

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

Oil Conservation Division
RECEIVED 12 01 9 51

February 8, 1990

Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

9923

Attention: William J. LeMay
OCD Director

Re: Rule 309-A Exception
State Lease No. LG-6977
Sharp Shooter 2 State No. 1
Sharp Shooter 2 State No. 2
Sharp Shooter 2 State No. 3

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) proposes to build a common battery to serve present and future wells on the referenced lease. All of the production that will go into the battery will be from the North Young Bone Spring Pool. All interests, including the State of New Mexico's royalty interest, are also uniform in all wells. The reason for making application now is due to Amoco's reversionary option in wells No. 2 and 3. At payout of each well, Amoco has the option to convert their current ORRI to a 3.125% WI. The proposed facility will provide accurate measurement to determine each well's production, sales, and revenue by periodic testing. The handling of payout calculations and potential future WI differences will therefore be satisfied.

In accordance with rule 309-B, SFEOP hereby requests exception to rule 309-A and administrative approval to commingle production from all North Young Bone Spring Pool wells on the subject lease. In fulfillment of rule 309-B, SFEOP makes the following statements:

1. All production is from the North Young Bone Spring Pool. Please see Attachments No. 1, 2, 3, & 4 showing plats of the leasehold, well location, and pool assignments.
2. Adequate facilities will be provided for accurately determining production from each well at reasonable intervals. Please see Attachment No. 5 showing proposed battery schematic.
3. All parties, except one, owning an interest in the lease, and the purchaser of the commingled production therefrom have consented in writing to the commingling. Please see Attachments No. 6, 7, & 8 showing correspondence with the referenced parties.

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

February 8, 1990

4. The party owning an interest that has not responded is the New Mexico State Land Office. Their interest is uniform throughout the lease and for the entire life of the lease. They are not affected by this request. They were contacted by certified mail on January 10, 1990. See Attachments No. 9 & 10 showing copies of correspondence and certification of receipt.
5. The proposed battery is substantially in accordance with the Division's "Manual for the Installation and Operation of Commingling Facilities". See Attachment No. 5 showing proposed battery schematic.

Two additional copies of the application are included to satisfy Rule 309-B triplicate filing instructions. Please return the third enclosed copy upon approval for our files. Should you need further information or explanation, please contact either myself or Patrick Gaume, Sr. Production Engineer, at this office.

Sincerely,

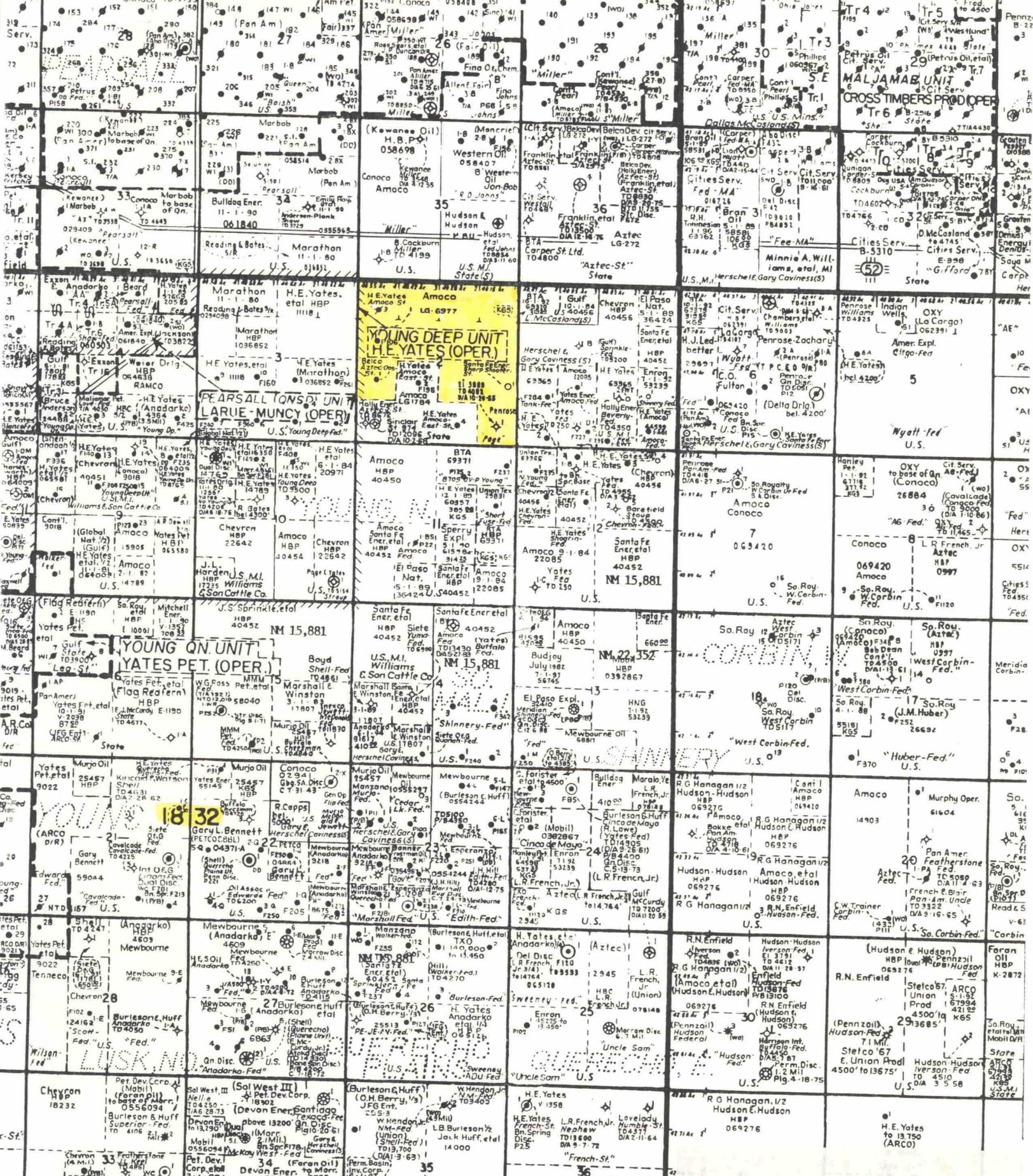
SANTA FE ENERGY OPERATING PARTNERS, LP
By Santa Fe Pacific Exploration Company
as Managing General Partner

By


Thomas E. Gentry
District Operations Manager

PJG:dw-2044

Attachments



FEBRUARY 8, 1990
 RULE 309-A EXCEPTION
 STATE LEASE NO. LC-6977
 ATTACHMENT 1 OF 10

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT I

P.O. Box 1980, Hobbs, NM 88240

DISTRICT II

P.O. Drawer DD, Artesia, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

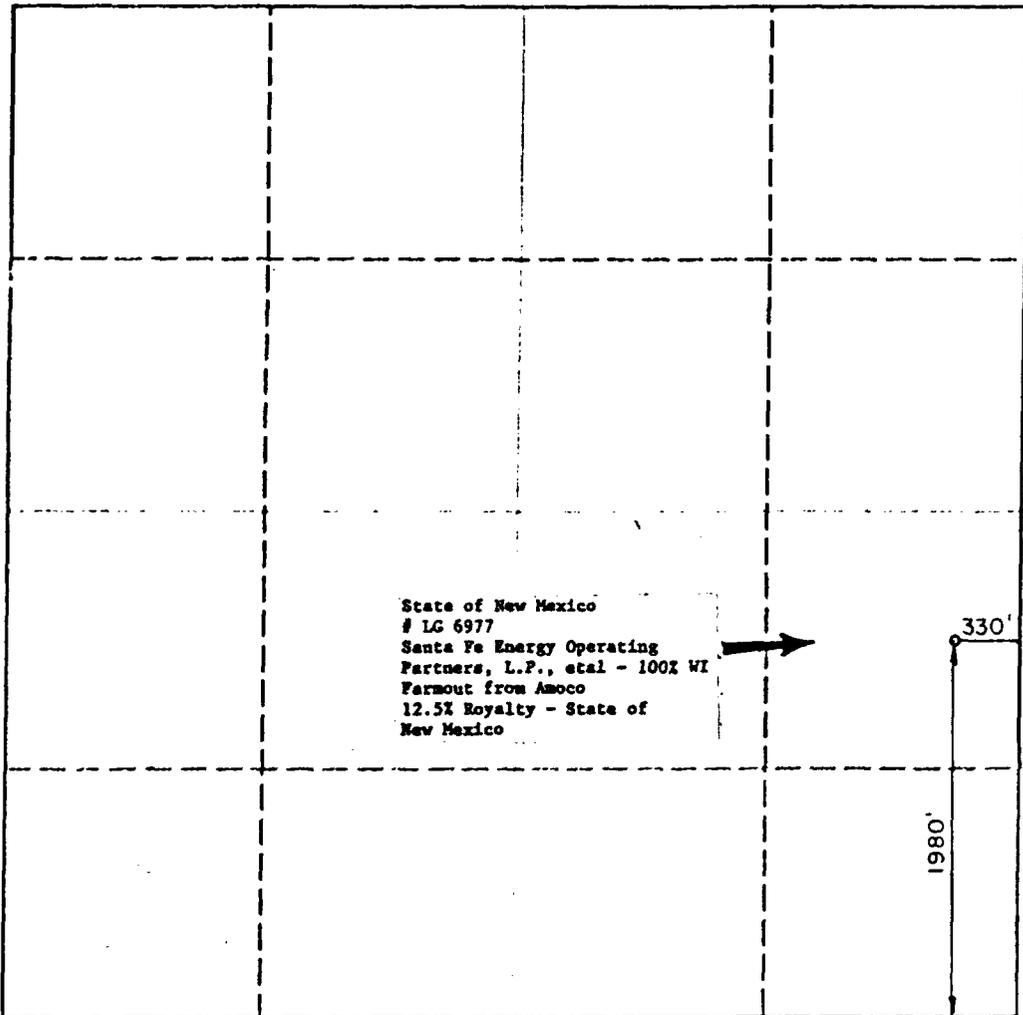
| | | | | | |
|---|------------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------|
| Operator Santa Fe Energy Operating Partners LP | | | Lease Sharp Shooter State 2 | | Well No. 1 |
| Unit Letter I | Section 2 | Township 18 South | Range 32 East | County Lea | |
| Actual Footage Location of Well: 1980 feet from the South line and 330 feet from the East line | | | | | |
| Ground level Elev. 3893.5 | Producing Formation Bone Spring | Pool North Young Bone Spring | | Dedicated Acreage: 40 Acres | |

- Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?

Yes No If answer is "yes" type of consolidation _____

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

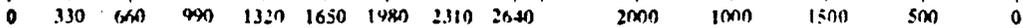
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
Michael R. Burton
 Printed Name
 Michael R. Burton
 Position
 District Drilling Engineer
 Company
 Santa Fe Energy Oper. Part., L
 Date
 June 22, 1989

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
 May 19, 1989
 Signature & Seal of
 Professional Surveyor



Submit to Appropriate District Office
 State Lease - 4 copies
 Fee Lease - 3 copies

State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-102
 Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT I
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
 P.O. Drawer DD, Artesia, NM 88210

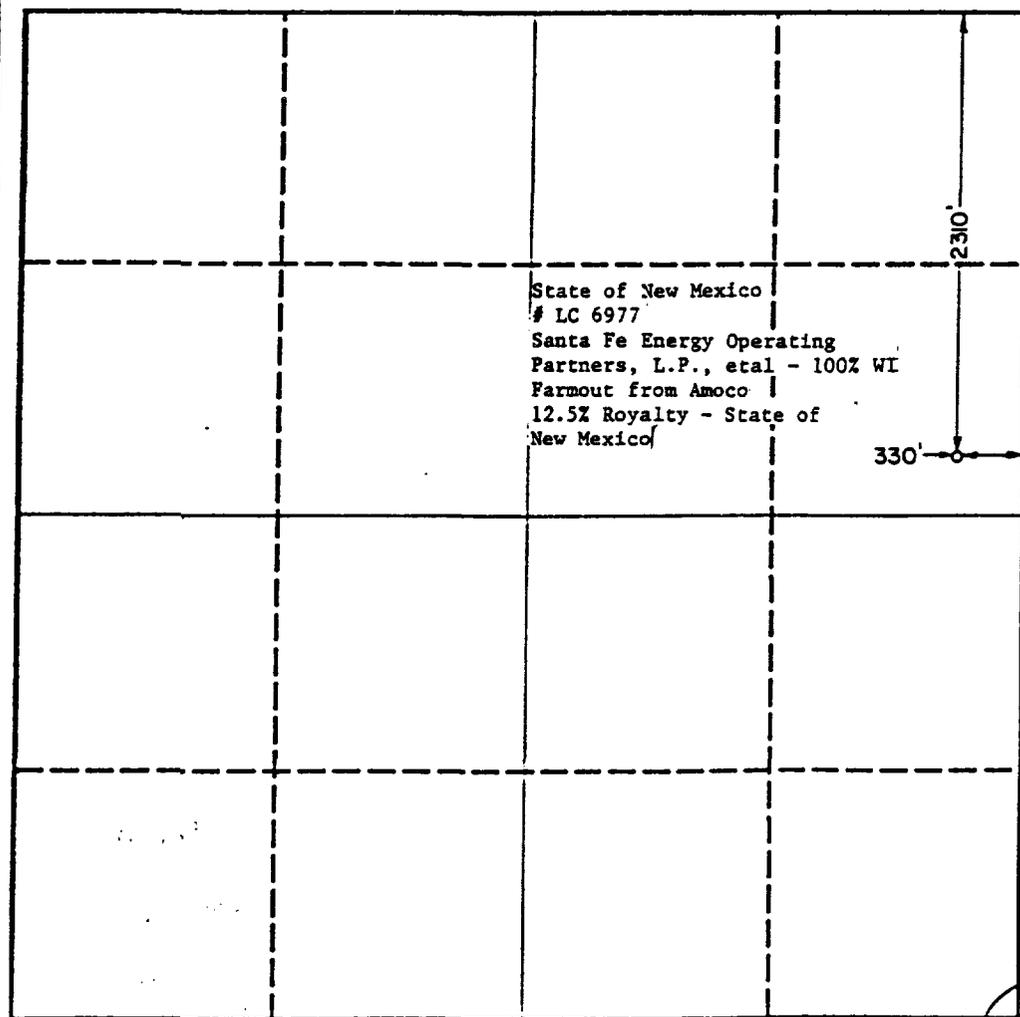
DISTRICT III
 1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

| | | | | | | | | |
|---|--------------|------------------------------------|--------------------------------|----------------|---------------------------------|---------------|--------------------------------|--|
| Operator Santa Fe Energy Operating Partners LP | | | Lease Sharp Shooter 2 State | | | Well No. 2 | | |
| Unit Letter H | Section 2 | Township 18 South | Range 32 East | County NMPM | | Lea | | |
| Actual Footage Location of Well: 2310 feet from the North line and 330 feet from the East line | | | | | | | | |
| Ground level Elev. 3899.3 | | Producing Formation Bone Spring | | | Pool North Young Bone Spring | | Dedicated Acreage: 40 Acres | |

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
 Yes No If answer is "yes" type of consolidation _____
 If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary).
 No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

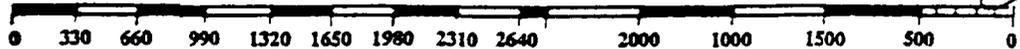
Signature
Michael R. Burton
 Printed Name
 Michael R. Burton
 Position
 District Drilling Engineer
 Company
 Santa Fe Energy Operating Partners, L.P.
 Date
 10-11-89

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
 September 30, 1989
 Signature & Seal of Professional Surveyor

 REGISTERED PROFESSIONAL ENGINEER
 LAND SURVEYOR
 NO. 1276



appropriate
 - 4 copies
 - 3 copies

OIL CONSERVATION DIVISION
 P.O. Box 2088
 Santa Fe, New Mexico 87504-2088

DISTRICT I
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
 P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
 1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT
 All Distances must be from the outer boundaries of the section

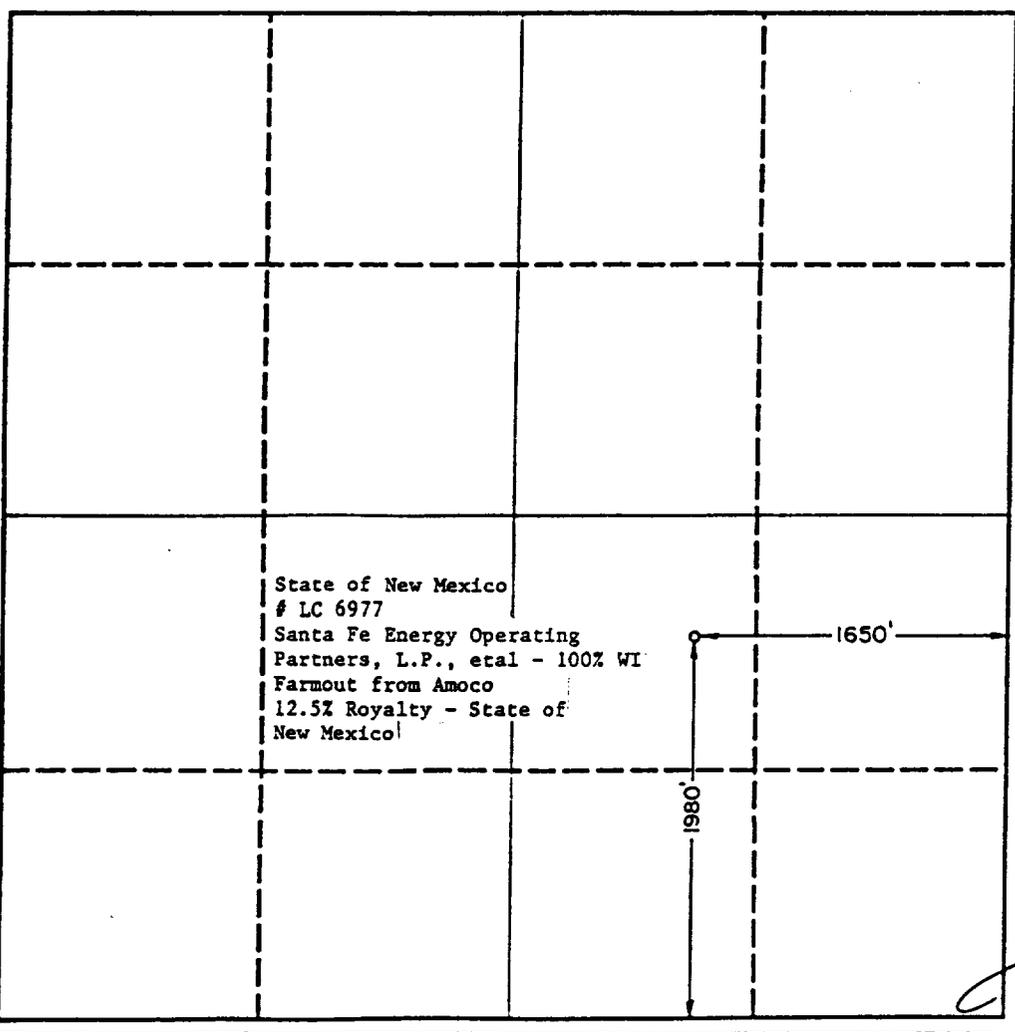
| | | | | |
|--|------------------------------------|---------------------------------|--------------------------------|---------------|
| Operator Santa Fe Energy Operating Partners LP | | Lease Sharp Shooter 2 State | | Well No. 3 |
| Unit Letter J | Section 2 | Township 18 South | Range 32 East | County Lea |
| Actual Footage Location of Well: 1980 feet from the South line and 1650 feet from the East line | | | | |
| Ground level Elev. 3890.8 | Producing Formation Bone Spring | Pool North Young Bone Spring | Dedicated Acreage: 40 Acres | |

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?

Yes No If answer is "yes" type of consolidation _____

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION
 I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
Michael R. Burton

Printed Name
 Michael R. Burton

Position
 District Drilling Engineer
 Company Santa Fe Energy Operating Partners, L.P.

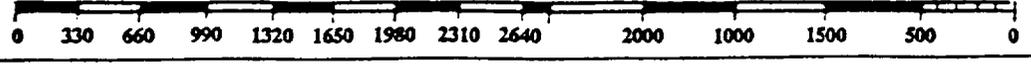
Date
 10-11-89

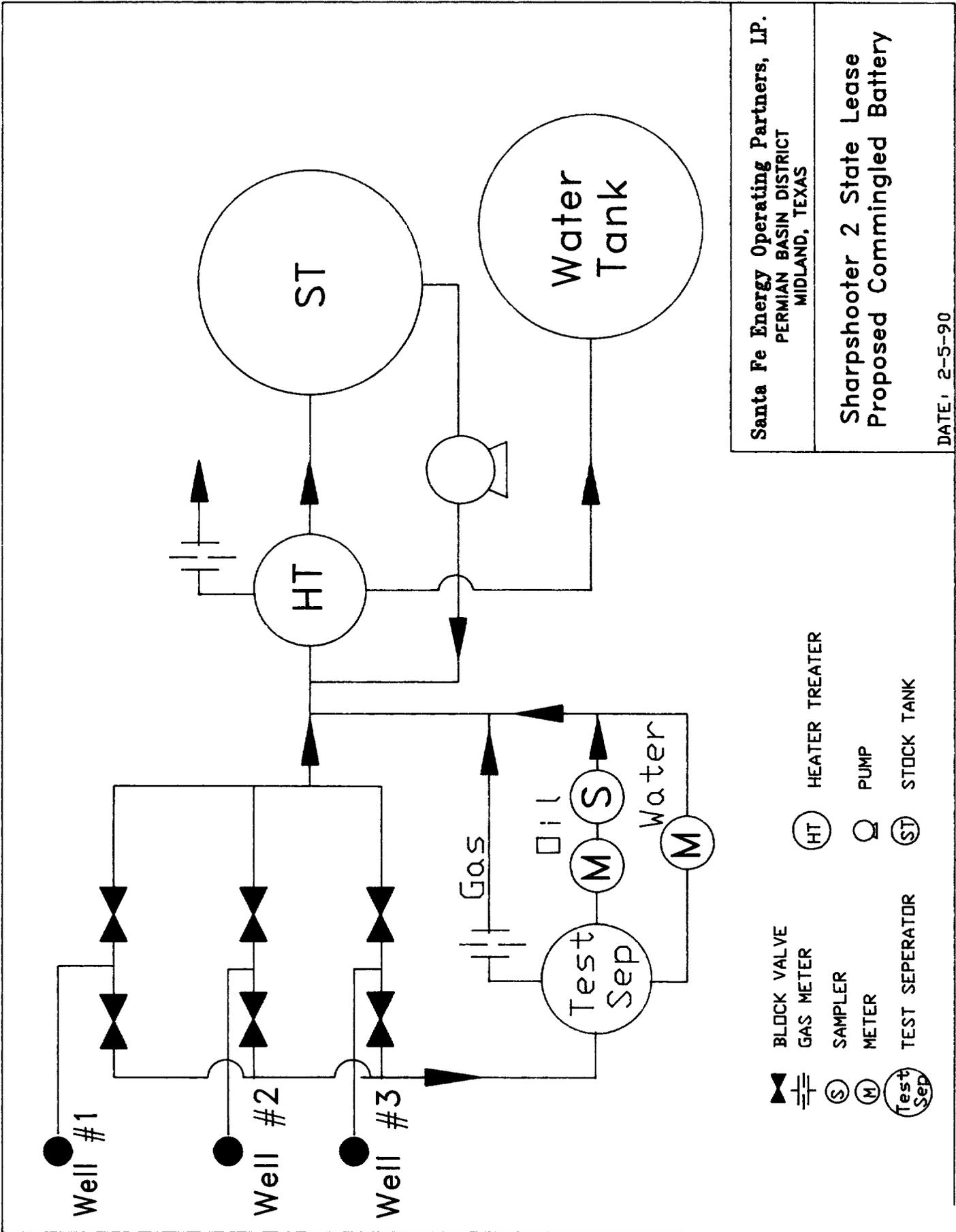
SURVEYOR CERTIFICATION
 I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
 September 30, 1989

Signature & Seal of Professional Surveyor

Certificate No. _____





Santa Fe Energy Operating Partners, LP.
 PERMIAN BASIN DISTRICT
 MIDLAND, TEXAS

Sharpshooter 2 State Lease
 Proposed Commingled Battery

DATE: 2-5-90

- BLOCK VALVE
- GAS METER
- SAMPLER
- METER
- TEST SEPERATOR
- HEATER TREATER
- PUMP
- STOCK TANK

SSH00TER.DWG

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

Amoco Production Company
P.O. Box 3092
Houston, Texas 77253

ATTN: Tim Custer

Re: OD-NM-617,202
Central Battery
Sharpshooter "2" State #1
Sharpshooter "2" State #2
Sharpshooter "2" State #3
Lea County, New Mexico
Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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

FEBRUARY 8, 1990
RULE 309-A EXCEPTION
STATE LEASE NO. LC-6977
ATTACHMENT 6 OF 10
Page 1 of 2

Page 2
Amoco Production Company
January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

By: *Patrick J. Tower*
Patrick J. Tower, Senior Landman

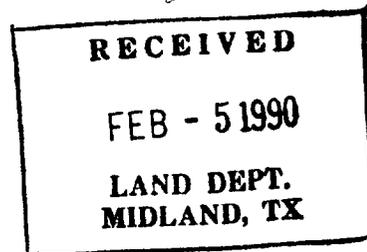
PJT/efw

AGREED TO AND ACCEPTED
this 31 day of January, 1990.

AMOCO PRODUCTION COMPANY

By: *Tim R. Custer*

Title: LANDMAN



RETURN THIS COPY TO
SANTA FE ENERGY OPERATING PARTNERS, L.P.

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

Mitchell Energy Corporation
Independence Plaza
400 West Illinois, Suite 1000
Midland, Texas 79701

ATTN: Larry Cunningham

Re: OD-NM-617,270
Central Battery
Sharpshooter "2" State #1
Sharpshooter "2" State #2
Sharpshooter "2" State #3
Lea County, New Mexico
Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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

FEBRUARY 8, 1990
RULE 309-A EXCEPTION
STATE LEASE NO. LC-6977
ATTACHMENT 7 OF 10
Page 1 of 2

Page 2
Mitchell Energy Corporation
January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

By: Patrick J. Tower
Patrick J. Tower, Senior Landman

PJT/efw

AGREED TO AND ACCEPTED
this 8 day of January, 1990.

MITCHELL ENERGY CORPORATION

By: E. R. Earley

Title: Dist - Prod. mgr.



RETURN THIS COPY TO
SANTA FE ENERGY OPERATING PARTNERS, L.P.



Texaco Trading and Transportation Inc P O Box 60628
Midland TX 79711-0628
915 563 1313

January 3, 1990

Santa Fe Energy Company
Mr. Pat Gaume
500 West Illinois
Midland, Texas 79701

RE: Sharp Shooter 2 State
TTTI#81955
Lea County, New Mexico

Mr. Gaume:

This will serve as our consent for commingling of wells 1 and 2 from the above referenced lease. If I may be of any further assistance please call me.

Very truly yours,

Thomas J. Savage
Manager Business
Development

cc: John Munsch
1616 South Voss Suite 700
Houston, Texas 77057

Santa Fe Energy Operating Partners, L.P.

**Santa Fe Pacific Exploration Company
Managing General Partner**

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

New Mexico State Land Office
P.O. Box 1148
Santa Fe, New Mexico 87501

ATTN: Floyd Prando

Re: OD-NM-617,270
OD-NM-617,202
Central Battery
Sharpshooter "2" State #1
Sharpshooter "2" State #2
Sharpshooter "2" State #3
Lea County, New Mexico
Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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

FEBRUARY 8, 1990
RULE 309-A EXCEPTION
STATE LEASE NO. LC-6977
ATTACHMENT 9 OF 10
Page 1 of 2

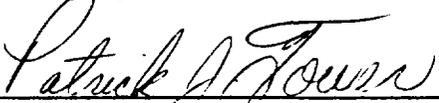
Page 2
New Mexico State Land Office
January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

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

AGREED TO AND ACCEPTED
this _____ day of January, 1990.

STATE OF NEW MEXICO

By: _____

Title: _____

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to:
 New Mexico State Land Office
 P.O. Box 1148
 Santa Fe, New Mexico 87501
 ATTN: Floyd Prando

4. Article Number
 P 046 661 413

Type of Service:
 Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Address
 X

6. Signature Agent
 X *[Signature]*

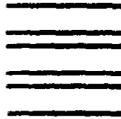
7. Date of Delivery
 1/10/90

8. Addressee's Address (ONLY if requested and fee paid)
 M

PS Form 3871, Mar. 1988 * U.S.G.P.O. 1988-212-885 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS
Print your name, address and ZIP Code in the space below.
• Complete items 1, 2, 3, and 4 on the reverse.
• Attach to front of article if space permits, otherwise affix to back of article.
• Endorse article "Return Receipt Requested" adjacent to number.



PENALTY FOR PRIVATE USE, \$300

RETURN
TO



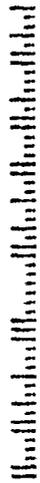
Print Sender's name, address, and ZIP Code in the space below.

Patrick J. Tower - Santa Fe Energy Co.

OD-NM-617,270
OD-NM-617,202

500 West Illinois, 5th Floor

Midland, Texas 79701



1-10-90

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

April 2, 1990

RECEIVED
OIL CONSERVATION DIVISION
APR 5 1990

Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

CASE FILE - 9923

Attention: William J. LeMay
OCD Director

Re: Rule 309-A Exception
State Lease No. LG-6977
Sharp Shooter 2 State No. 1
Sharp Shooter 2 State No. 2
Sharp Shooter 2 State No. 3

Gentlemen:

By letter of February 8, 1990, Santa Fe Energy Operating Partners, L.P. (SFEOP) made application for a Rule 309-A Exception for the subject lease. The February 8th letter, with its ten attachments, addressed the requirements of Rule 309-B, and included approval letters from the oil transporter and all interest owners except the royalty interest owner, The State of New Mexico Land Office.

We have now received a favorable response from the New Mexico State Land Office. They do not oppose our request for a single battery. Please find attached a copy of the New Mexico State Land Office letter dated March 21, 1990, and other pertinent correspondence between SFEOP and the New Mexico State Land Office. We request that this letter with attachments be added to our letter of February 8, 1990, and become part of our Rule 309-A Exception application for State Lease No. LG-6977.

Sincerely,

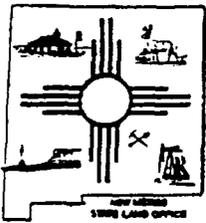
SANTA FE ENERGY OPERATING PARTNERS, L.P.
By Santa Fe Pacific Exploration Company
as Managing General Partner

By Patrick Jay Gaume
Patrick J. Gaume
Sr. Production Engineer

PJG:dw-2114

Attachments

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



State of New Mexico
Commissioner of Public Lands

March 21, 1990

W. R. Humphries
COMMISSIONER

Advisory Board

George Clark
Chairman

Kristin Conniff
Vice Chairman

Melvin Cordova
Joe Kelly

Robert Portillos

Nancy Lynch Vigil

Rex Wilson

Santa Fe Energy Operating Partners, L.P.
Permian Basin District
500 W. Illinois Suite 500
Midland, TX 79701

Re: State of New Mexico Lease No. LG-6977

Attn: Patrick J. Gaume

Dear Sir:

This letter is in reply to your letter of March 15, 1990, requesting an opinion about commingling on the above referenced lease.

The lessee of record for LG-6977 is Amoco Production Company. The lease encompasses lots 1-4, S1/2N1/2, NW1/4SW1/4, N1/2SE1/4, and the SE1/4SE1/4 of section 2, Township 18S, Range 32E. As long as all the production that is sold from this lease comes only from the lease premises as above described, and as long as the production is from the same formation or pool, then the lessee does not need permission from the Commissioner of Public Lands to sell that production using a single point of sale. Any other situation requires the Commissioner's approval.

Since the Commissioner does not recognize or approve undivided interests in oil and gas leases issued on state trust lands, reversionary interests, overriding royalty interests, or working interests do not affect the lessee's right to produce and market hydrocarbons from the lease. The lessee (in this case Amoco Production Company) is held solely responsible for payment of all royalties, and for compliance with all lease terms and conditions.

If you should have any other questions, please do not hesitate to contact us.

Sincerely,

W. R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil, Gas and Minerals Division
(505) 827-5744

WRH/FOP/BS/dj

cc: Susan Howarth

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

March 15, 1990

CERTIFIED - RETURN RECEIPT REQUESTED

New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico 67501

Attention: Susan Howarth

Re: NMOCD Rule 309-A Exception
State Leas No. LG-6977
Central Battery
Sharpshooter "2" State #1
Sharpshooter "2" State #2
Sharpshooter "2" State #3
Lea County, New Mexicc
SFEOP January 5, 1990 Letter
NM Land Office 2-2-90 Letter

Dear Susan:

As we discussed in our telephone conversation of March 14th, Santa Fe Energy Operating Partners, LP's (SFEOP) letter of January 5, 1990 was not as clear as it could have been in expressing why SFEOP wanted the royalty interest owner, (New Mexicc State Land Office), to approve the building of a central battery on a single lease, to serve wells drilled in that lease, in which all wells produce from the same oil pool.

The reason is that Amoco farmed out the lease to SFEOP and retains a reversionary option in Well Nos. 2 and 3. At payout of these wells, Amoco has the option to convert their current ORRI to a 3.125% working interest. Except for Amoco's reversionary option we would have a single lease with all wells in that lease producing from a common pool, and all interests, (WI, RI, & ORRI), would be uniform for all wells in the lease. All interests are uniform today, and may stay uniform throughout the life of the lease, but if Amoco exercises its option in either well, then the working interest (WI) would become slightly different between wells in this lease. Because a change in WI could happen, SFEOP has decided to apply for a NMOCD Rule 309-A Exception, before the fact, you might say. To get a rule 309-A exception one must fulfill rule 309-B. Rule 309-B requires that all interest owners, (WI, RI & ORRI), and the oil transporter be contacted and their approval requested for a central battery. Approval for a Rule 309-A Exception is more liklely if all parties approve and return the central battery request letter. Our January 5, 1990 letter was a central battery request letter.

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

As we discussed on the phone, and as this letter explains, SFEOP's request is not applicable to the New Mexico State Land Office Rule Nos. 1.053, 1.054, nor 1.055. To our knowledge, our request is applicable only to NMOCD Rule 309-B.

In accordance with NMOCD Rule 309-B SFEOP requests your approval to build a central battery to be built within the boundaries of a single lease, namely, State Lease No. LG-6977, to serve wells drilled in said subject lease, and that all wells served by this battery will produce from the same oil pool, namely, the North Young Bone Spring Pool. Please indicate your consent to this request by signing this letter in the space provided below and returning the original to the undersigned.

Your immediate approval is most appreciated.

Should you have any questions, please feel free to call me at 915/687-3551.

Sincerely yours,

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



Patrick J. Gaume
Senior Production Engineer

PJG:sl-1211

AGREED TO AND ACCEPTED
this ____ day of March, 1990.

STATE OF NEW MEXICO

By: _____

Title: _____

State of New Mexico



RECEIVED
FEB - 8 1990
LAND DEPT.
MIDLAND, TX

W.R. HUMPHRIES
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

February 2, 1990

Santa Fe Energy Operating Partners, L.P.
500 W. Illinois, Suite 500
Midland, Texas 79701

| | |
|--------|------|
| VD | TP |
| PT 2/8 | DBK |
| GG | DB |
| EW | DF |
| PR | DRFT |
| File | |

ATTN: Mr. Patrick Tower

RE: Request to Commingle

Gentlemen:

We received your letter dated January 5, 1990 wherein you request to commingle production from Sharpshooter "2" State Wells #1, 2, and 3. We must reserve approval at this time because your application did not contain all the necessary information.

We have enclosed copies of the State Land Office Rules that address commingling. Rule 1.055 lists the information that is required for approval of a request to commingle by the Commissioner of Public Lands. Your request can be processed as soon as we receive this information.

If you have any questions, please contact Susan Howarth at (505) 827-5791.

Very truly yours,

W.R. HUMPHRIES,
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

STATE LAND OFFICE RULES 1.053 AND 1.054
COMMINGLING AND OFF LEASE STORAGE OF OIL AND GAS
ON STATE TRUST LANDS

1.053 Commingling Prohibited--Different Beneficiary
Institutions.

It is required that all production of oil or gas or both from lands belonging to different trust beneficiaries shall be segregated. The commingling, confusion, or the intercommunication of such production by the use of common tankage facilities, before marketing, with the production from any other trust lands or any lands not belonging to the State of New Mexico is strictly prohibited.

1.054 Commingling Allowed--Off Lease Storage--Grandfather
Clause.

A. Except as provided in Rule 1.053, commingling of oil and gas production, including downhole commingling, if properly metered or allocated and accounted for, may be permitted within the discretion of the Commissioner only after his receipt of a written application containing the information specified in Rule 1.055 and application fee as set in Rule 1.067.

B. Off lease storage of production may be permitted within the discretion of the Commissioner, if there shall be no commingling or intercommunication of production between handling, separation, treatment or storage facilities, only after his receipt of a written application containing the information specified in Rule 1.055 and an application fee as set in Rule 1.067.

C. Oil and gas lessees commingling or off lease storing production, or both, on the effective date of this Rule, without the written approval of the Commissioner, may continue to do so provided that within 90 days after the effective date of this Rule such lessees submit to the Commissioner in writing the information requested in Rule 1.055 together with the date such commingling or off lease storage began. Failure to comply with this requirement shall be considered grounds for cancellation of the pertinent lease or leases.

STATE LAND OFFICE RULE 1.055

COMMINGLING AND OFF LEASE STORAGE OF OIL AND GAS
ON STATE TRUST LANDS

1.055 Application for Permission to Commingle or Off Lease Store Production. Applications for permission to commingle or off lease store production shall be directed to the Commissioner and shall include:

- * A. Formal application stating the type of permission desired and the reason therefor, accompanied by an application fee of thirty dollars (\$30.00).
- * B. Plat showing the location of leases, wells, flow lines and common tankage. All plats and diagrams should differentiate between surface and underground pipe.
- * C. A list of the involved leases arranged by their State Land Office Lease Number, their legal description, and including state beneficiaries.
- * D. A designation of the pool from which each well produces.
- * E. An economic analysis of proposed operation showing profit or loss to the State of New Mexico.
- * F. Schematic diagram of entire system from production manifold to pipeline connection showing position of all components of flow stream.
- * G. Detail drawing(s) of any component which is specifically fabricated; i.e., not commercially available.
- * H. Description of the operating sequence explaining the complete operation.
- * I. Any other pertinent data that will assist the Commissioner in deciding upon the application.

* We have NOT received this information as of 2/2/90
(New Mexico State Land Office - Oil and Gas Division.)



Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

RECEIVED
JAN 10 8 34 AM '90
STATE LAND OFFICE -
SANTA FE, N.M.

New Mexico State Land Office
P.O. Box 1148
Santa Fe, New Mexico 87501

ATTN: Floyd Prando

Re: OD-NM-617,270
OD-NM-617,202
Central Battery
Sharpshooter "2" State #1
Sharpshooter "2" State #2
Sharpshooter "2" State #3
Lea County, New Mexico
Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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

Page 2
New Mexico State Land Office
January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

By: *Patrick J. Tower*
Patrick J. Tower, Senior Landman

PJT/efw

AGREED TO AND ACCEPTED
this _____ day of January, 1990.

STATE OF NEW MEXICO

By: _____

Title: _____