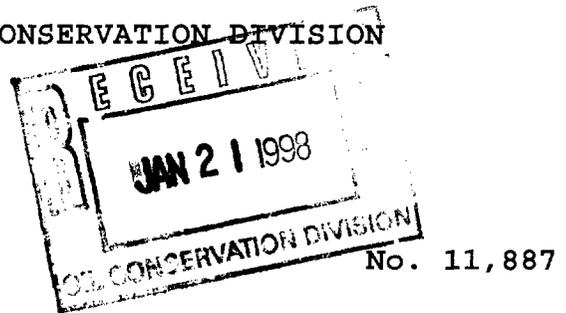


BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY
RESOURCES, INC. FOR COMPULSORY
POOLING AND A NON-STANDARD GAS
SPACING AND PRORATION UNIT,
LEA COUNTY, NEW MEXICO.



RESPONSE OF SANTA FE ENERGY RESOURCES, INC.
IN OPPOSITION TO MOTION TO DISMISS

Santa Fe Energy Resources, Inc. ("Santa Fe") filed an application to pool all mineral interests from the surface to the base of the Morrow formation underlying Lots 3-6 and 11-14 of irregular Section 1, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico, to form a standup W $\frac{1}{2}$ well unit. Santa Fe and Nearburg Exploration Company, L.L.C. control Lots 11-14 of Section 1. Phillips Petroleum Company ("Phillips") controls Lots 3-6, as well as Lots 1, 2, 7, and 8, of Section 1. Phillips has filed a motion to dismiss Santa Fe's application, stating that a laydown N $\frac{1}{2}$ well unit has been formed by Phillips. Phillips' motion should be denied, for the following reasons:

1. The W $\frac{1}{2}$ is Not Subject to a Voluntary Agreement: Although there is a voluntary agreement for the N $\frac{1}{2}$ of Section 1, there is not a voluntary agreement for the W $\frac{1}{2}$ of Section 1. Therefore, the Division has the authority under NMSA (1978) §70-2-17 to pool a W $\frac{1}{2}$ well unit.

2. A Pooling Order Supersedes a Voluntary Agreement: A compulsory pooling order issued by the Division supersedes a voluntary agreement. **Arkansas Louisiana Gas Co. v. Southwest Nat. Gas Prod. Co., 221 La. 608, 60 S.2d 9 (1952).** Thus, again, the Division can enter an order pooling a portion of Phillips' acreage

into Santa Fe's proposed well unit.

3. Only One Well is Necessary in the W½ of Section 1: Santa Fe will present evidence at hearing that the E½ of Section 1 is essentially unproductive in the Morrow, and only one well is necessary to develop the W½ of Section 1. Granting Phillips' motion will potentially lead to two wells being drilled in the W½ of Section 1,¹ which will cause physical and economic waste. This violates the Division's primary duty, to prevent waste. **NMSA (1978) §70-2-11.**

4. Phillips has Delayed Development of Section 1: Santa Fe first sought to obtain Phillips' Section 1 acreage for development purposes in July 1996. **Exhibit A.** Phillips declined. Santa Fe again contacted Phillips a year later, seeking to develop Section 1. **Exhibit B.** In September 1997, Santa Fe sent two well proposals to Phillips. **Exhibits C and D.** Due to Phillips' lack of a response, Santa Fe filed its pooling application on November 6, 1997, and the application was set for hearing on December 4, 1997. In order to accommodate Phillips, Santa Fe consented to continuances of the case, and the matter was set for January 22, 1998. Santa Fe continued to negotiate in good faith. **Exhibits E and F.** A few days before the scheduled hearing, Phillips staked a well location and obtained an APD. The APD is valid for one year, and there is no guarantee that Phillips will drill its well.

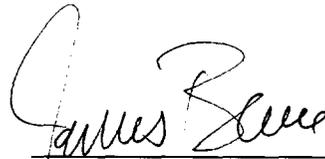
Santa Fe has in good faith sought to obtain the voluntary

¹Note that Phillips' proposed well in Lot 6 of Section 1 is located only 1320 feet north of Santa Fe's proposed well in Lot 11 of Section 1.

joinder of the mineral interest owners in Lots 3-6 and 11-14 of Section 1 to drill a well. Phillips has done nothing but delay the development of this prospect, and its actions should not be condoned by the Division.

WHEREFORE, Santa Fe requests that the Division deny Phillips' motion.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Santa Fe Energy
Resources, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 21st day of January, 1998:

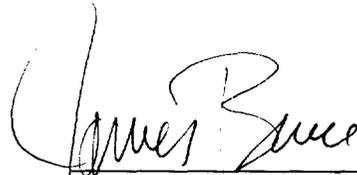
Via Fax

William F. Carr
Campbell, Carr, Berge & Sheridan, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504
(505) 983-6043

W. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-2047

Via Hand Delivery

Rand Carroll
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505



James Bruce



Santa Fe Energy Resources, Inc.

VIA FACSIMILE/U.S. MAIL

July 19, 1996

Phillips Petroleum Company
4100 N. Penbrook
Odessa, Texas 79762

Attention: James S. Welin

Re: T-21-S, R-34-E
Portions of Sections 1,2,11
T-21-S, R-35-E
Portion of Section 6
Lea County, New Mexico
Outland Prospect

Gentlemen:

Santa Fe Energy Resources, Inc. (Santa Fe) would like to acquire a Term Assignment covering the following lands located in Lea County, New Mexico:

T-21-S, R-34-E
Section 1: Lots 1-10, 15, E/2 ^{SW/4} SE/4, SE/4
Section 2: Lots 1-13, 15, 16
Section 11: SW/4 NE/4

T-21-S, R-35-E
Section 6: Lots 1-8

Terms for the assignment would be as follows:

1. Santa Fe would pay a consideration of \$150/acre.
2. Phillips would deliver an 80% NRL.
3. Term for the assignment would be two (2) years.

Central Division
650 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551



Page 2
Phillips Petroleum Company
July 19, 1996

Please consider this proposal at your earliest convenience and contact me at
915/686-6712.

Yours very truly,

SANTA FE ENERGY RESOURCES, INC.



Danita R. Walker, CPL
Landman

/drw

**Santa Fe Energy Resources, Inc.**

July 30, 1997

Mr. Randy T. Lewicki
Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Re: T-21-S, R-34-E
Sec. 1: Lots 1 thru 9
Sec. 2: Lots 1 thru 13, 15 & 16
Lea County, New Mexico
Outland Prospect - #NM-0919

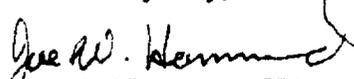
Gentlemen:

Santa Fe Energy Resources, Inc. owns a leasehold position in the vicinity of the above captioned Phillips' acreage. We are formulating a drilling and development program which will require additional time and work, and in connection therewith, we request your support. Santa Fe would therefore be interested in purchasing a two (2) year term assignment of Phillips' interest under the following terms.

- 1) Purchase Consideration: \$150.00 per net mineral acre
- 2) Primary Term: Two (2) Years
- 3) Interest Delivered to Santa Fe: 100% of Phillips' Working Interest
@ 77.5% NRI
- 4) Continuous Development: 120 day program after expiration of primary term.

Your early consideration is appreciated. Should you have any immediate questions, please do not hesitate to call me at 686-6736.

Yours very truly,


Joe W. Hammond, CPL
Senior Landman

JWH/cfw

EWOR2071

Central Division
550 W Texas, Suite 1330
Midland, Texas 79701
915/887-3551



**Santa Fe Energy Resources, Inc.****CERTIFIED MAIL - RETURN RECEIPT**

September 18, 1997

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

ATTN: Mr. Randy Lewicki

Re: Well Proposal
Outland "1" State #1 Well
T-21-S, R-34-E
Sec. 1: Lots 3-6; 11-14
Lea County, New Mexico
Outland Prospect - #NM-0919

Gentlemen:

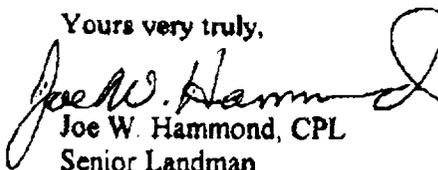
Santa Fe Energy Resources, Inc. proposes the drilling of a 15,100' Morrow test well at a location of 3300' FNL & 1320' FWL of Section 1, T-21-S, R-34-E, Lea County, New Mexico. The spacing unit for this well will encompass Lots 3 through 6 and 11 through 14, comprising 315.22 acres.

Our records indicate your ownership of a leasehold interest in Lots 3 through 6 of Section 1, and in that regard, Santa Fe requests your review and election of one of the following.

- a) Participate in the drilling of the well by returning an executed copy of the enclosed AFE. A Joint Operating Agreement will be forwarded for your review and execution.
- b) Farmout your right, title and interest in the drilling and spacing unit delivering to Santa Fe a 75% NRI Lease.
- c) Sell your interest to Santa Fe in the drilling and spacing unit for \$100.00 per net acre bonus delivering an 78% NRI Lease.

Should an alternative type of trade to the above be of interest to you, please do not hesitate to contact me at 686-6736. Your early response is appreciated.

Yours very truly,


Joe W. Hammond, CPL
Senior LandmanJWH/efw (EWOR2184)
Encls a/sCentral Division
650 W. Texas, Suite 1330
Midland, Texas 79701
913/887-3551



Santa Fe Energy Resources, Inc.

CERTIFIED MAIL - RETURN RECEIPT

September 30, 1997

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

ATTN: Mr. Randy Lewicki

Re: Well Proposal (Revised)
Outland "1" State #1 Well
T-21-S, R-34-E
Sec. 1: Lots 3-6; 11-14
Lea County, New Mexico
Outland Prospect - #NM-0919
SFERI Cont. #NM-30,172-001

Gentlemen:

Santa Fe Energy Resources, Inc. proposes the drilling of a 15,100' Morrow test well at a location of 3300' FNL & 1650' FWL of Section 1, T-21-S, R-34-E, Lea County, New Mexico. The spacing unit for this well will encompass Lots 3 through 6 and 11 through 14, comprising 315.22 acres.

Our records indicate your ownership of a leasehold interest in Lots 3 through 6 of Section 1, and in that regard, Santa Fe requests your review and election of one of the following.

- a) Participate in the drilling of the well by returning an executed copy of the enclosed AFE. A Joint Operating Agreement will be forwarded for your review and execution.
- b) Farmout your right, title and interest in the drilling and spacing unit delivering to Santa Fe a 75% NRI Lease.
- c) Sell your interest to Santa Fe in the drilling and spacing unit for \$100.00 per net acre bonus delivering an 78% NRI Lease.

Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
916/997-3661

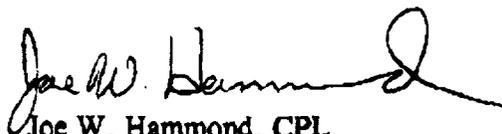


Phillips Petroleum Company
September 30, 1997
Page 2

Should an alternative type of trade to the above be of interest to you, please do not hesitate to contact me at 686-6736. Your early response is appreciated.

Yours very truly,

SANTA FE ENERGY RESOURCES, INC.

A handwritten signature in cursive script, appearing to read "Joe W. Hammond".

Joe W. Hammond, CPL
Senior Landman

JWH/efw
Encls a/s

EWOR2246

**Santa Fe Energy Resources, Inc.****VIA FACSIMILE & U.S. MAIL**

FAX #(915) 368-1633

November 19, 1997

Mr. Randy Lewicki
Phillips Petroleum Company
4001 Penbrook
Odessa, TX 79762

Re: Phillips Acreage
Township 21-South, Range 34-East
Section 1: Lots 1 thru 9
Section 2: Lots 1 thru 13, 15 & 16
Lea County, New Mexico
Outland Prospect

Gentlemen:

Reference is made to Santa Fe's Term Assignment request dated July 30, 1997 and subsequent well proposal dated September 18, 1997 and Compulsory Pooling Application.

Please let this letter serve as an offer to Phillips for Santa Fe to show its geological data and interpretations pertaining to the above captioned acreage. In return and as consideration for such showing, Phillips agrees to support the drilling of the proposed Outland "1" State #1 well as follows:

- A. Within 10 days after Phillips is shown the above data, Phillips would agree to participate or Farmout its interest in the proposed spacing unit. Failure on the part of Phillips to respond within the 10 day period shall be deemed an election not to participate. Phillips shall then grant Santa Fe a Farmout of its interest in the proposed proration unit. Phillips shall deliver to Santa Fe a 75% NRI with Phillips retaining an ORRI equal to the difference between existing burdens and 25%.
- B. As further consideration for the showing of geological data, Phillips shall grant to Santa Fe, within 30 days after the showing of data, a Term Assignment on 50% of its remaining leasehold interest in Sections 1 and 2 for a term of two (2) years. The Term Assignment shall deliver to Santa Fe a 75% NRI lease and shall contain the right to continuously develop the acreage within 180 day intervals after the end of the primary term.
- C. As subsequent wells are proposed on Phillips' acreage or include Phillips' acreage in the proration unit, Phillips agrees to elect to participate within 30 days of receipt of the proposal. Should Phillips elect not to participate in the then proposed well,

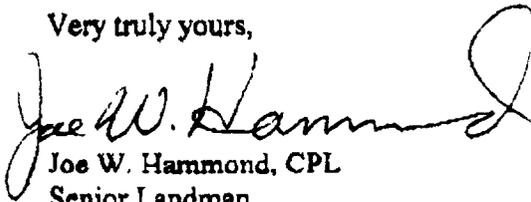
Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551



Phillips shall farmout its remaining 50% interest to Santa Fe within the proposed proration unit. The Farmout shall deliver a 75% NRI to Santa Fe.

If the above proposal meets with your approval, please so indicate by signing and returning one copy of this letter to the undersigned within seven (7) days.

Very truly yours,



Joe W. Hammond, CPL
Senior Landman

JWH/rm

AGREET TO AND ACCEPTED
this ____ day of _____ 1997.

PHILLIPS PETROLEUM COMPANY

By: _____

Title: _____



Santa Fe Energy Resources, Inc.

VIA FACSIMILE & U. S. MAIL

FAX #(915) 368-1633

November 24 1997

Mr. Randy Lewicki
Phillips Petroleum Company
4001 Penbrook
Odessa, TX 79762

Re: **Proposed Outland "1" State #1 Well**
Phillips Acreage
Township 21 South, Range 34 East
Section 1: Lots 1 thru 9
Section 2: Lots 1 thru 13, 15 & 16
Lea County, New Mexico
Outland Prospect

Dear Randy:

Pursuant to our telephone conversation this date, please be advised that Santa Fe will continue or postpone its compulsory Pooling Hearing from December 4, 1997 to December 18, 1997 in hopes of giving Phillips additional time to review the area and elect on Santa Fe's well proposal dated September 30, 1997.

We look forward to your response with the intent of working together in this project as well as others in the future.

Very truly yours,

Joe W. Hammond, CPL
Senior Landman

JWH/rm

Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
815/687-3551



EWOR2365