatever Santa Fe has standing to pursue the De Novo application.

(7) Santa Fe is not an interest owner in any of the wells to be drilled by Kaiser-Francis, does not own interest in lands being encroached upon, is not affected in any way by the Kaiser-Francis application and therefore is not a party of record adversely affected by Division Order No. R-10048 and does not have the right to have this matter heard de novo by the Commission as required under New Mexico Oil Conservation Division Rule 1220.

(8) Santa Fe claims that directional drilling, which Kaiser-Francis proposed to do under Division Order No. R-10048, causes physical and economic waste and should not be allowed until Kaiser-Francis exhausts all of its administrative and legal remedies with Federal agencies, to drill vertically.

(9) Santa Fe seeks to have the Commission question Kaiser-Francis' business judgement and impose business conclusions on the operational practices of Kaiser-Francis. Santa Fe's argument of "waste" is generic in nature and without ~~mention~~ ^{Mention} this case.

(10) Santa Fe has chosen the wrong forum in pursuing a de novo hearing. Their disagreement with BLM practice and policy does not involve Division or Commission rules or regulations.

IT IS THEREFORE ORDERED THAT:

(1) Santa Fe's application for de novo hearing in Case No. 10087 is hereby dismissed with prejudice.

De Novo
Case No. 10887
Order No. R-10048-A
Page 3

(2) Jurisdiction of this cause is hereby retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

GARY CARLSON, Member

WILLIAM W. WEISS, Member

WILLIAM J. LEMAY, Chairman

S E A L

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:

FEB 21 1994

CASE NO. 10887
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

NOTICE OF HEARING
ON
KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS

TO: ALL ATTORNEYS OF RECORD:

YOU ARE HEREBY NOTIFIED THAT THE NEW MEXICO OIL
CONSERVATION DIVISION HAS SET A HEARING FOR:

9:00 AM on Monday, February 28, 1994,

at the Office of the Director, Oil Conservation
Division, 310 Old Santa Fe Trail, Santa Fe, New Mexico,

on the motion of Kaiser-Francis Oil Company to dismiss
the application of Santa Fe Energy Operating Partners, L. P.
for a DeNovo hearing in Case 10887.

Notice of Motion Hearing
Case No. 10887
Page 2

CERTIFICATE OF NOTICE

I hereby certify that I hand delivered a copy of the foregoing Notice of Hearing on February 21, 1994 to James Bruce, Esq. 218 Montezuma, Santa Fe, New Mexico, and to Robert G. Stovall, Esq, NMOCD, 310 Old Santa Fe Trail, Santa Fe, New Mexico and mailed a copy to Earnest Carroll, Esq. P. O. Drawer 239, Artesia, New Mexico 88211 and to Gregory J. Nibert, Esq., P. O. Box 10, Roswell, New Mexico 88202.

KELLAHIN AND KELLAHIN



By: _____
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504

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:

FEB 21 1991

CASE NO. 10887 (DeNovo)
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS
DENOVO
APPLICATION OF SANTA FE ENERGY PARTNERS, L.P.

Comes now Kaiser-Francis Oil Company, by and through its attorneys, Kellahin & Kellahin, and moves the New Mexico Oil Conservation Division ("NMOCD") to Dismiss with prejudice the Application of Santa Fe Energy Partners, L.P. ("Santa Fe") for a DeNovo Hearing of Case 10887 in which Kaiser-Francis Oil Company ("Kaiser") obtained Division Order R-10048 approving the directional drilling of ten oil wells from unorthodox surface locations to ten 40-acre standard subsurface locations in either the Los Medanos-Delaware and/or the West Sand Dunes-Delaware Pools, Eddy County, New Mexico,

AND IN SUPPORT STATES:

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 2

REASONS FOR MOTION

While Santa Fe Energy has filed an Application for a DeNovo Hearing, Santa Fe Energy IS:

- (1) NOT an interest owner in any of the wells;
- (2) NOT being encroached towards or upon;
- (3) NOT paying for the costs of any of these wells;

and therefore is not a party of record adversely affected by this order and does not have the right to have such matter or proceeding heard de novo before the Commission. [See Division Rule 1220].

SUMMARY OF CASE

This in case, heard on December 16, 1993 before Division Examiner Jim Morrow, Kaiser sought and obtained approval to directionally drill ten Delaware oil wells to be located in Sections 20 and 21 of T23S, R31E which are subject to the rules for both the Los Medanos and West Sand Dunes Pools, Eddy County, New Mexico.

Kaiser's proposed wells are all located in the Oil-Potash Area as defined by Division Order R-111-P. Sections 20 and 21 are federal tracts administered by the BLM for which Kaiser-Francis holds valid oil & gas leases.

Kaiser proposes to use surface location which are within areas presumed to be barren of measurable potash reserves and to drill directionally to standard subsurface locations which are overlain by areas which the 1984 Secretary of Interior's Potash Resources Map indicates contain substantial portions of measurable potash reserves.

In each case, the well's bottom hole location will be a standard well location.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 3

In each instance, the BLM will preclude the drilling of a vertical well.

In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

Under Division Order R-10048, the well's bottom hole location will be a standard well location such that Kaiser can produce only that portion of the well which is located no closer than 330 feet to the outer boundary of a 40-acre spacing unit within the Delaware formation.

Should Kaiser determine that it desires to produce any of the wells from a point which is "unorthodox" then that will require a new application by Kaiser and further orders of the Division which are not the subject of this case.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
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CONCLUSION

Kaiser should not be required to bear the expense of another regulatory hearing before the New Mexico Oil Conservation Division when the request for such a hearing is filed by a company who is not adversely affected by such order.

Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

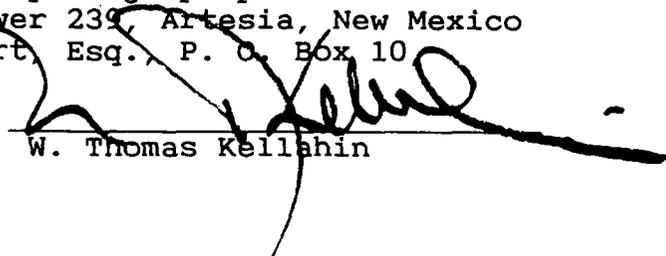
Division Rule 1220 limits applicants for DeNovo hearing to "parties of record adversely affected the Division Order." Santa Fe may be upset with BLM policy but it is not adversely affected by this NMOCD order and therefore lacks standing to file for a DeNovo hearing.

Respectfully submitted:

By: 
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, hereby certify that the foregoing pleading was hand delivered this 21st day of February 1993 to James Bruce, Hinkle Law Firm, 218 Montezuma, Santa Fe, New Mexico, and to Robert G. Stovall, Esq., NMOCD, 310 Old Santa Fe Trail, Santa Fe, New Mexico, and was mailed by regular mail postage prepaid to Ernest Carroll, Esq, Post Office Drawer 239, Artesia, New Mexico 88211, and to Gregory J. Nibert, Esq., P. O. Box 10 Roswell, New Mexico 88202.


W. Thomas Kellahin

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:

FEB 21 1994

CASE NO. 10887
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

NOTICE OF HEARING
ON
KAISER-FRANCIS OIL COMPANY'S
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Case No. 10887
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KELLAHIN AND KELLAHIN


By: _____
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504

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 NO. 10887
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR DIRECTIONAL
DRILLING, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 16, 1993 at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 12th day of January, 1994, 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, Kaiser-Francis Oil Company (Kaiser-Francis), seeks authority to test and develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools underlying the NE/4 of Section 20 and the W/2 NE/4 and NW/4 of Section 21, Township 23 South, Range 31 East, NMPM, Eddy County New Mexico.

(3) The applicant is requesting approval for ten directional wells to be drilled from ten unorthodox surface locations to ten 40-acre standard oil well spacing and proration units within said area. The surface and bottomhole locations for the ten wells are shown in Exhibit "A".

(4) The proposed bottomhole locations are all in a one-half mile by 1 1/4 mile undeveloped area between the Los Medanos-Delaware and the West Sand Dunes-Delaware Pool. Top oil allowable in both pools is 187 barrels per day. Based on offset completions, the proposed locations should result in good wells and could possibly be completed as top allowable producers.

(5) Both Delaware pools fall under General Spacing Rule 104.C.(1)(a) which requires 40-acre spacing and proration units with wells no closer than 330 feet to any boundary. Each of the proposed bottomhole locations is an orthodox location on a standard 40-acre spacing and proration unit.

(6) The bottomhole locations are on federal acreage and are overlain by potash reserves. Applicant's witness testified that the U. S. Bureau of Land Management ("BLM") would not approve vertical locations but has demanded that the area be developed with producing wells to prevent offset drainage.

(7) Surface locations for seven of the wells are on state land and three are on potash barren federal land. Kaiser-Francis has obtained a "Special Use Agreement" from the State Land Office for the seven surface locations on state land.

(8) A net sand isopach map was submitted by applicant's witness which shows that each proposed location should encounter from 40 to 80 feet of porosity in the lower Brushy Canyon section of the Delaware.

(9) Payout calculations were submitted by the applicant which show average well costs of \$699,700, payout in 1.06 years and gross oil recovery of 150,928 bbls.

(10) Kaiser-Francis presented letters to show that IMC Fertilizer has approved nine of the ten proposed locations because "they are outside the 1/4 mile of IMCF's LMR." Approval of the remaining location was recently requested and is expected based on its similarity to the other nine.

(11) Applicant's witness presented drilling plans and testimony to show that the drilling, casing, and cementing plans comply with Division Order No. R-111-P. Each well would be drilled vertically to approximately 4,200 feet. Surface casing would be set to 700 feet and intermediate to 4,070 feet. Each casing string would be cemented from setting depth to surface. Each well would be directionally drilled from 4,200 feet to a standard bottomhole location.

(12) Pogo Producing Company, Yates Petroleum Corporation, and Santa Fe Energy Operating Partners, L.P. appeared at the hearing and stated that they are neither opposed nor in support of the proposed application. Yates stated that such directional drilling is uneconomical. Although indicating they are not opposed to the application, Pogo, supported by Santa Fe, argued against approval saying they believe BLM will always oppose vertical drilling through potash reserves and that Kaiser-Francis' agreement to directionally drill these ten wells will be precedent setting. Pogo recommended that the BLM decision be appealed and cited an example of a BLM reversal which allowed vertical drilling in the area.

(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgements and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons.

(14) Approval of the project will afford the applicant the opportunity to recover its just and equitable share of hydrocarbons in the affected pools and will otherwise prevent waste and protect correlative rights.

(15) The applicant should be required to determine the subsurface location of the kick-off point in each wellbore prior to directional drilling and should subsequently be required to conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

(16) The applicant should be required to notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Kaiser-Francis Oil Company, is hereby authorized to drill ten directional wells from unorthodox surface locations to orthodox bottomhole locations on ten 40-acre standard spacing and proration units to develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools. Surface and bottomhole locations are shown in Exhibit "A" which is attached to this order. The bottomhole location for each of the wells will be considered in compliance if the actual bottomhole location is no more than 50 feet from the approved bottomhole location as shown in Exhibit "A" attached hereto and made a part hereof.

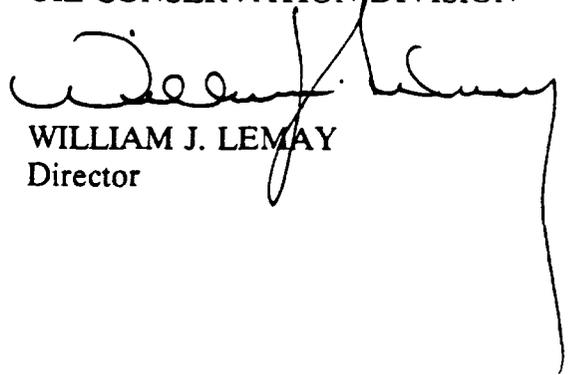
(2) The applicant shall determine the subsurface location of the kick-off point in each well bore prior to directional drilling and shall conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

(3) The applicant shall notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant shall provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

(4) Jurisdiction of this cause 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

EXHIBIT A
CASE NO. 10887
ORDER NO. R-10048
PROPOSED WELL LOCATIONS
KAISER-FRANCIS OIL COMPANY PURE GOLD LEASES
SECTIONS 20 AND 21, TOWNSHIP 23 SOUTH, RANGE 31 EAST
NMPM, EDDY COUNTY, NEW MEXICO

PURE GOLD WELL LOCATIONS

Well: Pure Gold A-7
Surface: 1950' FSL x 200' FEL (Unit I) Sec 20
BHL: 2043' FNL x 456' FWL (Unit E) Sec 21

Well: Pure Gold A-8
Surface: 10' FSL x 1935' FWL (Unit N) Sec 16
BHL: 1947' FNL x 1789' FWL (Unit F) Sec 21

Well: Pure Gold A-9
Surface: 10' FSL x 280' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FWL (Unit K) Sec 21

Well: Pure Gold A-10
Surface: 10' FSL x 1800' FWL (Unit N) Sec 16
BHL: 480' FNL x 1800' FWL (Unit C) Sec 21

Well: Pure Gold A-13
Surface: 10' FSL x 2025' FEL (Unit O) Sec 16
BHL: 2012' FNL x 2176' FEL (Unit G) Sec 21

Well: Pure Gold A-14
Surface: 10' FSL x 2160' FEL (Unit O) Sec 16
BHL: 480' FNL x 2160' FEL (Unit B) Sec 21

Well: Pure Gold B-7
Surface: 2100' FSL x 1600' FEL (Unit J) Sec 20
BHL: 1988' FNL x 1834' FEL (Unit G) Sec 20

Well: Pure Gold B-8
Surface: 1950' FSL x 335' FEL (Unit I) Sec 20
BHL: 1957' FNL x 505' FEL (Unit H) Sec 20

Well: Pure Gold B-9
Surface: 10' FSL x 1960' FEL (Unit O) Sec 17
BHL: 480' FNL x 1800' FEL (Unit B) Sec 20

Exhibit A
Case No. 10887
Order No. R-10048
Page 2

Well: Pure Gold B-10
Surface: 10' FSL x 145' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FEL (Unit A) Sec 20

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 NO. 10887 (DeNovo)
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

FEB 21 1994

KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS
DENOVO
APPLICATION OF SANTA FE ENERGY PARTNERS, L.P.

Comes now Kaiser-Francis Oil Company, by and through its attorneys, Kellahin & Kellahin, and moves the New Mexico Oil Conservation Division ("NMOCD") to Dismiss with prejudice the Application of Santa Fe Energy Partners, L.P. ("Santa Fe") for a DeNovo Hearing of Case 10887 in which Kaiser-Francis Oil Company ("Kaiser") obtained Division Order R-10048 approving the directional drilling of ten oil wells from unorthodox surface locations to ten 40-acre standard subsurface locations in either the Los Medanos-Delaware and/or the West Sand Dunes-Delaware Pools, Eddy County, New Mexico,

AND IN SUPPORT STATES:

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 2

REASONS FOR MOTION

While Santa Fe Energy has filed an Application for a DeNovo Hearing, Santa Fe Energy IS:

- (1) NOT an interest owner in any of the wells;
- (2) NOT being encroached towards or upon;
- (3) NOT paying for the costs of any of these wells;

and therefore is not a party of record adversely affected by this order and does not have the right to have such matter or proceeding heard de novo before the Commission. [See Division Rule 1220].

SUMMARY OF CASE

This in case, heard on December 16, 1993 before Division Examiner Jim Morrow, Kaiser sought and obtained approval to directionally drill ten Delaware oil wells to be located in Sections 20 and 21 of T23S, R31E which are subject to the rules for both the Los Medanos and West Sand Dunes Pools, Eddy County, New Mexico.

Kaiser's proposed wells are all located in the Oil-Potash Area as defined by Division Order R-111-P. Sections 20 and 21 are federal tracts administered by the BLM for which Kaiser-Francis holds valid oil & gas leases.

Kaiser proposes to use surface location which are within areas presumed to be barren of measurable potash reserves and to drill directionally to standard subsurface locations which are overlain by areas which the 1984 Secretary of Interior's Potash Resources Map indicates contain substantial portions of measurable potash reserves.

In each case, the well's bottom hole location will be a standard well location.

Motion to Dismiss DeNovo Application
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In each instance, the BLM will preclude the drilling of a vertical well.

In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

Under Division Order R-10048, the well's bottom hole location will be a standard well location such that Kaiser can produce only that portion of the well which is located no closer than 330 feet to the outer boundary of a 40-acre spacing unit within the Delaware formation.

Should Kaiser determine that it desires to produce any of the wells from a point which is "unorthodox" then that will require a new application by Kaiser and further orders of the Division which are not the subject of this case.

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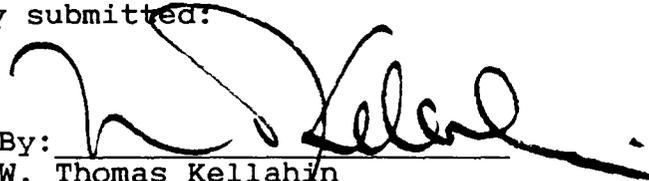
CONCLUSION

Kaiser should not be required to bear the expense of another regulatory hearing before the New Mexico Oil Conservation Division when the request for such a hearing is filed by a company who is not adversely affected by such order.

Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

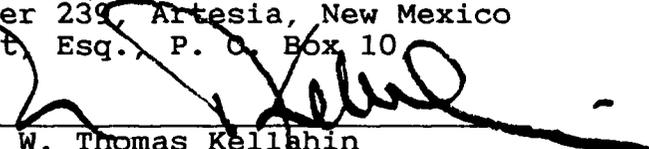
Division Rule 1220 limits applicants for DeNovo hearing to "parties of record adversely affected the Division Order." Santa Fe may be upset with BLM policy but it is not adversely affected by this NMOCD order and therefore lacks standing to file for a DeNovo hearing.

Respectfully submitted:


By: _____
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CERTIFICATE OF SERVICE

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W. Thomas Kellahin

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

IN THE MATTER OF THE HEARING
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Case No. 10887, Order R-10048
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REASONS FOR MOTION

While Santa Fe Energy has filed an Application for a DeNovo Hearing, Santa Fe Energy IS:

- (1) NOT an interest owner in any of the wells;
- (2) NOT being encroached towards or upon;
- (3) NOT paying for the costs of any of these wells;

and therefore is not a party of record adversely affected by this order and does not have the right to have such matter or proceeding heard de novo before the Commission. [See Division Rule 1220].

SUMMARY OF CASE

This in case, heard on December 16, 1993 before Division Examiner Jim Morrow, Kaiser sought and obtained approval to directionally drill ten Delaware oil wells to be located in Sections 20 and 21 of T23S, R31E which are subject to the rules for both the Los Medanos and West Sand Dunes Pools, Eddy County, New Mexico.

Kaiser's proposed wells are all located in the Oil-Potash Area as defined by Division Order R-111-P. Sections 20 and 21 are federal tracts administered by the BLM for which Kaiser-Francis holds valid oil & gas leases.

Kaiser proposes to use surface location which are within areas presumed to be barren of measurable potash reserves and to drill directionally to standard subsurface locations which are overlain by areas which the 1984 Secretary of Interior's Potash Resources Map indicates contain substantial portions of measurable potash reserves.

In each case, the well's bottom hole location will be a standard well location.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 3

In each instance, the BLM will preclude the drilling of a vertical well.

In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

Under Division Order R-10048, the well's bottom hole location will be a standard well location such that Kaiser can produce only that portion of the well which is located no closer than 330 feet to the outer boundary of a 40-acre spacing unit within the Delaware formation.

Should Kaiser determine that it desires to produce any of the wells from a point which is "unorthodox" then that will require a new application by Kaiser and further orders of the Division which are not the subject of this case.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
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CONCLUSION

Kaiser should not be required to bear the expense of another regulatory hearing before the New Mexico Oil Conservation Division when the request for such a hearing is filed by a company who is not adversely affected by such order.

Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

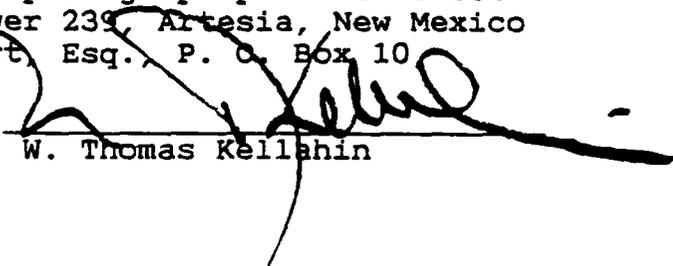
Division Rule 1220 limits applicants for DeNovo hearing to "parties of record adversely affected the Division Order." Santa Fe may be upset with BLM policy but it is not adversely affected by this NMOCD order and therefore lacks standing to file for a DeNovo hearing.

Respectfully submitted:

By: 
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, hereby certify that the foregoing pleading was hand delivered this 21st day of February 1993 to James Bruce, Hinkle Law Firm, 218 Montezuma, Santa Fe, New Mexico, and to Robert G. Stovall, Esq., NMOCD, 310 Old Santa Fe Trail, Santa Fe, New Mexico, and was mailed by regular mail postage prepaid to Ernest Carroll, Esq, Post Office Drawer 239, Artesia, New Mexico 88211, and to Gregory J. Nibert, Esq., P. O. Box 10 Roswell, New Mexico 88202.


W. Thomas Kellahin

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 NO. 10887 (DeNovo)
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS
DENOVO
APPLICATION OF SANTA FE ENERGY PARTNERS, L.P.

Comes now Kaiser-Francis Oil Company, by and through its attorneys, Kellahin & Kellahin, and moves the New Mexico Oil Conservation Division ("NMOCD") to Dismiss with prejudice the Application of Santa Fe Energy Partners, L.P. ("Santa Fe") for a DeNovo Hearing of Case 10887 in which Kaiser-Francis Oil Company ("Kaiser") obtained Division Order R-10048 approving the directional drilling of ten oil wells from unorthodox surface locations to ten 40-acre standard subsurface locations in either the Los Medanos-Delaware and/or the West Sand Dunes-Delaware Pools, Eddy County, New Mexico,

AND IN SUPPORT STATES:

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
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REASONS FOR MOTION

While Santa Fe Energy has filed an Application for a DeNovo Hearing, Santa Fe Energy IS:

- (1) NOT an interest owner in any of the wells;
- (2) NOT being encroached towards or upon;
- (3) NOT paying for the costs of any of these wells;

and therefore is not a party of record adversely affected by this order and does not have the right to have such matter or proceeding heard de novo before the Commission. [See Division Rule 1220].

SUMMARY OF CASE

This in case, heard on December 16, 1993 before Division Examiner Jim Morrow, Kaiser sought and obtained approval to directionally drill ten Delaware oil wells to be located in Sections 20 and 21 of T23S, R31E which are subject to the rules for both the Los Medanos and West Sand Dunes Pools, Eddy County, New Mexico.

Kaiser's proposed wells are all located in the Oil-Potash Area as defined by Division Order R-111-P. Sections 20 and 21 are federal tracts administered by the BLM for which Kaiser-Francis holds valid oil & gas leases.

Kaiser proposes to use surface location which are within areas presumed to be barren of measurable potash reserves and to drill directionally to standard subsurface locations which are overlain by areas which the 1984 Secretary of Interior's Potash Resources Map indicates contain substantial portions of measurable potash reserves.

In each case, the well's bottom hole location will be a standard well location.

Motion to Dismiss DeNovo Application
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In each instance, the BLM will preclude the drilling of a vertical well.

In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

Under Division Order R-10048, the well's bottom hole location will be a standard well location such that Kaiser can produce only that portion of the well which is located no closer than 330 feet to the outer boundary of a 40-acre spacing unit within the Delaware formation.

Should Kaiser determine that it desires to produce any of the wells from a point which is "unorthodox" then that will require a new application by Kaiser and further orders of the Division which are not the subject of this case.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
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CONCLUSION

Kaiser should not be required to bear the expense of another regulatory hearing before the New Mexico Oil Conservation Division when the request for such a hearing is filed by a company who is not adversely affected by such order.

Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

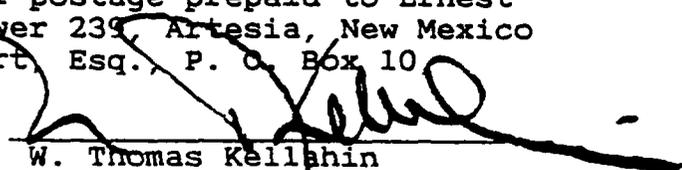
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Respectfully submitted:


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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
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CONSIDERING:

CASE NO. 10887 (DeNovo)
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APPLICATION OF KAISER-FRANCIS OIL COMPANY
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AND IN SUPPORT STATES:

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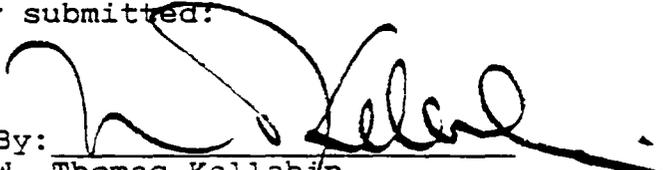
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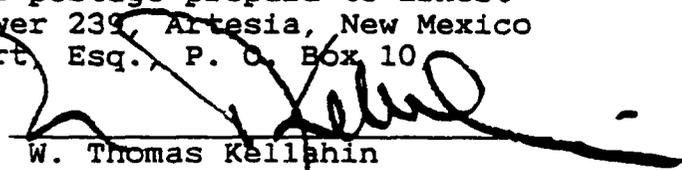
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By: _____
W. Thomas Kellahin
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W. Thomas Kellahin

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 NO. 10887 (DeNovo)
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
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KAISER-FRANCIS OIL COMPANY'S
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In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

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Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 4

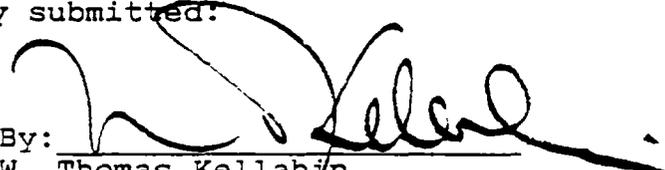
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Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

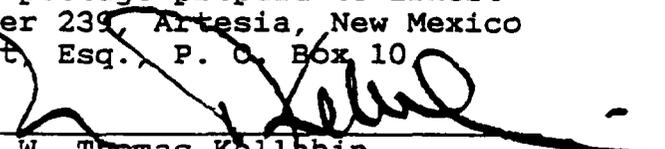
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Respectfully submitted:

By: 
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W. Thomas Kellahin

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

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

**DE NOVO
CASE NO. 10887
Order No. R-10048-A**

**APPLICATION OF KAISER-FRANCIS OIL
COMPANY FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on March 10, 1994 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 11th day of April, 1994, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Kaiser-Francis Oil Company ("Kaiser-Francis"), seeks authority to test and develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools underlying the NE/4 of Section 20 and the W/2 NE/4 and NW/4 of Section 21, Township 23 South, Range 31 East, NMPM, Eddy County New Mexico, by drilling directional into the ten 40-acre standard oil well spacing and proration units comprising said area from ten various surface locations around its periphery in Sections 16, 17, 20, and 21, all in said Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico.

(3) This matter originally came on for hearing at 8:15 a.m. on December 16, 1993 at Santa Fe, New Mexico, before Examiner Jim Morrow and pursuant to this hearing, Division Order No. R-10048 was issued on January 12, 1994, which granted Kaiser-Francis' application.

(4) Also appearing at said December 16, 1993 hearing were Pogo Producing Company, Yates Petroleum Corporation, and Santa Fe Energy Operating Partners, L.P. (Santa Fe).

(5) On January 26, 1994, application for hearing de novo was made by Santa Fe and the matter was set for hearing before the Commission.

(6) On application of Kaiser-Francis to dismiss with prejudice Santa Fe's application for a de novo hearing, the Commission heard legal argument on March 10, 1994 as to whatever standing Santa Fe has to pursue the de novo application.

(7) Santa Fe is not an interest owner in any of the wells to be drilled by Kaiser-Francis, does not own interest in lands being encroached upon, is not affected in any way by the Kaiser-Francis application and therefore is not a party of record adversely affected by Division Order No. R-10048 and does not have the right to have this matter heard de novo by the Commission as required under New Mexico Oil Conservation Division Rule 1220.

(8) Santa Fe claims that directional drilling, which Kaiser-Francis proposed to do under Division Order No. R-10048, causes physical and economic waste and should not be allowed until Kaiser-Francis exhausts all of its administrative and legal remedies with Federal agencies, to drill vertically.

(9) Santa Fe seeks to have the Commission question Kaiser-Francis' business judgement and impose business conclusions on the operational practices of Kaiser-Francis. Santa Fe's argument of "waste" is generic in nature and without merit in this case.

(10) Santa Fe has chosen the wrong forum in pursuing a de novo hearing. Their disagreement with BLM practice and policy does not involve Division or Commission rules or regulations.

IT IS THEREFORE ORDERED THAT:

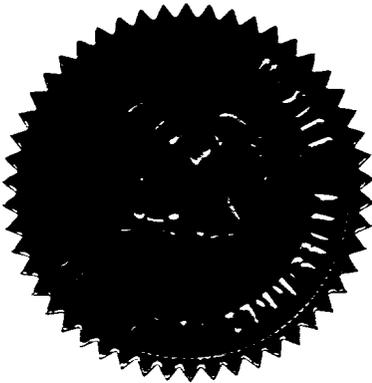
(1) Santa Fe's application for de novo hearing in Case No. 10087 is hereby dismissed with prejudice.

De Novo
Case No. 10887
Order No. R-10048-A
Page 3

(2) Jurisdiction of this cause is hereby retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



Gary Carlson

GARY CARLSON, Member

Bill Weiss

WILLIAM W. WEISS, Member

William J. Lemay

WILLIAM J. LEMAY, Chairman

S E A L

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 NO. 10887
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR DIRECTIONAL
DRILLING, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 16, 1993 at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 12th day of January, 1994, 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, Kaiser-Francis Oil Company (Kaiser-Francis), seeks authority to test and develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools underlying the NE/4 of Section 20 and the W/2 NE/4 and NW/4 of Section 21, Township 23 South, Range 31 East, NMPM, Eddy County New Mexico.

(3) The applicant is requesting approval for ten directional wells to be drilled from ten unorthodox surface locations to ten 40-acre standard oil well spacing and proration units within said area. The surface and bottomhole locations for the ten wells are shown in Exhibit "A".

(4) The proposed bottomhole locations are all in a one-half mile by 1 1/4 mile undeveloped area between the Los Medanos-Delaware and the West Sand Dunes-Delaware Pool. Top oil allowable in both pools is 187 barrels per day. Based on offset completions, the proposed locations should result in good wells and could possibly be completed as top allowable producers.

(5) Both Delaware pools fall under General Spacing Rule 104.C.(1)(a) which requires 40-acre spacing and proration units with wells no closer than 330 feet to any boundary. Each of the proposed bottomhole locations is an orthodox location on a standard 40-acre spacing and proration unit.

(6) The bottomhole locations are on federal acreage and are overlain by potash reserves. Applicant's witness testified that the U. S. Bureau of Land Management ("BLM") would not approve vertical locations but has demanded that the area be developed with producing wells to prevent offset drainage.

(7) Surface locations for seven of the wells are on state land and three are on potash barren federal land. Kaiser-Francis has obtained a "Special Use Agreement" from the State Land Office for the seven surface locations on state land.

(8) A net sand isopach map was submitted by applicant's witness which shows that each proposed location should encounter from 40 to 80 feet of porosity in the lower Brushy Canyon section of the Delaware.

(9) Payout calculations were submitted by the applicant which show average well costs of \$699,700, payout in 1.06 years and gross oil recovery of 150,928 bbls.

(10) Kaiser-Francis presented letters to show that IMC Fertilizer has approved nine of the ten proposed locations because "they are outside the 1/4 mile of IMCF's LMR." Approval of the remaining location was recently requested and is expected based on its similarity to the other nine.

(11) Applicant's witness presented drilling plans and testimony to show that the drilling, casing, and cementing plans comply with Division Order No. R-111-P. Each well would be drilled vertically to approximately 4,200 feet. Surface casing would be set to 700 feet and intermediate to 4,070 feet. Each casing string would be cemented from setting depth to surface. Each well would be directionally drilled from 4,200 feet to a standard bottomhole location.

(12) Pogo Producing Company, Yates Petroleum Corporation, and Santa Fe Energy Operating Partners, L.P. appeared at the hearing and stated that they are neither opposed nor in support of the proposed application. Yates stated that such directional drilling is uneconomical. Although indicating they are not opposed to the application, Pogo, supported by Santa Fe, argued against approval saying they believe BLM will always oppose vertical drilling through potash reserves and that Kaiser-Francis' agreement to directionally drill these ten wells will be precedent setting. Pogo recommended that the BLM decision be appealed and cited an example of a BLM reversal which allowed vertical drilling in the area.

(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgements and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons.

(14) Approval of the project will afford the applicant the opportunity to recover its just and equitable share of hydrocarbons in the affected pools and will otherwise prevent waste and protect correlative rights.

(15) The applicant should be required to determine the subsurface location of the kick-off point in each wellbore prior to directional drilling and should subsequently be required to conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

(16) The applicant should be required to notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

IT IS THEREFORE ORDERED THAT:

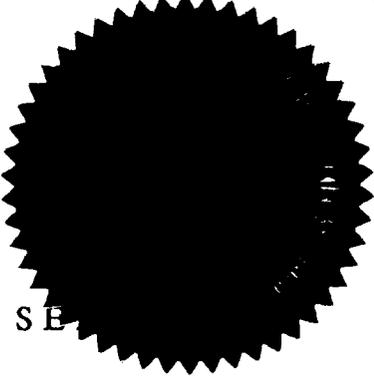
(1) The applicant, Kaiser-Francis Oil Company, is hereby authorized to drill ten directional wells from unorthodox surface locations to orthodox bottomhole locations on ten 40-acre standard spacing and proration units to develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools. Surface and bottomhole locations are shown in Exhibit "A" which is attached to this order. The bottomhole location for each of the wells will be considered in compliance if the actual bottomhole location is no more than 50 feet from the approved bottomhole location as shown in Exhibit "A" attached hereto and made a part hereof.

(2) The applicant shall determine the subsurface location of the kick-off point in each well bore prior to directional drilling and shall conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

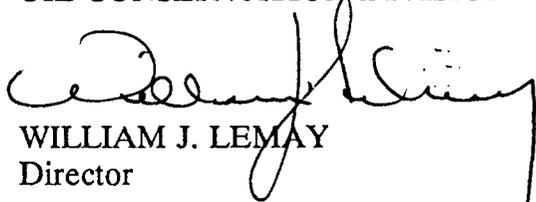
(3) The applicant shall notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant shall provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

(4) Jurisdiction of this cause 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

EXHIBIT A
CASE NO. 10887
ORDER NO. R-10048
PROPOSED WELL LOCATIONS
KAISER-FRANCIS OIL COMPANY PURE GOLD LEASES
SECTIONS 20 AND 21, TOWNSHIP 23 SOUTH, RANGE 31 EAST
NMPM, EDDY COUNTY, NEW MEXICO

PURE GOLD WELL LOCATIONS

Well: Pure Gold A-7
Surface: 1950' FSL x 200' FEL (Unit I) Sec 20
BHL: 2043' FNL x 456' FWL (Unit E) Sec 21

Well: Pure Gold A-8
Surface: 10' FSL x 1935' FWL (Unit N) Sec 16
BHL: 1947' FNL x 1789' FWL (Unit F) Sec 21

Well: Pure Gold A-9
Surface: 10' FSL x 280' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FWL (Unit K) Sec 21

Well: Pure Gold A-10
Surface: 10' FSL x 1800' FWL (Unit N) Sec 16
BHL: 480' FNL x 1800' FWL (Unit C) Sec 21

Well: Pure Gold A-13
Surface: 10' FSL x 2025' FEL (Unit O) Sec 16
BHL: 2012' FNL x 2176' FEL (Unit G) Sec 21

Well: Pure Gold A-14
Surface: 10' FSL x 2160' FEL (Unit O) Sec 16
BHL: 480' FNL x 2160' FEL (Unit B) Sec 21

Well: Pure Gold B-7
Surface: 2100' FSL x 1600' FEL (Unit J) Sec 20
BHL: 1988' FNL x 1834' FEL (Unit G) Sec 20

Well: Pure Gold B-8
Surface: 1950' FSL x 335' FEL (Unit I) Sec 20
BHL: 1957' FNL x 505' FEL (Unit H) Sec 20

Well: Pure Gold B-9
Surface: 10' FSL x 1960' FEL (Unit O) Sec 17
BHL: 480' FNL x 1800' FEL (Unit B) Sec 20

Exhibit A
Case No. 10887
Order No. R-10048
Page 2

Well: Pure Gold B-10
Surface: 10' FSL x 145' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FEL (Unit A) Sec 20

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 NO. 10887
ORDER NO. R-10048

**APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR DIRECTIONAL
DRILLING, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 16, 1993 at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 12th day of January, 1994, 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, Kaiser-Francis Oil Company (Kaiser-Francis), seeks authority to test and develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools underlying the NE/4 of Section 20 and the W/2 NE/4 and NW/4 of Section 21, Township 23 South, Range 31 East, NMPM, Eddy County New Mexico.

(3) The applicant is requesting approval for ten directional wells to be drilled from ten unorthodox surface locations to ten 40-acre standard oil well spacing and proration units within said area. The surface and bottomhole locations for the ten wells are shown in Exhibit "A".

(4) The proposed bottomhole locations are all in a one-half mile by 1 1/4 mile undeveloped area between the Los Medanos-Delaware and the West Sand Dunes-Delaware Pool. Top oil allowable in both pools is 187 barrels per day. Based on offset completions, the proposed locations should result in good wells and could possibly be completed as top allowable producers.

(5) Both Delaware pools fall under General Spacing Rule 104.C.(1)(a) which requires 40-acre spacing and proration units with wells no closer than 330 feet to any boundary. Each of the proposed bottomhole locations is an orthodox location on a standard 40-acre spacing and proration unit.

(6) The bottomhole locations are on federal acreage and are overlain by potash reserves. Applicant's witness testified that the U. S. Bureau of Land Management ("BLM") would not approve vertical locations but has demanded that the area be developed with producing wells to prevent offset drainage.

(7) Surface locations for seven of the wells are on state land and three are on potash barren federal land. Kaiser-Francis has obtained a "Special Use Agreement" from the State Land Office for the seven surface locations on state land.

(8) A net sand isopach map was submitted by applicant's witness which shows that each proposed location should encounter from 40 to 80 feet of porosity in the lower Brushy Canyon section of the Delaware.

(9) Payout calculations were submitted by the applicant which show average well costs of \$699,700, payout in 1.06 years and gross oil recovery of 150,928 bbls.

(10) Kaiser-Francis presented letters to show that IMC Fertilizer has approved nine of the ten proposed locations because "they are outside the 1/4 mile of IMCF's LMR." Approval of the remaining location was recently requested and is expected based on its similarity to the other nine.

(11) Applicant's witness presented drilling plans and testimony to show that the drilling, casing, and cementing plans comply with Division Order No. R-111-P. Each well would be drilled vertically to approximately 4,200 feet. Surface casing would be set to 700 feet and intermediate to 4,070 feet. Each casing string would be cemented from setting depth to surface. Each well would be directionally drilled from 4,200 feet to a standard bottomhole location.

(12) Pogo Producing Company, Yates Petroleum Corporation, and Santa Fe Energy Operating Partners, L.P. appeared at the hearing and stated that they are neither opposed nor in support of the proposed application. Yates stated that such directional drilling is uneconomical. Although indicating they are not opposed to the application, Pogo, supported by Santa Fe, argued against approval saying they believe BLM will always oppose vertical drilling through potash reserves and that Kaiser-Francis' agreement to directionally drill these ten wells will be precedent setting. Pogo recommended that the BLM decision be appealed and cited an example of a BLM reversal which allowed vertical drilling in the area.

(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgements and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons.

(14) Approval of the project will afford the applicant the opportunity to recover its just and equitable share of hydrocarbons in the affected pools and will otherwise prevent waste and protect correlative rights.

(15) The applicant should be required to determine the subsurface location of the kick-off point in each wellbore prior to directional drilling and should subsequently be required to conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

(16) The applicant should be required to notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

IT IS THEREFORE ORDERED THAT:

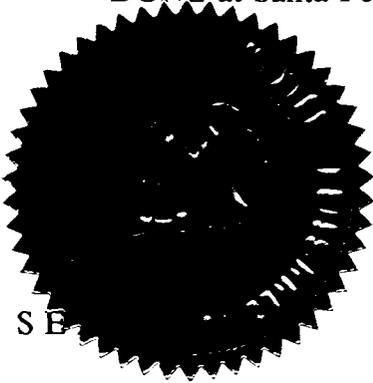
(1) The applicant, Kaiser-Francis Oil Company, is hereby authorized to drill ten directional wells from unorthodox surface locations to orthodox bottomhole locations on ten 40-acre standard spacing and proration units to develop the undesignated Los Medanos-Delaware and/or undesignated West Sand Dunes-Delaware Pools. Surface and bottomhole locations are shown in Exhibit "A" which is attached to this order. The bottomhole location for each of the wells will be considered in compliance if the actual bottomhole location is no more than 50 feet from the approved bottomhole location as shown in Exhibit "A" attached hereto and made a part hereof.

(2) The applicant shall determine the subsurface location of the kick-off point in each well bore prior to directional drilling and shall conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point in each well to total depth to determine each well's true depth and course.

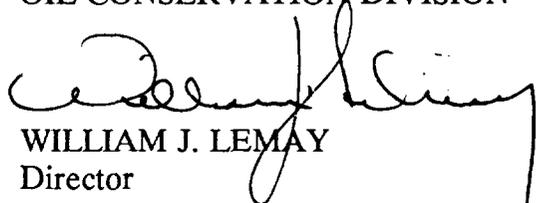
(3) The applicant shall notify the supervisor of the Artesia district office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant shall provide copies of said directional surveys to the Santa Fe and Artesia offices of the Division upon completion.

(4) Jurisdiction of this cause 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

EXHIBIT A
CASE NO. 10887
ORDER NO. R-10048
PROPOSED WELL LOCATIONS
KAISER-FRANCIS OIL COMPANY PURE GOLD LEASES
SECTIONS 20 AND 21, TOWNSHIP 23 SOUTH, RANGE 31 EAST
NMPM, EDDY COUNTY, NEW MEXICO

PURE GOLD WELL LOCATIONS

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Well: Pure Gold A-8
Surface: 10' FSL x 1935' FWL (Unit N) Sec 16
BHL: 1947' FNL x 1789' FWL (Unit F) Sec 21

Well: Pure Gold A-9
Surface: 10' FSL x 280' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FWL (Unit K) Sec 21

Well: Pure Gold A-10
Surface: 10' FSL x 1800' FWL (Unit N) Sec 16
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Surface: 10' FSL x 2025' FEL (Unit O) Sec 16
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Well: Pure Gold A-14
Surface: 10' FSL x 2160' FEL (Unit O) Sec 16
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Surface: 10' FSL x 1960' FEL (Unit O) Sec 17
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Exhibit A
Case No. 10887
Order No. R-10048
Page 2

Well: Pure Gold B-10
Surface: 10' FSL x 145' FWL (Unit M) Sec 16
BHL: 480' FNL x 480' FEL (Unit A) Sec 20

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:

FEB 21 1994

CASE NO. 10887
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

NOTICE OF HEARING
ON
KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS

TO: ALL ATTORNEYS OF RECORD:

YOU ARE HEREBY NOTIFIED THAT THE NEW MEXICO OIL
CONSERVATION DIVISION HAS SET A HEARING FOR:

9:00 AM on Monday, February 28, 1994,

at the Office of the Director, Oil Conservation
Division, 310 Old Santa Fe Trail, Santa Fe, New Mexico,

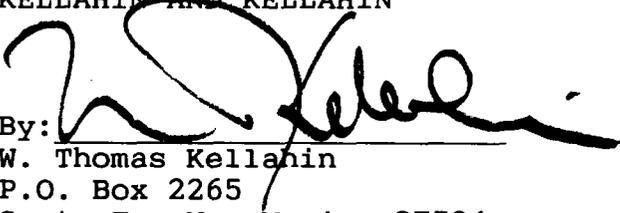
on the motion of Kaiser-Francis Oil Company to dismiss
the application of Santa Fe Energy Operating Partners, L. P.
for a DeNovo hearing in Case 10887.

Notice of Motion Hearing
Case No. 10887
Page 2

CERTIFICATE OF NOTICE

I hereby certify that I hand delivered a copy of the foregoing Notice of Hearing on February 21, 1994 to James Bruce, Esq. 218 Montezuma, Santa Fe, New Mexico, and to Robert G. Stovall, Esq, NMOCD, 310 Old Santa Fe Trail, Santa Fe, New Mexico and mailed a copy to Earnest Carroll, Esq. P. O. Drawer 239, Artesia, New Mexico 88211 and to Gregory J. Nibert, Esq., P. O. Box 10, Roswell, New Mexico 88202.

KELLAHIN AND KELLAHIN

By: 

W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504

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:

FEB 21 1994

CASE NO. 10887 (DeNovo)
ORDER NO. R-10048

APPLICATION OF KAISER-FRANCIS OIL COMPANY
FOR DIRECTIONAL DRILLING,
EDDY COUNTY, NEW MEXICO.

KAISER-FRANCIS OIL COMPANY'S
MOTION TO DISMISS
DENOVO
APPLICATION OF SANTA FE ENERGY PARTNERS, L.P.

Comes now Kaiser-Francis Oil Company, by and through its attorneys, Kellahin & Kellahin, and moves the New Mexico Oil Conservation Division ("NMOCD") to Dismiss with prejudice the Application of Santa Fe Energy Partners, L.P. ("Santa Fe") for a DeNovo Hearing of Case 10887 in which Kaiser-Francis Oil Company ("Kaiser") obtained Division Order R-10048 approving the directional drilling of ten oil wells from unorthodox surface locations to ten 40-acre standard subsurface locations in either the Los Medanos-Delaware and/or the West Sand Dunes-Delaware Pools, Eddy County, New Mexico,

AND IN SUPPORT STATES:

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 2

REASONS FOR MOTION

While Santa Fe Energy has filed an Application for a DeNovo Hearing, Santa Fe Energy IS:

- (1) NOT an interest owner in any of the wells;
- (2) NOT being encroached towards or upon;
- (3) NOT paying for the costs of any of these wells;

and therefore is not a party of record adversely affected by this order and does not have the right to have such matter or proceeding heard de novo before the Commission. [See Division Rule 1220].

SUMMARY OF CASE

This in case, heard on December 16, 1993 before Division Examiner Jim Morrow, Kaiser sought and obtained approval to directionally drill ten Delaware oil wells to be located in Sections 20 and 21 of T23S, R31E which are subject to the rules for both the Los Medanos and West Sand Dunes Pools, Eddy County, New Mexico.

Kaiser's proposed wells are all located in the Oil-Potash Area as defined by Division Order R-111-P. Sections 20 and 21 are federal tracts administered by the BLM for which Kaiser-Francis holds valid oil & gas leases.

Kaiser proposes to use surface location which are within areas presumed to be barren of measurable potash reserves and to drill directionally to standard subsurface locations which are overlain by areas which the 1984 Secretary of Interior's Potash Resources Map indicates contain substantial portions of measurable potash reserves.

In each case, the well's bottom hole location will be a standard well location.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 3

In each instance, the BLM will preclude the drilling of a vertical well.

In each instance, directionally drilling is the only practical means available to Kaiser-Francis to access the Delaware pools and to obtain its share of recoverable hydrocarbons.

ACTION BY DIVISION

At the hearing held on December 16, 1993 before Division Examiner Jim Morrow, Santa Fe appeared and stated its position. In response to that position, the Division found that:

"(13) Pogo's and Santa Fe's reasons for opposing this project are based on business judgments and positions concerning BLM lease requirements and policies, rather than on OCD regulatory procedures. They did not present arguments that the Kaiser-Francis request should be denied for OCD regulatory reasons."

Under Division Order R-10048, the well's bottom hole location will be a standard well location such that Kaiser can produce only that portion of the well which is located no closer than 330 feet to the outer boundary of a 40-acre spacing unit within the Delaware formation.

Should Kaiser determine that it desires to produce any of the wells from a point which is "unorthodox" then that will require a new application by Kaiser and further orders of the Division which are not the subject of this case.

Motion to Dismiss DeNovo Application
of Santa Fe Energy Operating Partners, L.P.
Case No. 10887, Order R-10048
Page 4

CONCLUSION

Kaiser should not be required to bear the expense of another regulatory hearing before the New Mexico Oil Conservation Division when the request for such a hearing is filed by a company who is not adversely affected by such order.

Santa Fe has chosen the wrong forum in which to pursue its disagreement with a BLM practice or policy.

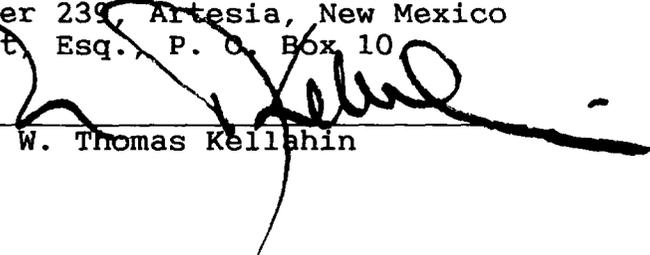
Division Rule 1220 limits applicants for DeNovo hearing to "parties of record adversely affected the Division Order." Santa Fe may be upset with BLM policy but it is not adversely affected by this NMOCD order and therefore lacks standing to file for a DeNovo hearing.

Respectfully submitted:

By: 
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CERTIFICATE OF SERVICE

I, W. Thomas Kellahin, hereby certify that the foregoing pleading was hand delivered this 21st day of February 1993 to James Bruce, Hinkle Law Firm, 218 Montezuma, Santa Fe, New Mexico, and to Robert G. Stovall, Esq., NMOCD, 310 Old Santa Fe Trail, Santa Fe, New Mexico, and was mailed by regular mail postage prepaid to Ernest Carroll, Esq, Post Office Drawer 239, Artesia, New Mexico 88211, and to Gregory J. Nibert, Esq., P. O. Box 10 Roswell, New Mexico 88202.


W. Thomas Kellahin