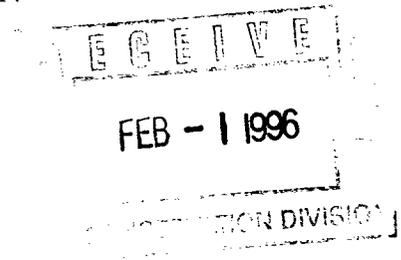


**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

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



**CASE NO. 11461**

**APPLICATION OF SANTA FE ENERGY RESOURCES INC.  
FOR COMPULSORY POOLING AND AN UNORTHODOX GAS  
WELL LOCATION, LEA COUNTY, NEW MEXICO.**

**PRE-HEARING STATEMENT**

This pre-hearing statement is submitted by ROBERT E. LANDRETH, as required by the Oil Conservation Division.

**APPEARANCE OF PARTIES**

**APPLICANT**

Santa Fe Energy Resources, Inc.  
550 West Texas Suite 1330  
Midland, Texas 79701  
Attn: Danita Walker  
(915) 667-3551

**ATTORNEY**

Jim Bruce, Esq.  
P. O. Box 2068  
Santa Fe, New Mexico 87501  
(505) 982-4554

**OPPOSITION PARTY**

Robert E. Landreth  
505 N. Big Spring Suite 507  
Midland, Texas 79701  
(915) 684-4781

**ATTORNEY**

W. Thomas Kellahin  
KELLAHIN AND KELLAHIN  
P.O. Box 2265  
Santa Fe, NM 87504  
(505) 982-4285

**STATEMENT OF CASE**

**OPPOSITION PARTY:**

Robert E. Landreth ("Landreth"), moves the Division to dismiss this case because contrary to custom and practice before the Division and in violation of Section 70-2-17(C) NMSA (1978), Santa Fe Energy Resources Inc. ("Santa Fe") has prematurely instituted a compulsory pooling action against Landreth's interest in the Morrow formation without first undertaking a good faith and reasonable effort to obtain a voluntary agreement for the development of a Morrow spacing unit and in support states:

(1) This dispute involves all of Section 29, T22S, R34E, Lea County, New Mexico, containing two separate federal leases with working interests as follows:

- (a) the SE/4 is divided from the surface to the base of the Morrow between Landreth with 75 % and Amerada Hess with 25 % **and then** below the base of the Morrow 100 % to Amerada Hess.
- (b) the W/2 and NE/4 from the surface to the base of the Devonian is 100 % to Santa Fe and its unnamed partner.

(2) Section 29 (See Exhibit A) is:

- (a) one mile from the current northern boundary of the North Bell Lake Devonian Gas Pool which provides for 640-acre gas spacing units; and
- (b) is one mile from the current western boundary of the Antelope Ridge-Morrow Gas Pool and the Antelope Ridge-Atoka Gas Pool both of which provide for 320-acre gas spacing units.

FEB - 1 1996  
CONSERVATION DIVISION

FEB - 1 1996

(3) On October 4, 1995, Landreth wrote to Mr. Duke Roush of Santa Fe to inform Santa Fe, among other things, that Landreth only owned 75 % of the working interest to the base of the Morrow formation underlying the SE/4 of Section 29. See Exhibit B.

(4) On November 10, 1995, Landreth filed his APD for the drilling of his proposed Morrow gas well (the Sunrise "29" Federal Com Well No. 1, to be located in the SE/4 of Section 29) with the Bureau of Land Management. See Exhibit C.

(5) On December 8, 1995, Santa Fe, without its management's approval, proposed to Landreth and to Amerada Hess a 15,000 foot Devonian test well with a spacing unit consisting of all of Section 29 for its Shamrock "29" Fed Com Well No. 1 to be located in the NE/4 of Section 29. See Exhibit D.

(6) On December 11, 1995, Amerada Hess requested Santa Fe to resubmit its proposal once Santa Fe had its management's approval for its proposal. See Exhibit E.

(7) On December 26, 1995, Landreth advised Santa Fe that he did not own the Devonian rights in Section 29. He further advised Santa Fe that (a) he had already filed his APD with the BLM for his Sunrise 29 Fed Com Well Morrow well to be drilled in the SE/4; it was his intention to dedicate the well to a 320-acre spacing unit consisting of the E/2 of Section 29; and (c) that he would be submitting his AFE to Santa Fe. See Exhibit F.

(8) On January 12, 1996, without responding to Landreth's December 26, 1995 letter and without further communication to Landreth, Santa Fe filed its compulsory pooling application with the Division seeking not only to pool the Devonian rights but now also seeking to pool the Morrow rights and requesting a hearing on February 8, 1996.

(9) At no time prior to filing its compulsory pooling application for compulsory pooling did Santa Fe proposed to Landreth the formation of the E/2 of Section 29 for the drilling of a Morrow gas well.

**Pre-Hearing Statement**

**Case No. 11416**

**Page 5**

Feb - 1 1996

REGULATION DIVISION

(10) On January 25, 1996, Landreth wrote to Santa Fe requesting, among other things, for Santa Fe to dismiss its compulsory pooling application because it was prematurely filed and enclosing his AFE in accordance with his December 26, 1995 letter and proposing a joint operating agreement for his well. See Exhibit G

Based upon the foregoing, Landreth requests that this case be dismissed because:

(1) Santa Fe failed to make a proposal for the Morrow formation and failed to inform Landreth of its intention to pool the Morrow interest in the E/2 of Section 29.

(2) Santa Fe, with 100% of the N/2 of Section 29, failed to explain to Landreth why it cannot form a voluntary standard Morrow gas spacing unit consisting of the N/2 of Section 29.

(3) Santa Fe failed to put Landreth on notice that Santa Fe would institute compulsory pooling actions against Landreth's Morrow interests in the absence of Landreth acquiesces to Santa Fe's Devonian well proposal dated December 8, 1995.

(4) Santa Fe has failed to advise Landreth how it proposes to allocate well costs between the Morrow (in which Landreth has an interest) and the Devonian (in which Landreth has no interest).

(5) Santa Fe has failed to explain to Landreth how Santa Fe's proposed location in the NE/4 is better than Landreth's proposed location in the SE/4.

(6) Contrary to the custom and practice before the Division and in violation of Section 70-2-17 (c) NMSA (1978), Santa Fe has prematurely instituted compulsory action against Landreth without first undertaking a good faith and reasonable effort to form a spacing unit on a voluntary basis for the drilling of the subject well.

(7) Santa Fe has acted in bad faith in instituting this compulsory pooling case.

Feb - 1 1986  
CONSERVATION DIVISION

(8) Santa Fe seeks to use the compulsory pooling statute as a negotiation strategy against Landreth rather than as a remedy of last resort when all efforts for obtaining a voluntary agreement have failed.

(9) Santa Fe's application is premature and must be dismissed.

WHEREFORE Robert E. Landreth requests that the Division Hearing Examiner grant this motion and dismiss Oil Conservation Division Case 11461.

**PROPOSED EVIDENCE**

OPPOSITION PARTY:

WITNESSES	EST. TIME	EXHIBITS
Robert E. Landreth	45 Min.	est. 12

(Landreth anticipates calling further witnesses the identify of which have not been determined at this time)

**PROCEDURAL MATTERS**

Motion to Dismiss Robert E. Landreth from this case for failure of Santa Fe Energy Resources Inc. to comply with Section 90-2-17(c) NMSA (1978);

KELLAHIN AND KELLAHIN

By: 

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



*Robert E. Landreth*  
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 804-4781

FAX (915) 684-4783

October 4, 1995

FEB - 1 1996

CONSERVATION DIVISION

Mr. Duke Roush  
Santa Fe Energy  
550 W. Texas, Ste 1330  
Midland, TX 79701

RE: NE/4 Section 29, T22S, R34E  
Lea County, New Mexico  
October 1995 Federal Lease Sale

Dear Mr. Roush:

As you are aware, the captioned tract will be auctioned at the October 18, 1995 Federal Lease Sale.

I owned the prior lease on this tract, as well as leases on portions of Section 20 and all of Section 28. In late 1993 I attempted to put together a working interest unit for the drilling of a Morrow test in Section 28. These efforts were unsuccessful due to lack of cooperation from Santa Fe and Amoco. Subsequently, I sold the lease on the captioned tract to Amerada Hess, who indicated that a well would be drilled in Section 29 in time to hold the lease. This did not occur, and the lease expired in April. Our lease covering all of Section 28 had expired previously and was acquired by Santa Fe/Amerada.

My current leasehold position consists of a 3/4 interest from surface to the base of the Morrow in the NW/4 Section 20 and the SE/4 Section 29. This is a Federal lease which we extended until July 1, 1997 by drilling operations conducted over the expiration of the primary term on a Yates test in the NW/4 Section 20.

The attached plat indicates that Santa Fe has several leases with early expiration dates in this immediate area. Consequently, we both have an incentive to see a well drilled at an early date. In the interest of protecting my early expiring lease, I have a strong incentive in acquiring a new lease on the NE/4 Section 29, and am prepared to bid very aggressively to obtain it. In the alternative, I would be willing to acquire it jointly with Santa Fe or withdraw from bidding altogether if a firm arrangement can be agreed upon ahead of time on a time table for the drilling of a well. This would have to be an arrangement under

EXHIBIT

13

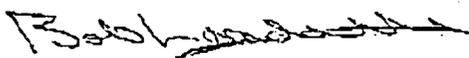
which Santa Fe, its partners, and myself are firmly committed to either join or farm out on specific terms for a well proposed by either party.

While other parties may bid on this tract, it is obvious that it is most valuable to Santa Fe and myself. Consequently, an agreement in advance of the Federal Sale might save one of us a considerable sum in lease bonus money.

If you have any interest in pursuing this matter, please advise.

FEB - 1 1996

Yours very truly,



Robert E. Landreth

EXAMINATION DIVISION

REL/sp  
enc.

*Robert E. Landreth*  
OIL AND GAS EXPLORATION

305 N RIG SPRING, SUITE 507

MIDLAND TEXAS 79701

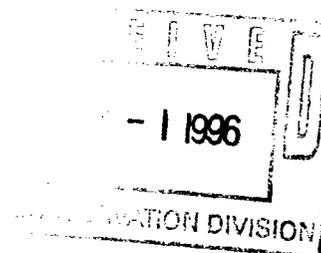
915.684.4781

FAX 915.684.4783

November 10, 1995

United States Department of Interior  
Bureau of Land Management  
P.O. Box 1397  
Roswell, New Mexico 88201

Attention: Mr. Armando Lopez



Re: Application For Permit To Drill  
Sunrise Federal Com Well No. 1  
Federal Lease NM-61360  
Lea County, New Mexico

Dear Mr. Lopez:

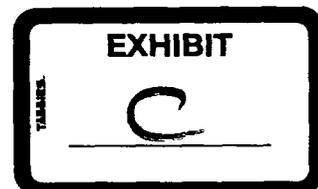
Enclosed please find our Application For Permit To Drill for the above captioned well, together with supporting documents.

As evidenced by the attached Transfer Of Operating Rights, I own 75% of the rights from surface to the base of the Morrow formation on the drillsite federal lease. We are enclosing this copy of the Transfer Of Operating Rights because the originals are being filed today with the BLM in Santa Fe for approval. If there is any problem with this procedure, please advise.

Sincerely,

Robert E. Landreth

REL/sp  
enc.



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/>		5. LEASE DESIGNATION AND SERIAL NO. NM-67360	
b. TYPE OF WELL OIL WELL <input checked="" type="checkbox"/> GAS WELL <input type="checkbox"/> OTHER <input type="checkbox"/>		6. IF INDIAN, ALLOTTEE OR TRIBE NAME	
2. NAME OF OPERATOR Robert E. Landreth		7. UNIT AGREEMENT NAME	
3. ADDRESS OF OPERATOR 500 N. Big Spring, Su. 507, Midland, Texas 79701		8. FARM OR LEASE NAME Sunrise "29" Federal Com	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.) At surface: 1980' FSL & 1980' FEL of Section 29 At proposed prod. zone: Same		9. WELL NO. 1	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 20 miles northwest of Jal, New Mexico		10. FIELD AND POOL, OR WILDCAT Wildcat (Morrow)	
19. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to deepest drg. volt line, if any) 1980'		11. SEC., T., R., M., OR BLM. AND SUBSTY. OR AREA Sec. 29, T-22S, R34E	
15. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. None		12. COUNTY OR PARISH, 13. STATE Lea Co. N.M.	
16. NO. OF ACRES IN LEASE 960		17. NO. OF ACRES ASSIGNED TO THIS WELL 640	
18. PROPOSED DEPTH 13,600'		20. ROTARY OR CABLE TOOLS Rotary	
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3427' Ground Level		22. APPROX. DATE WORK WILL START* March 1, 1996	

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	13 3/8"	54.5#	500'	Sufficient to circulate
12-1/4"	9 5/8"	43.5#	5350'	Sufficient to circulate
8-1/2"	7"	29#	11800'	1200sx
6-1/8"	5"liner	18#	13600'	375sx

The operator proposes to drill to a depth sufficient to test the Morrow formation for gas. Specific programs are outlined in the following attachments:

- DRILLING PROGRAM
- SURFACE USE AND OPERATING PLAN
- EXHIBIT A - ROAD MAP
- EXHIBIT B - EXISTING WELL MAP
- EXHIBIT B-1 ACCESS ROAD AND FACILITIES MAP
- EXHIBIT C - LOCATION AND ACREAGE DEDICATION PLAT
- EXHIBIT C-1 TOPO MAP
- EXHIBIT D - DRILLING AND RIG LAYOUT
- EXHIBIT E - 3M, 5M, 10M BOP EQUIPMENT

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

SIGNED W. K. Finley TITLE Operations Manager DATE 11/10/95

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_  
CONDITIONS OF APPROVAL, IF ANY:

\*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.



Santa Fe Energy Resources, Inc.

**VIA FACSIMILE**  
**CERTIFIED MAIL - RETURN RECEIPT**

December 8, 1995

Fax #684-4783  
Robert Landreth  
505 N. Big Spring, Suite 507  
Midland, Texas 79701

Fax #713-609-5652  
Amerada Hess Corporation  
Room 2322  
P.O. Box 2040  
Houston, Texas 77252-2040

ATTN: Peter Bacon

Re: Shamrock "29" Fed Com #1  
SFERI Cont. #NM-4883-001  
Location: 1320' FNL & 1320' FEL  
Sec. 29, T-22-S, R-34-E  
Lea County, New Mexico  
Gaucho Prospect

Gentlemen:

Santa Fe Energy Resources, Inc. (Santa Fe) proposes to drill the above captioned well as a 15,000' Devonian test. The spacing unit for this well will be all of Section 29. I have also enclosed for your review and approval an AFE in the amount of \$1,633,000 for Dry Hole Costs and \$1,945,000 for Completed Costs. At such time as you should elect to participate in the referenced well, a mutually acceptable Joint Operating Agreement will be entered into by all participating parties.

If you do not wish to participate in the proposed operations, Santa Fe requests a Farmout of your leasehold interest of the subject lands under the following terms:

1. Within 120 days of the execution of a formal Farmout Agreement, Santa Fe will commence operations at a location of its choice in Section 29, T-22-S, R-34-E.
2. If completed as a producing well, Santa Fe will earn an Assignment of 100% of your interest in the subject lands limited from the surface down to 100' below TD drilled. Said Assignment will reserve unto you an overriding royalty equal to the difference between 20% and existing leasehold burdens.
3. Upon payout of the well, you will have the option to convert your ORRI to a 25% Working Interest proportionately reduced to your initial leasehold interest.

Central Division  
500 W. Texas, Suite 1030  
Midland, Texas 79701  
915/667-3581



Robert Landreth  
Amerada Hess Corporation  
December 8, 1995  
Page 2

4. This offer is made subject to management approval.

As stated above, if you wish to participate, please so indicate in the space provided below in this letter and execute an AFE and return both to the undersigned at the letterhead address. Alternatively, should you wish to farmout your interest, please indicate that choice by marking the appropriate space and returning a copy of this letter.

Should you have any questions, please call me at (915) 686-6712.

Yours very truly,

**SANTA FE ENERGY RESOURCES, INC.**

*Danita R. Walker*

Danita R. Walker, CPL  
Landman

- 1995

DRW/efw  
1 Encl a/s

\_\_\_\_\_ I/We **AGREE TO JOIN** in the drilling of the Shamrock "29" Fed Com #1 Well.

\_\_\_\_\_ I/We **WISH TO FARMOUT** my/our interest in the Shamrock "29" Fed Com #1 Well.

**AMERADA HESS CORPORATION**

\_\_\_\_\_  
Robert Landreth

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

EWOR686

**SANTA FE ENERGY OPERATING PARTNERS, L.P.**  
GENERALIZED WELL COST ESTIMATE

NAME: Shamrock 29' Fed. Com. No.1  
 LOC: 1320' FNL & 1320' FEL, Sec. 29-22S-34E, Lex County, N.M.  
 DESC: Drill and Complete a 15,000' Morrow/Devonian Gas Well



ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCE
501-000	<b>TANGIBLE WELL COSTS</b>		
-41	Conductor Csg	3,000	3,000
-41	Surface Csg 16" 65.0 ppg H-40 BT&C @400'	19,200	19,200
-41	Protection Csg 10-3/4" 45.50 ppg HCK-55 ST&C @5,000'	98,750	98,750
-41	Intermediate Csg 7-5/8" 33.70 ppg S-95 LT&C @ 11,800'	143,606	143,606
-47	Drilling Liner 5-1/2" 17.0 ppg S-95 Flush Jt. Conn. @11,500-14,200'	27,340	27,340
-47	Prod Liner 3-1/2" 9.30 ppg N-80 Flush Jt. Conn. @14,000-15,000'		9,500
-42	Tubing 2-3/8" 4.7 ppg P-105 AB-Mod @15,000'		51,750
-43	Wellhead	3,000	40,000
-44	Prod Unit		
-45	Prime Mover		
-50	Other Own Hole Equip Liner Top Packer & Hangers	22,000	35,000
-50	Rods		
-50	Subsurface Probs		
-53	Csg Equip	10,000	15,000
-53	Electrical		
-55	Misc. Tangibles		
-55	Rod Equip		
-55	Tubing Equip		4,000
	<b>TOTAL TANGIBLE COSTS</b>	<b>332,596</b>	<b>447,346</b>
541-000	<b>LEASE FACILITY COSTS</b>		
-50	Flowlines		4,000
-50	Labor		8,000
-50	Other Prod Equip Separator, GPU & Dehyg Unit		30,000
-50	Tank Facilities		19,000
	<b>TOTAL LEASE FACILITY COSTS</b>	<b>0</b>	<b>61,000</b>
511-000	<b>INTANGIBLE WELL COSTS</b>		
-21	Location	30,000	30,000
-22	Fencing		
-28	Drilling Water	60,000	60,000
-31	Contractor Moving Exp	25,000	25,000
-32	Cont Footage or Turnkey		
-32	Contractor Casework 90 days X \$5800/day	522,000	522,000
-33	Drig Fluid & Additives	100,000	100,000
-34	Blks & Reamers	120,000	120,000
-38	Coring & Core Analyses Rotary Sidewall Cores (50)	25,000	25,000
-37	Cement	80,000	100,000
-38	Inspection & Testg of Tang	10,000	22,000
-41	Directional Drig Surveys	4,000	4,000
-42	Drilling Equip Rental	70,000	70,000
-43	Open Hole Logging Production & Intermediate Suites	70,000	70,000
-44	Drill Stem Test 3 Tests	15,000	15,000
-48	Mud Logging	30,000	30,000
-51	Transportation	20,000	30,000
-52	Completion Unit 10 days X \$1500/day		15,000
-53	Completion Tool Rental		15,000
-54	Cased Hole Logs & Perfing		12,000
-55	Stimulation		40,000
-58	Rigsite Supervision	35,000	42,000
-72	Administrative Overhead	8,000	12,000
-99	Fishing Tools & Exp		
-99	Testing: BHP, GOR, 4 PI Pot		3,245
	Abandonment Cost	13,956	
	Other Intangibles		
01	Contingency (6%)	81,946	68,417
	<b>TOTAL INTANGIBLES</b>	<b>1,300,804</b>	<b>1,436,867</b>
	<b>TOTAL COSTS</b>	<b>1,633,400</b>	<b>1,884,213</b>

1996

Operations Dept: Daniel Roberts Date: 2/2/95  
 Engineering Dept: Robert... Date: 2/2/95  
 SFEQUP Approval By: [Signature] Date: 2/2/95  
 Non Operator Approval By: \_\_\_\_\_ Date: \_\_\_\_\_

AMERADA HESS CORPORATION

Peter E. Bacon, CPL  
Land Manager - North

500 DALLAS STREET  
HOUSTON, TEXAS 77002  
P. O. BOX 2040  
HOUSTON, TEXAS 77253-2040  
Phone 713-600-5477  
Fax 713-600-5582

VIA CERTIFIED MAIL

December 11, 1995

Santa Fe Energy Resources, Inc.  
Attn: Ms. Danita R. Walker  
550 W. Texas, Suite 1330  
Midland, Texas 79701

Re: Shamrock "29" Fed Com #1  
Section 29-T22S-R34E  
Lea County, New Mexico

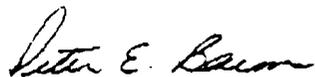
Dear Ms. Walker:

Reference is made to your letter dated December 8, 1995 regarding the captioned matter.

Said letter states that the offer contained therein is subject to Santa Fe's management's approval. Until such condition is removed, Amerada Hess Corporation (AHC) does not believe it good business practice to formally commit its acreage to either proposal. Once Santa Fe has received its management's approval, please resubmit your proposal for our consideration.

Very truly yours,

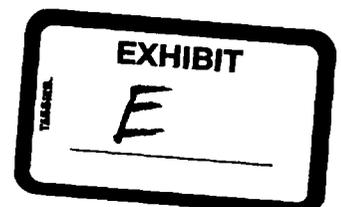
AMERADA HESS CORPORATION



Peter E. Bacon  
Land Manager - North

cc: Mr. Robert Landreth

PEB:ejc:85-179



*Robert E. Landreth*  
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 684-4781

FAX (915) 684-4783

December 26, 1995

CERTIFIED-RETURN RECEIPT REQUESTED

Santa Fe Energy Resources, Inc.  
550 W. Texas, Ste 1330  
Midland, TX 79701

Attention: Ms. Danita R. Walker

Re: Your Proposed Shamrock "29" Fed Com #1  
Location: 1320' FNL & 1320' FEL  
Sec. 29, T-22-S, R-34-E  
Lea County, New Mexico  
Gaucho Prospect

Gentlemen:

Receipt of your letter dated December 8, 1995, captioned subject, is acknowledged.

As you are aware, my leasehold rights in the SE/4 Section 29 are from the base of the Morrow formation. Consequently, I would not have any participatory interest in a well drilled below that interval.

Also, as you are probably aware, we have filed an APD for the drilling of our Sunrise 29 Fed. Com. Well No.1 as a Morrow test in the SE/4 of Section 29 on an amended 320 acre spacing unit comprising the E/2 Section 29. It is our opinion that this application will have priority over any other well as to rights down to the base of the Morrow.

We will be forwarding an AFE to you for our well sometime after approval of our APD.

Yours very truly,



Robert E. Landreth

REL/sp



*Robert E. Landreth*  
OIL AND GAS EXPLORATION

505 N BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 864-4781

FAX# (915) 864-4783

January 25, 1996

VIA FACSIMILE 915/686-6793

## CERTIFIED MAIL-RETURN RECEIPT

Santa Fe Energy Resources, Inc.  
550 West Texas, Ste. 1330  
Midland, TX 79701  
Attn: Ms. Danita R. Walker

Re: Landreth Proposed Well  
Sunrise 29 Federal Com No. 1  
1980 feet FSL & 1980 feet FEL  
E/2 of Section 29 T22S, R34E  
Lea County, New Mexico

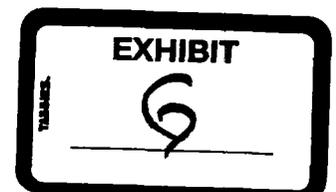
Re: Santa Fe Energy Resources' Proposed Devonian Well  
North Bell Lake-Devonian Gas Pool  
Shamrock "29 Fed Com #1  
SFERI Cont. #NM-4883-001  
1320 feet FNL and 1320 feet FEL  
All of Section 29, T22S, R34E  
Lea County, New Mexico

Dear Ms. Walker:

I am in receipt of Santa Fe Energy Resources application for compulsory pooling which was filed on January 15, 1996 and is currently set for hearing on February 8, 1996.

As you are aware, on November 13, 1995, I filed with the Bureau of Land Management an Application for Permit to drill my referenced well to be drilled to the base of the Morrow formation and to then test for gas production below the top of the Wolfcamp to the base of the Morrow formation commencing first with the Morrow formation. We may also test other zones such as the Bone Springs, depending on the outcome of tests of the deeper objectives.

On December 8, 1995, Santa Fe Energy Resources proposed its referenced well to be drilled to test for Devonian gas production, to which I responded by letter dated December 26, 1995



advising that I had already filed an APD; that my well would have priority over your proposal; and that I would forward to you an AFE for your consideration.

Instead of replying to my letter of December 26, 1995, Santa Fe Energy Resources has chosen to initiate compulsory pooling without attempting to reach a voluntary agreement with me and in doing so undermines the cooperation needed for all parties involved.

I ask that Santa Fe Energy Resources reconsider its actions and withdraw its pooling application so that we may negotiate this matter. In the absence of Santa Fe Energy Resources' cooperation, I will have no alternative but to consider your compulsory pooling application premature and to direct my attorney to file a motion seeking dismissal of that application and such other actions as may be deemed appropriate.

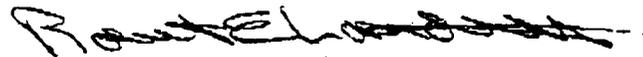
In accordance with my December 26, 1995 letter, please find enclosed for your review and approval my AFE in the amount of \$1,137,500 for dry hole and \$1,495,000 for a completed well to be drilled to a total depth of 13,600 feet (the base of the Morrow formation) to test for any and all gas production from the top of the Wolfcamp to the base of the Morrow formation within a 320-acre gas spacing unit consisting of the E/2 of said Section 29, and possibly shallower zones as well. Also enclosed are pertinent portions of our APD for this well.

If you are in agreement to join in the drilling of my well, please sign and return one copy of the AFE. At that time, all parties who elect to participate in this well will be provided with a mutually acceptable Joint Operating Agreement Form 1992 AAPL Form 610-1982.

As you are aware, the leasehold rights in the SE/4 of Section 29 are owned 75% Landreth and 25% by Amerada Hess Corporation from the surface to the base of the Morrow formation and are subject to a May 26, 1995 Agreement between those parties which provides for an Operating Agreement (AAPL Form 610-1982) designating Landreth as operator and containing certain other specific provisions.

By copy of this letter, we are advising Amerada Hess of our position in this matter, forwarding an AFE for the drilling of our proposed well along with the APD, and asking for their joinder.

Yours very truly,



Robert E. Landreth

REL/sp

CC: Michael E. Stogner,  
Chief Hearing Examiner (NMOCD)  
CC: W. Thomas Kellahin, attorney  
CC: Amerada Hess Corporation  
Attn: Mr. Peter Bacon

# Robert E. Landreth Oil and Gas Exploration

## Authority For Expenditure

Losses & Well No.: Sunrise Pad Com #1		Estimated Spud Date:	
Location: 1380' PS & EL Section 29, T23S-R34E, Lee Co., N.M.			
Field: Wildcat		Depth & Formation: 13,600' Marrow	
REL WI: 37.5%		REL Estimated Cost: \$560,000	
Other WI Owners (%): Santa Fe Energy 50%; Amerada Hess 12.5%			
INTANGIBLE WELL COST			
		Estimated Cost	
		To Csg. Point	Completion
		Total Well	
<b>Drilling: Footage @ \$ /ft.</b>			
Daywork 62 days @ \$5500/day		\$347,000	\$347,000
Rig Moving Cost:		\$25,000	\$25,000
Completion: Rig X Well Service Unit 15 days @ \$2000 per day		\$30,000	\$30,000
Mud, Oil, Chemicals:		\$90,000	\$90,000
Brine and Water:		\$30,000	\$30,000
Cement: All Cementing Services		\$63,000	\$103,000
To Plug:		\$12,000	(\$12,000) \$0
Loadout: Road, Pad and Cleanup:		\$35,000	\$35,000
Surveys, etc.:		\$2,000	\$2,000
Damages: Included under Road, Pad, etc.			\$0
Services: Logging:		\$23,000	\$5,000 \$28,000
Testing (DST's, etc.):		\$12,000	\$12,000
Coring and Analysis:			\$0
Perforating:			\$7,000 \$7,000
Acidizing and Fracturing:			\$25,000 \$25,000
Other:			\$10,000 \$10,000
Bits and Rig Fuel:		\$67,000	\$1,000 \$68,000
Roustabout and Misc. Labor:		\$3,000	\$10,000 \$13,000
Rental Equipment:		\$18,000	\$10,000 \$28,000
Geological & Engineering Supervision:		\$25,000	\$9,000 \$34,000
Mud Logger:		\$21,000	\$21,000
Insurance:			\$0
Overhead:		\$8,000	\$3,000 \$11,000
Trucking and Transportation:		\$8,000	\$9,000 \$17,000
Tank Battery - Labor and Dirt Work:			\$10,000 \$10,000
Contingencies ( % of Intangibles):		\$79,000	\$30,000 \$109,000
<b>TOTAL INTANGIBLES</b>		<b>\$869,000</b>	<b>\$187,000 \$1,056,000</b>
TANGIBLE WELL COST			
Casing: Conductor Pipe: 500' 13 3/8" 54.50# J-58 @ \$24.20/ft.		\$12,300	\$12,300
Surface Casing: 5350' 9 5/8" 43.5# N-80 @ \$18.96/ft.		\$101,000	\$101,000
Intermediate Casing: 11800' 7" 29# P-110 @ \$12.39/ft.		\$146,200	\$146,200
Line: 2000' 5" 18# P-110 @ \$8.88/ft.			\$17,800 \$17,800
Production Casing:			\$0
Tubing: 2000' 2 3/8" 4.7# P-105 @ \$3.50/ft.			
11,500' 2 7/8" 7.9# P-105 @ \$4.58/ft.			
Wellhead:			\$59,700 \$59,700
Packer and Liner Equipment:		\$9,000	\$11,000 \$20,000
Tank Battery, Tanks:			\$7,000 \$7,000
Treater or Separator: Incl. meter & misc.			\$12,000 \$12,000
Valves, Frings, Flowline, Misc.: Incl. sales line			\$13,000 \$13,000
Other:			\$50,000 \$50,000
Contingencies ( % of Tangibles):			\$0
<b>TOTAL TANGIBLES</b>		<b>\$268,500</b>	<b>\$170,500 \$439,000</b>
<b>TOTAL WELL COST</b>		<b>\$1,137,500</b>	<b>\$357,500 \$1,495,000</b>
Prepared By: REL			
Company: _____		Partner Approval: _____	
By: _____		Date: _____	
		Title: _____	