

# Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company  
Managing General Partner  
CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

TELECOPIED

October 26, 1989

Exxon Company, U.S.A.  
P.O. Box 1600  
Midland, Texas 79702-1600

ATTN: Brockman King  
Production Land Coordinator

BEFORE EXAMINER ONOBAER  
Oil Conservation Division  
SFE EXAM No. 2  
Case No. 9797

9797  
9832  
SFE Energy  
5/24/89

Re: OD-NM-617,282 (O/A)  
Escalante Fed Com 20 #1  
1980' FNL & 1980' FWL  
Sec. 20, T-23-S, R-25-E  
Eddy County, New Mexico  
Mutton Prospect  
Your Sheep Draw West Prospect

Gentlemen:

This letter is in response to Exxon's letter of October 19, 1989 and several conversations concerning same. It has just come to Santa Fe's attention through conversations with the OCD District Office that the referenced well will fall under the Field Rules for the Rock Tank Morrow Pool which commands 640 acre spacing. Initially Santa Fe and the OCD District Office felt this location would qualify for 320 acre spacing due to the Dark Canyon Penn Field to the South. However with further research by the OCD, this well is to be placed in the said Rock Tank Field.

Santa Fe has also been forced to move its location due to the topography located around this location. After staking approximately four locations, the only viable location appears to be 1980' FNL & 1980' FWL of this Section 20. Due to this falling approximately 200 feet higher in elevation from our original location, the projected total depth now becomes 11,100'. This should not affect the original AFE costs.

Considering the above, Exxon's request to utilize the E/2 of Section 20 as a Proration Unit and its suggested farmout terms could not be accommodated. Irregardless of the 640 acre spacing, the E/2 Proration Unit is not allowable pursuant to the Federal Regulations, specifically under 43 CFR Section 3105.2-2. The BLM will not approve a Communitization Agreement if it can be independently developed and operated in conformity with an established well spacing program. Since Amoco's lease in the S/2 of Section 20 could have been developed independently on a 320 acre spacing basis, it is our understanding the BLM will not communitize said tract irregardless of OCD approval of same.

Santa Fe will entertain accepting a farmout agreement from Exxon of its interest in the 640 acre Proration Unit, based on delivering a 75% NRI

Permian Basin District  
500 W. Illinois  
Suite 500  
Midland, Texas 79701  
915 837-1331

Page 2  
Exxon Company, U.S.A.  
October 26, 1989

lease with Exxon reserving an ORRI equal to the difference of 25% and existing lease burdens with Exxon having the option to convert the ORRI to a 25% Back-In APO of the initial well, all proportionately reduced. Santa Fe feels that a one-third (1/3rd) Back-In, as Exxon proposes, is excessive for this exploratory Morrow test. Should Exxon like to reconsider and join this well, Santa Fe will likewise offer the option to Exxon should the change in spacing influence Exxon's initial decision.

In order to proceed with this test, Santa Fe plans to go ahead and re-advertise the Compulsory Pooling for the November 29, 1989 docket. Hopefully a voluntary agreement can be reached and said hearing dismissed.

Should you have any questions concerning this matter, please feel free to give me a call.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Patrick J. Tower, Senior Landman

PJT/efw

EFW717

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company

Managing General Partner

CERTIFIED MAIL

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October 26, 1989

Siete Oil & Gas Corp.  
Petroleum Bldg., Suite 200  
200 West First Street  
Roswell, New Mexico 88202

ATTN: Gene Shumate  
Vice-President Land

Re: OD-NM-617,282 (O/A)  
Escalante Fed Com 20 #1  
1980' FNL & 1980' FWL  
Sec. 20, T-23-S, R-25-E  
Eddy County, New Mexico  
Mutton Prospect

Gentlemen:

Please be advised that the New Mexico OCD has mandated that Santa Fe drill the referenced well under the 640 acre spacing attributable to the Rock Tank Field. Therefore, Santa Fe again proposes this well with all of Section 20 to be dedicated to same. The AFE for the drilling of this well shall remain the same as that forwarded in our letter of September 6, 1989.

After staking approximately four locations, it has been determined that the referenced location is the only viable one due to the topography in the area. Due to this falling approximately 200 feet higher in elevation from our original location, the projected total depth now becomes 11,100'. This should not affect the original AFE costs.

Santa Fe again invites you to join or farmout for the drilling of this well. Should you elect to farmout, Santa Fe would entertain accepting a Farmout Agreement based on delivering a 75% NRI lease with Siete reserving an ORRI equal to the difference of 25% and existing lease burdens with Siete having the option to convert the ORRI to a 25% Back-In APO of the initial well, all proportionately reduced.

If it is your desire to join, it is requested that you execute and return the one copy of the two AFES previously forwarded, to the undersigned.

Due to the change in spacing, the original Force Pooling Hearing will be re-advertised and is planned to be held on the November 29, 1989 Docket.

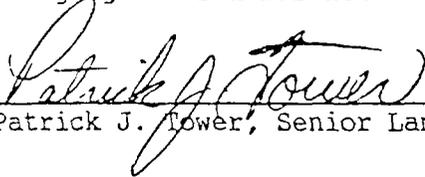
Permian Basin District  
500 W. Illinois  
Suite 500  
Midland, Texas 79701  
315 607-3531

Page 2  
Siete Oil & Gas Corp.  
October 26, 1989

Your prompt attention to this matter is most appreciated. Should you have any questions, feel free to call.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Patrick J. Lower, Senior Landman

PJT/efw

EFW719

**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company

Managing General Partner

CERTIFIED MAIL

RETURN RECEIPT REQUESTED

TELECOPIED

October 26, 1989

Amoco Production Company  
501 WestLake Blvd.  
Houston, Texas 77253

ATTN: Emily Goodfellow  
Land Dept. - Central Div.

Re: OD-NM-617,202 (AMI)  
Escalante Fed Com 20 #1  
1980' FNL & 1980' FWL  
Sec. 20, T-23-S, R-25-E  
Eddy County, New Mexico  
Mutton Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. hereby proposes the drilling of a 11,100' Morrow test at the referenced location in Eddy County, New Mexico. All of Section 20 is to be dedicated to the Proration Unit.

Santa Fe would invite you to join in this test well, and in this regard has enclosed two AFES itemizing the costs. If it is your desire to join, please so indicate by executing and returning one AFE to the undersigned. A JO/A will be signed and forwarded upon your election to join. Should Amoco desire not to join this test, Santa Fe would request that you farmout your interest in the Proration Unit based on delivering a 75% NRI lease with Amoco reserving an ORRI equal to the difference between 25% and the existing lease burdens with Amoco having the option to convert the ORRI to a 25% Back-In APO of the initial well, all proportionately reduced.

Santa Fe apologizes for the short notice concerning this proposal. As you are aware, Santa Fe had been discussing with Amoco the possibility of an Optional Farmout Agreement on Amoco's lease on the S/2 of Section 20 when it was believed that spacing for this well would be on a 320 acre basis. However, as discussed, it was not until this week that we received clarification from the OCD that this well would be in the 640 acre spacing for the Rock Tank Field.

Santa Fe previously filed a Force Pooling Hearing against Exxon for the N/2 of Section 20, which was to be held on the November 1st Docket. This change in spacing requires us to re-file the application and to proceed with the well. It is planned to enjoin Amoco under the Force Pooling in order to protect the interests for this well. The hearing will now be re-scheduled for the November 29, 1989 docket. It would be our plan however, to work out a voluntary agreement in order that we may dismiss said hearing.

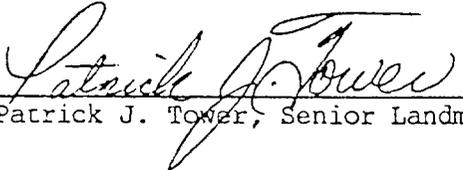
Permian Basin District  
500 W. Illinois  
Suite 500  
Midland, Texas 79701  
915 687-3551

Page 2  
Amoco Production Company  
October 26, 1989

Your prompt attention to this matter is most appreciated. Should you have any questions, feel free to call.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Patrick J. Tower, Senior Landman

PJT/efw  
Encls a/s

EFW718

**EXXON COMPANY, U.S.A.**

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT  
SOUTHWESTERN DIVISION

TP
DBK
DB
DF
DRFT
File

October 19, 1989

OD-NM-617,282 (O/A)  
Escalante Fed Com "20" #1  
1980' FEL & 660' FNL  
Section 20-23S-25E  
Eddy County, New Mexico  
Your Mutton Prospect  
Our Sheep Draw West Prospect

RECEIVED

OCT 20 1989

LAND DEPT.  
MIDLAND, TX

Santa Fe Energy Operating Partners, L.P.  
500 W. Illinois, Suite 500  
Midland, Texas 79701  
Attn: Patrick J. Tower

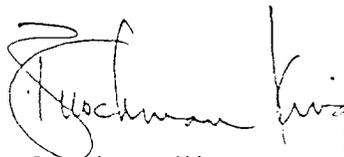
Gentlemen:

By letter of August 25, 1989, you proposed to drill the captioned well with the N/2 of Section 20 as the dedicated proration unit. By letter of September 26th, we advised that Exxon was not interested in participating in this well. Since your initial letter did not provide terms for a farmout, we did not propose any farmout terms at that time. Subsequent to that time, Exxon has received notification of your intention to force pool Exxon at a November 1st hearing before the New Mexico Oil Conservation Division. In order to resolve our farmout terms before the hearing, Exxon proposes the following terms and alternatives:

1. Exxon requests that Santa Fe consider amending your location in order to utilize the E/2 of Section 20 as the dedicated proration unit. This configuration will protect Santa Fe's acreage in Section 21 by eliminating the possibility of another well being drilled in the SE/4 of Section 20. In return for dedicating the E/2 of Section 20, Exxon will farmout our acreage in the NE/4 of Section 20 to Santa Fe on a produce to earn basis delivering a 75% NRI lease with Exxon reserving an overriding royalty equal to the difference between 25% and existing lease burdens. Exxon shall not reserve any back-in after payout of the initial well.
2. If Santa Fe will not consider our proposal in 1. above, then Exxon will farmout its leasehold in the N/2 of Section 20 on a produce to earn basis delivering a 75% NRI lease with Exxon reserving an overriding royalty interest equal to the difference between 25% and existing lease burdens. This overriding royalty interest shall be convertible to a 1/3 back-in after payout of the initial well.

As stated above, Exxon prefers that Santa Fe realign their proration unit to encompass the E/2 Section 20. If you have any questions concerning these proposals, please contact the undersigned at 688-6758. Your early attention to this matter is appreciated.

Yours Very Truly,



Brockman King  
Production Land Coordination

**EXXON** COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

EXPLORATION DEPARTMENT  
WESTERN DIVISION

J. B. THOMAS  
LAND ASSOCIATE

PT 9/29	D
GG	DB
EW	DF
PR	DRFT
File	

September 26, 1989

RECEIVED  
SEP 28 1989  
LAND DEPT.  
MIDLAND, TX

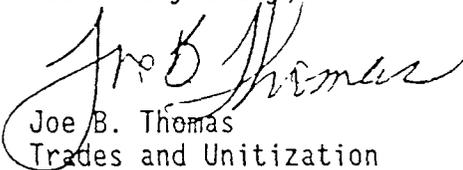
Pending No. 8-89 (0038-89)  
Your OD-NM-617,282 (O/A)  
Escalante Fed Com "20" #1  
Section 20: N/2, 23S-25E  
Eddy County, New Mexico

Mr. Patrick J. Tower  
Santa Fe Energy Operating Partners, L.P.  
500 W. Illinois, Ste. 500  
Midland, Texas 79701

Dear Mr. Tower:

Exxon Company, U.S.A., is in receipt of your letter dated August 25, in which it is requested that Exxon elect to join or farmout the referenced acreage for a 10,900' Morrow test. After careful consideration, Exxon respectfully declines your request in the proposed unit at this time.

We appreciate your request and hope the future will hold some mutually beneficial opportunities.

Yours very truly,  
  
Joe B. Thomas  
Trades and Unitization  
915/683-0236

JBT:kn

September 6, 1989

Siete Oil & Gas Corporation  
200 West First Street, Suite 200  
Roswell, New Mexico 88202

ATTN: Gene Shumate  
Vice-President Land

Re: OD-NM-617,282 (O/A)  
Escalante Fed Com "20" #1  
1980' FEL & 660' FNL  
Sec. 20  
T-23-S, R-25-E  
Eddy County, New Mexico  
Mutton Prospect

Gentlemen:

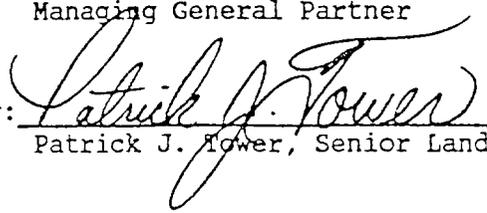
Santa Fe Energy Operating Partners, L.P. is hereby proposing to drill a 10,900' Morrow test at the referenced location in Eddy County, New Mexico. The N/2 of Section 20 is to be the dedicated Proration Unit. Santa Fe invites you to join in this test and in this regard has enclosed two AFES itemizing the costs. If it is your desire to join, please so indicate by executing and returning one executed AFE to the undersigned. A JO/A will be forwarded upon your election to join.

Should you elect not to join, Santa Fe would request that you farmout your interest in the Proration Unit under mutually acceptable terms.

Your prompt attention to this proposal will be most appreciated.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Patrick J. Tower, Senior Landman

PJT/efw  
2 Encls a/s

EFW600-2  
Permian Basin District  
500 W. Illinois  
Suite 500  
Midland, Texas 79701  
915.637-3551

August 25, 1989

Exxon Company, U.S.A.  
P.O. Box 1600  
Midland, Texas 79702-1600

ATTN: Joe Thomas  
Trades & Unitization

Re: OD-NM-617,282 (O/A)  
Escalante Fed Com "20" #1  
1980' FEL & 660' FNL  
Sec. 20  
T-23-S, R-25-E  
Eddy County, New Mexico  
Mutton Prospect

Gentlemen:

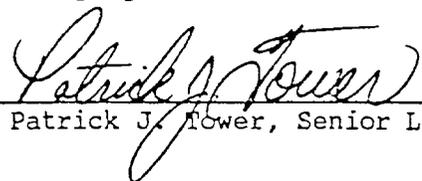
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SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Patrick J. Tower, Senior Landman

PJT/efw  
2 Encls a/s

EFW600-1

Permian Basin District  
500 W. Illinois  
Suite 520  
Midland, Texas 79701  
915-687-3551