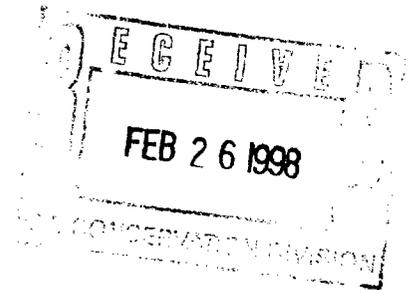


**Santa Fe Energy Resources, Inc.**

February 24, 1998



State of New Mexico  
Oil Conservation Division  
2040 South Pachecho  
Santa Fe, New Mexico 87505

ATTN: Mr. Ben Stone

Re: Marathon's Request for Surface  
Commingling & Off-lease Storage  
Indian Hills Unit &  
**IB State "32" State Lease**  
Indian Basin (Upper Penn) Field  
T-21-S, R-24-E  
Eddy County, New Mexico  
**SFERI Cont. #NM-30,171-001**

Gentlemen:

Marathon Oil Company (Marathon) requested administrative approval, in a letter to you dated January 15, 1998 for surface commingling, off-lease storage, etc... for production from the Indian Hills Unit and IB "32" State Lease. Please be advised that Santa Fe Energy Resources, Inc. (Santa Fe) has concerns regarding Marathon's proposal which are explained in the attached letter from Santa Fe to Marathon. Therefore, we respectfully request that said application by Marathon be declined until such time as our respective companies can work out our differences regarding these matters.

Should you have any questions or concerns, please feel free to contact me at (915) 686-6677.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Meg Muhlinghouse".

Meg Muhlinghouse  
Senior Landman

MM/efw  
1 Encl a/s

EWOR2483



# Santa Fe Energy Resources, Inc.

Don D. DeCarlo  
Division Manager, Production

February 20, 1998

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702-0552  
Attn: A. B. Schoffmann  
Indian Basin Asset Team Manager

Re: Request for Temporary Off-Lease Measurement and Storage  
Indian Hills Unit & IB State "32" Lease  
Indian Basin (Upper Penn) Field  
Eddy County, New Mexico

Dear Ben,

We received your proposal and application for off-lease measurement and storage. We have reviewed the document and respectfully decline to approve it at this time for the following reasons:

1. Santa Fe Energy is not convinced that there is an economic and operational benefit in commingling production from the IB State "32" Lease with the Federal Unit, as opposed to a stand-alone facility.
2. No firm costs for salt water disposal and oil and gas handling are stated in the proposal. As you know, these costs will be significant.
3. We disagree in principal with the handling of gas in the proposed agreement, namely the use of 3-stage compression from the outset of development. Santa Fe believes that gas from Section 32 could be compressed using single-stage compression initially, utilizing two and three-stage compression at a later date when needed. We believe that compression costs under Marathon's proposal would be disproportionately high for updip leases, like the IB State "32" Lease.

In summary, we would ask Marathon to demonstrate that its off-lease storage and measurement proposal would result in a significant cost savings for Santa Fe. We believe there is a scenario by which we would approve the proposal, therefore Santa Fe would very much like to discuss these issues in detail at your convenience.

Sincerely,

Don DeCarlo  
Division Manager

cc: BLM - Carlsbad  
NMOCD - Roswell