

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. 11,969  
)  
APPLICATION OF SANTA FE ENERGY )  
RESOURCES, INC., FOR COMPULSORY POOLING, )  
EDDY COUNTY, NEW MEXICO ) ORIGINAL  
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 14th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 14th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

May 14th, 1998  
 Examiner Hearing  
 CASE NO. 11,969

	PAGE
REPORTER'S CERTIFICATE	5

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 9	4	4

\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law  
 612 Old Santa Fe Trail, Suite B  
 Santa Fe, New Mexico 87501  
 P.O. Box 1056  
 Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:20 a.m.:

3           EXAMINER STOGNER: Okay, at this time I'm going  
4 to call last page of page 1, Case Number 11,969, which is  
5 the Application of Santa Fe Energy Resources, Inc., for  
6 compulsory pooling, Eddy County, New Mexico.

7           At this time I'll call for appearances.

8           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
9 representing the Applicant. I have a short statement to  
10 make.

11           EXAMINER STOGNER: Okay. Are there any other  
12 appearances in this matter?

13           Okay, Mr. Bruce?

14           MR. BRUCE: Mr. Examiner, this case was heard on  
15 April 30th in front of Mr. Catanach. He asked that it be  
16 continued for two weeks to allow further negotiations  
17 between the parties. This case has been done on a rather  
18 fast track because there are several leases or term  
19 assignments expiring in early June of 1998.

20           Since that hearing, the landman for Santa Fe  
21 Energy has conducted additional negotiations with the  
22 parties.

23           At this point I have an affidavit to submit.  
24 Basically, everyone has verbally or informally agreed to  
25 join in the well, but there are no signed farmouts or

1 operating agreements.

2 I have spoken about the matter with Mr. Catanach.  
3 He asked that the case -- that I submit the affidavit from  
4 Steven Smith, the landman for Santa Fe, and that the case  
5 be taken under advisement.

6 Santa Fe asks that a pooling order be entered,  
7 and then as parties sign the JOA and the AFE for the well,  
8 we will notify the Division that these parties are not  
9 subject to the pooling order.

10 EXAMINER STOGNER: Do you wish to enter that at  
11 this time?

12 MR. BRUCE: I submit the affidavit, Exhibit 9,  
13 for the record.

14 EXAMINER STOGNER: Exhibit Number 9 will be  
15 admitted into evidence in Case Number 11,969.

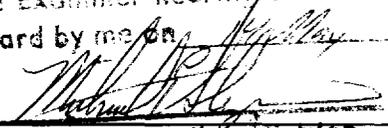
16 Is there anything further in this matter at this  
17 time?

18 If not, then this matter will be taken under  
19 advisement.

20 (Thereupon, these proceedings were concluded at  
21 8:20 a.m.)

22 \* \* \*

23 I do hereby certify that the foregoing is  
24 a complete record of the proceedings in  
the Examiner hearing of Case No. 11969,  
heard by me on July 11, 1998.

25  Examiner  
Of Conservation Division

STEVEN T. BRENNER, CCR  
(505) 989-9317

## CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
 COUNTY OF SANTA FE )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 15th, 1998.

  
 STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998

**BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION**

**APPLICATION OF SANTA FE ENERGY  
RESOURCES, INC. FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.**

**Case No. 11,969**

**AFFIDAVIT**

STATE OF TEXAS )  
COUNTY OF MIDLAND ) ss.

Steven J. Smith, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. I am a landman for Applicant.

3. Since the April 30, 1998 hearing in this case, I have continued to contact the working interest owners in the proposed well unit (listed in Exhibit 2 submitted at hearing). As a result of those conversations, the following informal agreements have been reached:

- a. Enron Oil & Gas Company has agreed to farm out its interest, although a formal agreement has not been signed.
- b. Yates Petroleum Corporation, John A. Yates, et al., S.P. Yates et ux., S.P. Yates et al. as personal representatives, and Sharbro Oil Ltd. Co., have agreed to participate in the well, but have not yet signed an operating agreement.
- c. Harvey E. Yates Company has agreed to participate in the well, but has not yet signed an operating agreement. Cibola Energy has verbally agreed to do whatever Harvey E. Yates Company elects to do.
- d. Hanson Oil & Gas Corporation and McBride Operating Company have elected to participate in the well, but have not yet signed an operating agreement.
- e. Roger T. Elliot, Hollyhock Corporation, Rio Pecos Corporation, and TARA-JON Corp. have agreed to sell their interests, but an assignment has not yet been signed.

Copies of letters from certain of these parties are attached as Exhibit A.

NEW MEXICO  
CONSERVATION DIVISION

EXHIBIT

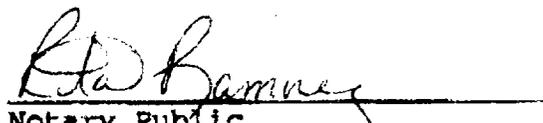
CASE NO

4. Pathfinder Exploration Company has sold its interest to Cannon Exploration Company, which has signed an operating agreement. Therefore, those two parties do not need to be pooled.

5. The final paperwork on these transactions will take several weeks to finalize. As agreements are signed, I will notify the Division that the interest owners are not subject to any pooling order.

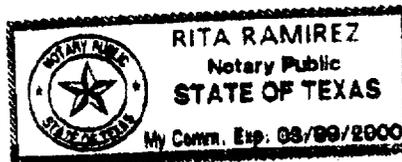
  
Steven J. Smith

SUBSCRIBED AND SWORN TO before me this 13th day of May, 1998, by Steven J. Smith.

  
Notary Public

My Commission Expires:

3/9/2000





Enron Oil & Gas Company  
P.O. Box 2267  
Midland, TX 79702  
(915) 686-3600

May 12, 1998

Santa Fe Energy Resources, Inc.  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
Attention: Steven J. Smith

RE: Well Proposal and Farmout Request  
Benson "24" Fed Com No. 1 Well  
Township 18 South, Range 30 East  
1980' FSL & 1980' FWL Section 24  
Eddy County, New Mexico  
Santa Fe's Benson Prospect - #NM-0937  
EOG's Sand Tank Prospect

Gentlemen:

Enron Oil & Gas Company herein confirms its verbal notice that it elects to Farmout its interest in the spacing unit for the proposed Benson "24" Fed Com No. 1 well (W/2 Section 24, T18S, R30E). General terms would provide for a 75% NRI with a 25% back-in at payout, all proportionately reduced

Said farmout would be subject to a mutually agreeable formal farmout form. Should there be any questions, please feel free to contact the undersigned at (915) 686-3758.

Sincerely,

ENRON OIL & GAS COMPANY

Patrick J. Toyer  
Project Landman

PJT/ms  
enclosures  
m:\users\pjt\ofefeb\benonfc

Natural gas. Electricity. Endless possibilities.™



MARTIN YATES, II  
1912 - 1988  
FRANK W. YATES  
1898 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (805) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

May 11, 1988

Santa Fe Energy Resources, Inc.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Mr. Steve Smith

RE: Benson "24" Fed Com #1 Well  
Township 18 South, Range 30 East  
Section 24: W/2  
Eddy County, New Mexico

Gentlemen:

Subject to final management approval and the signing of a mutually acceptable Operating Agreement Yates Petroleum Corporation, S.P. Yates, John A. Yates, Estate of Peggy A. Yates, Sherbro Oil Ltd. Co. and Estate of Lillie M. Yates agree to the drilling of the captioned well.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB:bn



**Santa Fe Energy Resources, Inc.**

**APR 1 1998**

RECEIVED

MAY 18 1998

LAND DEPT.  
MIDLAND, TX

March 31, 1998

**TO: Working Interest Owners  
(See Attached List)**

**Re: Well Proposal and Farmout Request  
Benson "24" Fed. COM #1 Well  
1,980' FSL & 1,980' FWL  
Section 24, T-18-S, R-30-E  
Eddy County, New Mexico  
Benson Prospect - SFER #NM-0937**

Gentlemen:

Reference is made to my letter to Yates Petroleum Corporation dated March 2, 1998, a copy of which is attached, proposing the formation of a 960 acre working interest unit consisting of All Section 24 and the N/2 of Section 25, T-18-S, R-30-E for the purpose of drilling a Morrow test in the W/2 of said Section 24. This proposal was based upon Yates being named Operator and conditioned upon operations being commenced on or before June 1, 1998. We have since examined title to the W/2 of Section 24 and now propose the formation of this working interest unit to each of you.

While the working interest unit remains our preferred objective, should a timely consensus not be reached regarding the formation of the unit, Santa Fe Energy Resources, Inc. (Santa Fe) proposes to proceed with drilling the well and respectfully requests that you agree to either participate for your proportionate part of the hereinafter described Morrow test based upon an anticipated 320 acre W/2 proration unit, or farmout your interest in the W/2 of said Section 24 to Santa Fe based upon the following general terms:

1. On or before June 1, 1998, Santa Fe will commence, or cause to be commenced, the drilling of a Test Well on the W/2 of Section 24, T-18-S, R-30-E, Eddy County, New Mexico (Farmout Acreage). The Test Well will be drilled at the captioned location to a depth of 12,000', or to a depth sufficient to adequately test the Morrow Formation, whichever is the lesser. The only penalty for failing to drill the Test Well will be the forfeiture by Santa Fe of the right to receive the assignments described below.
2. Upon completion of the Test Well as a well capable of producing in paying quantities, you will assign to Santa Fe all of your rights, title and interest in that part of the Farmout Acreage which is included in the proration unit established for the Test Well pursuant to NMOCD rules and regulations reserving a proportionately reducible overriding royalty interest equal to the difference by which 25% exceeds existing lease burdens.
3. Santa Fe will have the option, but not the obligation, to earn any remaining Farmout Acreage not included in the proration unit for the Test Well through continuous development with no more than 180 days between wells.
4. At Payout of each earning well drilled pursuant to the Farmout Agreement, you will have the option to convert your retained overriding royalty to a proportionately reduced 25% Working Interest. The relationship of the parties thereafter will be governed by a mutually acceptable AAPL (1982)

Central Division  
650 W. Texas, Suite 1330  
Midland, Texas 79701  
915/681-3551

TO: Steve Smith Santa Fe Energy	FROM: Melissa Randle HEYCO	DATE: 5/13/98
FAX #: 915/686-6714	FAX #: 505/622-4221	PHONES: 915/686-6714
		PAGES INCLUDING THIS PAGE: 2

*cc. mail - see details*

Well Proposal and Farmout Request  
Benson "24" Federal No. 1 Well  
Sec. 24, T-18-S, R-30-E  
Eddy County, New Mexico  
March 31, 1998

Model Form Operating Agreement naming Santa Fe as Operator which will provide for, among other things, a 300% non-consent penalty.

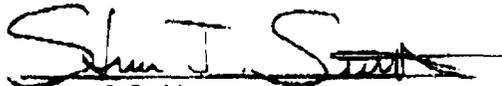
If the proposed Test Well is drilled on a 320 acre W/2 proration unit basis, Santa Fe proposes to drill it to the same depth, and at the same location as previously described. In this regard, enclosed for your review are two (2) copies of the AFE Well Cost Estimate for this well. An Operating Agreement is being prepared and will be forwarded to you in the near future.

Upon your consideration of this proposal, please indicate your election by executing and returning to the undersigned one copy of this letter. Should you elect to participate for your proportionate interest based upon a W/2 proration unit, please also execute and return one (1) copy of the enclosed AFE Well Cost Estimate along with your geological information requirements and the names of personnel to receive reports. Should you elect to Farmout, we would be happy to prepare and forward to you a formal Farmout Agreement for your review and execution.

Thank you for your consideration of this proposal. If you have any questions, my direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.

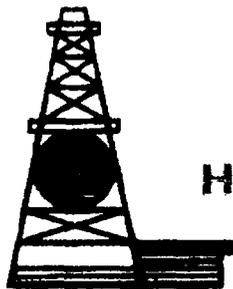


Steven J. Smith  
Senior Staff Landman

- We agree to join in the formation of the <sup>320</sup> ~~160~~ acre working interest unit ~~and to participate in the~~ ~~proposed~~ ~~proportionate~~ ~~interest~~ covering the W/2 of Sec. 24, T-18S, R-30E, Eddy Co., N.M., subject to a mutually acceptable operating agreement.
- We elect to Farmout based the general terms stated herein.
- We elect to participate in the Benson "24" Federal #1 Well for our proportionate <sup>interest</sup> ~~proportionate~~ ~~interest~~ under ~~proposed~~ ~~proportionate~~ a mutually acceptable operating agreement covering the W/2 of Sec. 24, T-18S, R-30E, Eddy Co., N.M.

Harvey E. Yates Company  
Name of Person/Company

By: [Signature]  
Title: George M. Yates, President  
Date: 4-1-98

**HANSON OPERATING COMPANY, INC.**

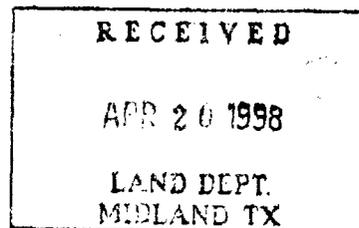
P.O. BOX 1515

ROSWELL, NEW MEXICO 83202 1515

PHONE NO. 505-822-7330

April 16, 1998

Santa Fe Energy Resources, Inc.  
550 West Texas, Suite 1330  
Midland, Texas 79701



Attn: Mr. Steven J. Smith

Re: Proposed 960 acre Working Interest Unit  
or 320 acre Communitization  
Benson "24" Federal Com #1 Well  
1980' FS&WL Sec.24, T-18-S, R-30-E,  
Eddy County, New Mexico

Gentlemen:

You have proposed the drilling of the Benson "24" Federal Com #1 Well either (a) under a 960 acre working interest unit agreement or (b) under a 320 acre communitization agreement. As discussed we are in favor of the working interest concept, however, are also interested in participating under the 320 acre proration unit if necessary.

The purpose of this letter is to confirm our interest in participating, subject to our review and approval of either (a) the appropriate working interest unit operating agreement or (b) an operating agreement covering only the proration unit.

Please furnish us the necessary agreement for review as soon as you have determined which proposal will be followed. Thank you.

Very truly yours,

HANSON OPERATING COMPANY, INC.

Carl A. Schellinger  
Land Manager

CAS:js

Note: Todd Wilson + Cannon Exploration had already signed our well AFE + JOA.  
This letter is to confirm such executions include and cover the interests of William P. Dooley  
and Pathfinder Exploration which were acquired by Cannon Exploration

**CANNON EXPLORATION CO.**  
3608 South County Road 1184  
Midland, Texas 79706  
Phone (915) 684-0053  
Fax (915) 684-0053

May 13, 1998

To: Santa Fe Energy Resources, Inc.  
Steven J. Smith

**Re: BENSON PROSPECT**  
Benson "24" Fed. Com. #1 Well  
W/2 Section 24, T-18-S, R-30-E  
Eddy Co., New Mexico

Dear Steve:

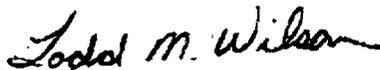
In reference to your Operating Agreement dated March 31, 1998 this letter is to inform Santa Fe Energy Resources, Inc. that Cannon Exploration Co. has acquired additional interest which will increase it's working interest percentages in the proposed W/2 Section 24, T-18-S, R-30-E, 320 acre Morrow proration unit.

The additional interest acquired by Cannon Exploration Co. include the following:

1. WILLIAM P. DOOLEY
2. PATHFINDER EXPLORATION Co.

Cannon Exploration Co. will participate with all of it's original interest as well as the newly acquired interest from William P. Dooley and Pathfinder Exploration Co. in the drilling of the Benson "24" FED. COM. #1 Well to be located in the W/2 of Section 24, T-18-S, R-30-E in Eddy County, New Mexico.

Sincerely,



Todd M. Wilson, President  
Cannon Exploration Co.