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July 15, 1996

HAND DELIVERED

William J. LeMay
Oil Conservation Division
2040 S. Pacheco Street
Santa Fe, New Mexico 87505

RECEIVED

JUL 17 1996

OIL CON. DIV.
DIST. 1

Dear Mr. LeMay:

Santa Fe Energy Resources, Inc. hereby applies for administrative approval of an unorthodox surface location and directional drilling for the following well:

Rock Waterhole Canyon "16" State Well No. 1

Surface Location: 1240' FNL and 660' FWL
Bottomhole Location: 660' FNL and 660' FWL
Spacing Unit: W½ S16-22 South-24 East
Eddy County, New Mexico

The well will be drilled to a depth sufficient to test the Pennsylvanian formation (Indian Basin-Upper Pennsylvanian Associated Pool). The subject pool is spaced on 320 acres, with wells to be no closer than 660 feet to the outer boundaries of the well unit, and no closer than 330 feet to a quarter-quarter section line. See Order No. R-9922, as amended.

PLEASE NOTE: State Oil and Gas Lease V-3789, which covers all of Section 16, expires July 31, 1996. As a result, applicant requests expedited approval of this application.

Pursuant to Division Rules 104.F and 111.D, the following information is submitted:

1. Reason for Unorthodox Location: There are draws crossing the W½ of Section 16 which restrict surface locations. Attached as Exhibit A is a topographic plat of the subject area, with the draws highlighted. As a result, applicant proposes the above unorthodox