



Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

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

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

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

ATTN: Floyd Prando

BEFORE EXAMINER STOGNER

Oil Conservation Division

Santa Fe Exhibit No. 5A

Case No. 9923

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
915/887-3551

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: _____

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

BEFORE EXAMINER STOGNER
Oil Conservation Division
<i>Santa Fe</i> Exhibit No. <u>573</u>
Case No. <u>9923</u>

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 Mexico
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 Mexico 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 likely 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

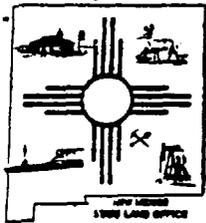
PJG:sl-1211

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

STATE OF NEW MEXICO

By: _____

Title: _____



State of New Mexico
Commissioner of Public Lands

BEFORE EXAMINER STOGNER
Oil Conservation Division
Santa Fe Exhibit No. 57
Case No. 9923

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