

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

**APPLICATION OF ROBERT E. LANDRETH
FOR DETERMINATION OF REASONABLE
WELL COSTS, LEA COUNTY, NEW MEXICO.**

CASE NO. 12008

**RESPONSE OF ROBERT E. LANDRETH
TO SANTA FE ENERGY RESOURCES, INC.'S
MOTION TO DISMISS**

By Order No. R-10764 the Oil Conservation Division ("Division") granted the application of Santa Fe Energy Resources, Inc. ("Santa Fe") and force pooled working interests owned by Robert E. Landreth ("Landreth") for the drilling of a well to be operated by Santa Fe. Now, in an attempt to avoid a hearing on the reasonableness of the costs being charged to Landreth pursuant to that order, Santa Fe moves to dismiss.

Santa Fe contends that the Division lacks jurisdiction to determine the reasonableness of the costs charged because, according to Santa Fe, Order No. R-10764 has been replaced by a voluntary agreement for the development of this acreage. Santa Fe has contrived this "voluntary agreement" from incomplete and misstated facts and the misconstruction of the agreements between the parties. Furthermore, as will be shown herein, this "agreement" between the parties, which Santa Fe first raised one week before hearing, is inconsistent with Santa Fe's own understanding of its relationship with Landreth and also with the opinion of its own legal counsel.

BACKGROUND

(1) Robert E. Landreth owns 37.5% of the working interest under the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico. Exhibit No. 1.

(2) In September 1996, Santa Fe wrote Landreth and proposed the drilling of the Gaucho Federal Unit Well No. 2 ("the Gaucho Well No. 2") in the S/2 of this Section to test the Morrow formation. *See* Santa Fe's Motion to Dismiss at 2, numbered ¶ 1.

(3) The parties were unable to reach voluntary agreement for the drilling of this well and, following an Oil Conservation Division hearing, Order No. R-10764 was entered pooling the S/2 of Section 29 and dedicating this pooled unit "...to the applicant's proposed Gaucho Unit Well No. 2 (API No. 30-025-33682) to be drilled at a standard gas well location in the NE/4 SW/4 (Unit K) of said Section 29." Exhibit No. 2, Order Paragraph 1.

(4) Other provisions of Order No. R-10764 also:

- (a) designated Santa Fe operator of the Gaucho Well No. 2;
- (b) imposed a 200% charge for risk on those interest owners who did not voluntarily participate in the well;
- (c) required Santa Fe to furnish an itemized schedule of actual well costs within 90 days' of completion of the well and provided that if there were objections to these actual well costs, "the Division will determine reasonable well costs after public notice and hearing;" and,
- (d) required Santa Fe to notify the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling

provisions of this order.

Exhibit No. 2.

(5) Pursuant to Order No. R-10764, Santa Fe sent Landreth an AFE for the Gaucho Well No. 2 and notice of his right to participate in the well. Exhibit No. 3.

(6) Landreth's election period was subsequently extended by Santa Fe to 5:00 PM on March 28, 1997. Exhibit No. 4.

(7) On March 28, 1997, the working interest of Robert E. Landreth in the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, was divided by agreement of Landreth and Santa Fe into two shares. One share, comprised of 1/4th of his working interest (9.375%), was voluntarily committed to the drilling of the Gaucho Well No. 2. The other share, comprised of the remaining 3/4ths share of Landreth's working interest (28.125%), would remain **"...subject to the Compulsory Pooling Order in effect for this well."**

Exhibit No. 5. On this date Landreth signed and returned the AFE for the Gaucho Well No. 2 and paid Santa Fe \$116,250.00 which represented 9.375% of the AFE cost for the well. At this time, no Joint Operating Agreement was executed nor was agreement reached on the terms of a Joint Operating Agreement. Exhibit No. 5.

(8) Santa Fe wrote Landreth on March 31, 1997, and advised him that the Gaucho Well No. 2 had been abandoned and proposed a re-drill on this tract. This letter is consistent with the agreement of the parties on March 28, 1997, for it identified Landreth's interest as

the 9.375% working interest which he voluntarily committed to the Gaucho Well No. 2. Exhibit 6.

(9) Mr. Landreth agreed to pay his 9.375% working interest share of the second well Santa Fe drilled on pooled unit. Exhibit No. 6.

(10) On April 1, 1997, Landreth asked Santa Fe about an Operating Agreement “covering this well, **insofar as it affects my interest.**” Exhibit No. 7.

(11) Commencing on March 28 and continuing until May 2, 1997, Landreth and Santa Fe negotiated the terms of the Joint Operating Agreement which would govern the 9.375% working interest Landreth had committed to the well. See Santa Fe Exhibit Nos. 12 through 15.

(12) On May 4, 1998, Santa Fe sent Landreth an itemized schedule of actual well costs for the Gaucho Well No. 2 and the Gaucho Federal Unit Well No. 2-Y (“the Gaucho Well No. 2-Y”). In this letter, Santa Fe states that this schedule is being sent “[P]ursuant to the provisions of NMOCD Compulsory Pooling Order # R-10764....” Exhibit No. 8

(13) Because this schedule includes the costs associated with the drilling of both the Gaucho Well No. 2 and the Gaucho Well No. 2-Y which are not authorized by the Division’s compulsory order, Mr. Landreth filed an objection to these costs with the Division on June 4, 1998. Exhibit No. 9.

ARGUMENT

THE PARTIES AGREED THAT LANDRETH'S WORKING INTEREST WOULD BE SUBJECT TO COMPULSORY POOLING ORDER NO. R-10764

On March 28, 1997, Landreth and Santa Fe agreed to divide Landreth's working interest in the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, into two shares. One share, comprised 1/4th of his working interest (9.325%) was voluntarily committed to the drilling of the Gaucho Well No. 2. The other share, comprised of the remaining 3/4ths of Landreth's working interest (28.125%), would remain **"...subject to the Compulsory Pooling Order in effect for this well."** Exhibit No. 5. Contrary to the representations of Santa Fe in its Motion to Dismiss, no act or agreement of the parties even suggests that they ever intended to nullify their agreement to subject Landreth's 28.125% working interest to the specific provisions of Order No. R-10764.

However, Santa Fe contends that Landreth's execution of the Joint Operating Agreement, overrides the clear language of their March 28, 1998 agreement and that acceptance of the Joint Operating Agreement with Revised Exhibit A attached constitutes a voluntary agreement covering all of Landreth's working interest in this acreage.

In support of this argument, Santa Fe asserts that Revised Exhibit A is unambiguous and can only be fairly and reasonably construed as committing all of Landreth's interest to the Joint Operating Agreement for the development of the S/2 of this section. However, the

interpretation of Revised Exhibit A which Santa Fe now advances is contrary to Revised Exhibit A itself.

Revised Exhibit A to the Operating Agreement reflects the 9.375% working interest which Landreth voluntarily committed to the development of this acreage and his full 37.5% working interest after Santa Fe recoups out of production 100% of the costs of the Gaucho Well No. 2 and the 200% charge for risk set by Order No. R-10764. This interpretation is consistent with the preceding entry in Revised Exhibit A which sets out the interest of Amerada Hess. Revised Exhibit A shows Amerada Hess with a prepayment interest of 0% because this interest was force pooled by Order No. R-10764. After Santa Fe recovers 300% of Amerada Hess' share of the costs, (100% actual costs and a 200% risk charge) its interest in the tract is 12.5%. Amerada Hess never agreed to anything. Its interests were simply pooled by Order No. R-10764, and the 300% interest, which includes the risk penalty imposed by that Order, is reflected on Revised Exhibit A. In the exact same way, the 300% interest, which includes the risk penalty imposed by Order No. R-10764, is reflected on Revised Exhibit A. Neither Amerada Hess nor Landreth ever agreed to a 300% risk penalty provision. That provision is only imposed by Order No. R-10764, and Santa Fe's Motion must be denied.

Revised Exhibit A clearly shows that working interest of both Amerada Hess and Landreth is subject to the Division's Compulsory Pooling Order. It further is consistent with

the March 28, 1997 agreement of the parties whereby 28.125% of Landreth's working interest is subject to the Division's compulsory pooling order.

**SANTA FE INTENDED FOR
LANDRETH'S WORKING INTEREST
TO BE SUBJECT TO THE
DIVISION'S COMPULSORY POOLING ORDER**

One week before hearing and almost six months after Landreth objected to Santa Fe's schedule of actual well costs, Santa Fe asserts for the first time that it has a voluntary agreement with Landreth's which covers all of his interest in the S/2 of Section 29. This argument is inconsistent with Santa Fe's prior actions.

There can be no dispute that Santa Fe and Landreth agreed on March 28, 1997 that Landreth's working interest would be divided into two shares and that a 28.125% share would be subject to the Division's compulsory pooling order. Exhibit No. 5. Thereafter, Santa Fe prepared and Landreth executed an operating agreement which reflected this division of Landreth's working interest. See Santa Fe Exhibits 12 through 15.

Although Santa Fe now asserts that the unambiguous language in Revised Exhibit A to the operating agreement constitutes a voluntary agreement for the development of this acreage, Santa Fe's actions subsequent to the execution of the operating agreement show that there was no confusion between the parties as to the fact that Landreth's 28.125% working interest was subject to Order No. R-10764 and not committed by a voluntary agreement.

The initial determination the Division must make in ruling on Santa Fe's motion is

whether or not the language in Revised Exhibit A is unambiguous. New Mexico courts have defined the types of extrinsic evidence which the Division may consider in making this threshold determination. Under these decisions, the Division may obtain a “contextual understanding” of the contract terms by considering, among other things, the following:

- (1) the previous course of dealing between the parties; and,
- (2) the course of performance of the parties.

C. R. Anthony Co. v. Loretto Mall Partners, 112 N.M. 504, 817 P.2d 238 (1991); *Mark V, Inc. v. Mellekas*, 114 N.M. 778, 845 P.2d 1232 (1993); *Jaramillo v. Providence Washington Ins.*, 117 N.M. 337, 871 P.2d 1343 (1994).

The fundamental problem with Santa Fe's argument is that Revised Exhibit A is consistent with the March 28, 1997 agreement between the parties. It shows Landreth's 9.375% prepayment interest and his 37.5% working interest after Santa Fe recoups the actual costs and risk charge authorized by Order No. R-10764. Since Revised Exhibit A supports the March 28, 1997 agreement, extrinsic evidence must be considered to obtain a “contextual understanding” of these contractual terms. *Mark V.*, 845 P.2d at 1235.

When the Division looks to the course of dealing between the parties, it is clear that the parties agreed that a portion of Mr. Landreth's working interest was subject to the compulsory order. Exhibit 5. Furthermore, when the course of performance of the parties is considered, it is clear that the language of Revised Exhibit A cannot be construed as a

voluntary agreement for the development of this property. At no time prior to the filing of its Motion to Dismiss did Santa Fe assert that there was any contract for the development of this property other than the March 28, 1997 agreement. Furthermore, its actions following the execution of the operating agreement were consistent with the March 28, 1997 agreement and, when Santa Fe submitted an itemized schedule of actual well costs to Landreth on May 4, 1998, it stated that this was done “[P]ursuant to the provisions of NMOCD Compulsory Pooling Order # R-10764....”

Following the execution of the Operating Agreement, Santa Fe obtained a Division Order Title Opinion from its attorneys. This opinion recognizes that the production from the S/2 of Section 29 before and after payout is subject to a 200% charge "provided for in Compulsory Pooling Order No. R-10764." Santa Fe's attorneys also reviewed Revised Exhibit A to the Operating Agreement. On page seven of this opinion, they quote the portion of Revised Exhibit A which Santa Fe now contends is the basis of their “voluntary agreement” with Landreth. However, at that time, Santa Fe 's attorneys did not interpret this language in the way that Santa Fe does today. Instead, they recognized the parties’ agreement to divide Landreth's working interest and subject a portion of this interest to the subject compulsory pooling order. Exhibit 1, pages 7 and 8.

At all times prior to the filing of this motion, Santa Fe intended for 28.125% of Landreth’s working interest to be subject to Division Order No. R-10764. Santa Fe’s novel

but unsupported new interpretation of Revised Exhibit A must not be used to allow Santa Fe to avoid Division scrutiny of the costs assessed under Order No. R-10764.

**SANTA FE IS ATTEMPTING TO AVOID
DIVISION REVIEW OF THE REASONABLENESS
OF THE COSTS IT IS CHARGING TO LANDRETH**

In this case, Landreth is asking the Division to determine whether or not costs and risk charges being assessed by Santa Fe are proper under the Division's compulsory order. It is not asking the Division to "adjudicate contractual controversies."

Landreth seek a Division Order which holds that Order No. R-10764 means what it says: that the S/2 of Section 29 was pooled for the drilling of the Gaucho Well No. 2 . Since Landreth elected not to participate in that well with 28.125% of his working interest, he will ask the Division to hold that Santa Fe cannot withhold the costs of drilling the Gaucho Well No. 2, and a 200% risk factor on that amount, out of the production proceeds from another well, the Gaucho Well No. 2-Y, which was not covered by this pooling order. Landreth will also ask the Division to determine if Santa Fe can withhold out of production any risk penalty for the Gaucho Well No. 2-Y since it was not the subject of any pooling order.

Although the Gaucho Well No. 2 was drilled pursuant to a compulsory pooling order, Santa Fe does not want the Division to review the reasonableness of the well costs being charged to the owners subject to pooling. Although Santa Fe sought a written concurrence from the participating interest owners in the S/2 of Section 29 for the abandonment of the

Gaucha Well No. 2 and the drilling of the Gaucha well No. 2-Y, Santa Fe does not want the Division to determine if a subsequent order and election to participate in the second well on this tract should have been made to owners of force pooled interests. Santa Fe does not want the Division to determine if it is reasonable to obtain an order pooling acreage for one well and then, after that well is abandoned, drill another well and withhold costs and apply risk penalties as if the order applied to both wells. To avoid a review of these issues on the merits, Santa Fe now contrives a heretofore unknown agreement which it contends divests the Division of jurisdiction over this matter.

CONCLUSION

Santa Fe and Landreth agreed that Landreth would voluntarily participate with a 9.325% working interest in the drilling of the Gaucha Well No. 2 located in the S/2 of Section 29, Township 22 South, Range 34 East, NMPM. The parties further agreed that Landreth's remaining 28.125% working interest in this acreage would be "subject to the Compulsory Pooling Order in effect for this well." Mr. Landreth then executed an AFE for the Gaucha Well No. 2 and paid his proportionate share of these AFE costs. The Gaucha Well No. 2 was drilled pursuant to the Division's compulsory pooling order and, in compliance with that order, Santa Fe provided Landreth an itemized schedule of the actual well costs for the well. Mr. Landreth timely objected to these well costs and the case has been set for hearing on December 3, 1998.

Santa Fe now contends that the agreements between the parties mean more than they meant when they were entered. It now asserts that Revised Schedule A to the Joint Operating Agreement, which accurately set out the ownership of Landreth under his March 28, 1997 agreement with Santa Fe, amends this underlying agreement and expands it to include all of Landreth's working interest in the S/2 of Section 29. Santa Fe's current interpretation of its agreements with Landreth is inconsistent with the clear intent of the parties as expressed in the letter agreements, its subsequent actions and its own Division Order Title Opinion.

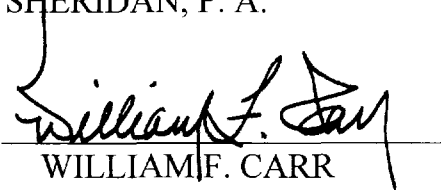
To accept the interpretation now advanced by Santa Fe requires the Division to interpret Revised Schedule A so as to be in conflict with the March 28, 1997 agreement of the parties and then resolve that conflict against the clear intent of the parties. This the Division cannot do. *See, Tallman v. ABF*, 108 N.M. 124, 127, 767 P.2d 363, 366 (1988).

Santa Fe Energy Resources, Inc.'s Motion to Dismiss must be denied.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

BY:



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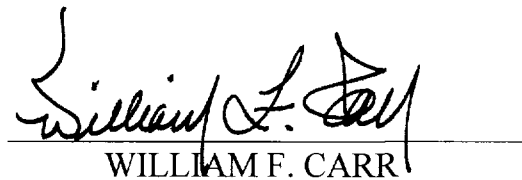
ATTORNEYS FOR ROBERT E.
LANDRETH

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of December, 1998, I have caused to be hand-delivered a copy of the Response of Robert E. Landreth to Santa Fe Energy Resources, Inc.'s Motion to Dismiss in the above-referenced case to the following named counsel:

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
117 North Guadalupe Street
Santa Fe, New Mexico 87501

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Oil Conservation Division
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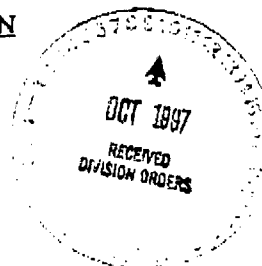
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October 6, 1997

ORIGINAL DIVISION ORDER TITLE OPINION

Santa Fe Energy Resources, Inc.
1616 South Voss, Suite 700
Houston, TX 77057

Attention: Mr. J. E. Taylor, CDOA



Re: Your Gaucho Unit No. 2-Y Well (SFER, Inc. No. 30107-02Y) - Federal Oil and Gas Leases NM 61360 and NM 69596, insofar as said leases cover the respective portions designated below of the S/2 of Section 29, T-22-S, R-34-E, N.M.P.M., Lea County, New Mexico, limited to gas and associated liquid hydrocarbons producible from the Morrow Formation:

NM 61360: SE/4 of said Section 29, containing 160 acres, more or less; and

NM 69596: SW/4 of said Section 29, containing 160 acres, more or less.

Gentlemen:

At your request, we have examined the following:

MATERIALS EXAMINED

Prior Title Opinion

Copy of our Original Drilling Title Opinion dated October 10, 1996, addressed to you, based upon the prior title opinions, abstracts and instruments described therein, covering captioned land from inception of the records to September 18, 1996 at 9:00 a.m., as to the Records in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, and from inception of the records to September 9, 1996 at 7:00 a.m., as to the Records in the Office of the County Clerk of Lea County, New Mexico.

Abstracts

1. Supplemental Abstract No. 48774, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Case Abstract and Case File for Federal Oil and Gas Leases NM 61360 and NM 69596, in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, insofar as said leases cover the S/2 of Section 29 from September 18, 1996 at 9:00 a.m. to September 16, 1997 at 9:00 a.m., containing 24 pages.

2. Supplemental Abstract No. 97-435, certified by Elliott & Waldron Title and Abstract Co., Inc., as covering the mineral estate only in captioned land from September 9, 1996 at 7:00 a.m. to September 8, 1997 at 7:00 a.m., containing 4 pages

Instruments

1. Your lease files covering captioned land.

EXHIBIT

1

October 6, 1997

2. Copy of Assignment No. 11 analyzed below.

OWNERSHIP OF PRODUCTION

Based upon examination of the foregoing and subject to the title requirements and other matters set forth below, we find the gas and associated liquid hydrocarbons produced and saved from the Morrow Formation underlying captioned land to be owned as follows:

Royalty:

United States of America 12500000

Leasehold Estate:

Before Payout plus 200%*:

Overriding Royalty Interests:

Lynn A. Sawyer and husband, Paul Sawyer	160/320 of 7.5%	.03750000
Robert E. Landreth	160/320 of 4.677083%	.02338542
Scott W. Tanberg	160/320 of 1.822917%	.00911458
Fred L. Engle	160/320 of 4.0%	.02000000

Working Interests:

Santa Fe Energy Resources, Inc.	160/320 of 50% of 7/8 WI plus 160/320 of 50% of 81.25% of 7/8 WI less 50% of 160/320 of 7.5% ORI less 50% of 81.25% of 160/320 of 10.5% ORI	.35640625
Southwestern Energy Production Company	160/320 of 50% of 7/8 WI plus 160/320 of 50% of 81.25% of 7/8 WI less 50% of 160/320 of 7.5% ORI less 50% of 81.25% of 160/320 of 10.5% ORI	.35640625
Robert E. Landreth	160/320 of 18.75% of 7/8 WI less 160/320 of 18.75% of 10.5% ORI	.07218750

After Payout plus 200%*:

Overriding Royalty Interests:

Lynn A. Sawyer and husband, Paul Sawyer	160/320 of 7.5%	.03750000
Robert E. Landreth	160/320 of 4.125%	.02062500
Scott W. Tanberg	160/320 of 2.375%	.01187500
Fred L. Engle	160/320 of 4.0%	.02000000

Working Interests:

Santa Fe Energy Resources, Inc.	160/320 of 50% of 7/8 WI less 50% of 160/320 of 7.5% ORI	.20000000
Southwestern Energy Production Company	160/320 of 50% of 7/8 WI less 50% of 160/320 of 7.5% ORI	.20000000

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Robert E. Landreth	160/320 of 75% of 7/8 WI less 160/320 of 75% of 10.5% ORI	.28875000
Amerinda Hess Corporation	160/320 of 25% of 7/8 WI less 160/320 of 25% of 10.5% ORI	.09625000

- * As provided for in Compulsory Pooling Order R-10764, entered February 14, 1997 in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico.

EXISTING OIL AND GAS LEASES

Lease No. 1:

Serial No.: NM 61360.

Date: July 1, 1985.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: The United States of America.

Lessee: G. B. Zimmerman.

Land Covered: T-22-S-R-33-E, N.M.P.M.
Section 25: W/2
Section 26: NE/4 NE/4, S/2 NE/4,
SW/4, SW/4 SE/4

T-22-S-R-34-E, N.M.P.M.
Section 20: NW/4
Section 29: SE/4

Lea County, New Mexico, containing 960 acres, more or less.

Primary Term: Ten (10) years from date.

Delay Rentals: Rentals in the sum of \$1.00 per acre during the first five years and \$3.00 per acre thereafter are payable to Lessor in advance of each lease year.

Royalties: 12.5% on production removed and sold from the leased premises, computed in accordance with federal regulations.

Minimum Royalty: Minimum royalties shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at the end of each lease year.

Lease Form: Form 3100-11 (March 1984) (Simultaneous Non-Competitive).

Stipulations: (a) In order to protect important seasonal antelope habitat, exploration, drilling and other activity will be allowed during the period from June 16 through April 14. This limitation does not apply to maintenance and operation of producing wells.

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(b) Drill sites will be located outside forb producing depressions within swale bottoms.

Lease No. 2:

Serial No.: NM 89596.

Date: December 1, 1987.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: The United States of America.

Lessee: Lynn A. Sawyer.

Land Covered: T-22-S, R-34-E, N.M.P.M.
Section 19: SW/4 NE/4
Section 29: W/2
Section 30: Lots 1, 2, 3, 4, NE/4, E/2 W/2

Lea County, New Mexico, containing 830.64 acres, more or less.

Primary Term: Ten (10) years from date.

Delay Rentals: Rentals in the sum of \$1.00 per acre during the first five years and \$3.00 per acre thereafter are payable to Lessor in advance of each lease year.

Royalties: 12.5% on production removed and sold from the leased premises, computed in accordance with federal regulations.

Minimum Royalty: Minimum royalties shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at the end of each lease year.

Lease Form: Form 3100-11 (April 1986) (Simultaneous Non-Competitive).

Stipulations: (a) In order to protect important seasonal antelope habitat, exploration, drilling and other activity will be allowed during the period from June 16 through April 14. This limitation does not apply to maintenance and operation of producing wells.

(b) Drill sites will be located outside forb producing depressions within swale bottoms.

History of Lease: In addition to the land described above, this lease originally covered Lots 1, 2, NE/4 and E/2 NW/4 of Section 18 and Lots 1, 2 and E/2 NW/4 of Section 19, T-22-S, R-34-E, N.M.P.M., Lea County, New Mexico, containing 472.72 acres, more or less. By virtue of the fact that this acreage was not committed to the Gaucho Unit, this lease was segregated, with the above-described portions of Sections 18 and 19 being assigned Serial No. NM 98250. This segregation is evidenced by Decision dated January 29, 1997, effective March 20, 1996.

ASSIGNMENTS

1. By Assignment of Record Title dated July 28, 1986, approved September 1, 1986, recorded in Book 401, page 903, Oil and Gas Records, Gordon B. Zimmerman and wife, Mary K. Zimmerman, assigned all of their interest in Lease No. 1 to Fred L. Engle.

2. By Transfer of Operating Rights dated August 8, 1989, approved October 1, 1989, recorded in Book 522, page 5, Miscellaneous Records, Fred L. Engle assigned all of his interest in the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, to Robert E. Landreth, reserving an overriding royalty interest equal to 5% of production from the assigned premises.

3. By Transfer of Operating Rights dated September 14, 1990, approved October 1, 1990, apparently unrecorded in the county records, Lynn A. Sawyer and husband, Paul Sawyer, assigned all of their interest in the operating rights in Lease No. 2, insofar as it covers the W/2 of Section 29, among other land, as to the Atoka and Morrow Formations only, to Sun Operating Limited Partnership, reserving an overriding royalty interest equal to 9% of production from the assigned premises. This assignment is made subject to a letter agreement dated September 13, 1990, between the parties.

4. By Transfer of Operating Rights dated November 9, 1992, approved January 1, 1993, apparently unrecorded in the county records, Sun Operating Limited Partnership reassigned all of its interest in the operating rights in Lease No. 2 to Lynn A. Sawyer and husband, Paul Sawyer.

5. By Assignment of Record Title dated August 11, 1994, approved October 1, 1994, recorded in Book 511, page 690, Oil and Gas Records, Lynn A. Sawyer and husband, Paul Sawyer, assigned all of their interest in Lease No. 2, insofar as it covers the W/2 of Section 29, among other land, to Santa Fe Energy Operating Partners, L.P., reserving an overriding royalty interest equal to 7.5% of production from the assigned premises. This assignment is made for a term ending July 1, 1996, unless before that date production in paying quantities is obtained from the assigned premises or lands pooled therewith, and provided that Assignors receive the first payment on their overriding royalty interest before July 1, 1996. The overriding royalty interest must be a minimum of 50% of 7.5% of production attributable to the assigned premises. By First Amendment of Term Assignment dated May 8, 1996, recorded in Book 736, page 31, Lea County Records, the termination date of this assignment was extended to December 31, 1996.

6. By Transfer of Operating Rights dated November 30, 1994, approved April 1, 1995, recorded in Book 605, page 285, Miscellaneous Records, Robert E. Landreth and wife, Donna P. Landreth, assigned 100% of the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, to Amerada Hess Corporation, reserving an overriding royalty interest equal to 5.5% of production from the assigned premises.

7. By instrument dated December 29, 1994, recorded in Book 598, page 632, Miscellaneous Records, Santa Fe Energy Operating Partners, L.P. was merged into Santa Fe Energy Resources, Inc.

8. By Transfer of Overriding Royalty Interest dated June 27, 1995, recorded in Book 606, page 720, Miscellaneous Records, Fred L. Engle assigned an overriding royalty interest equal to 1% of production from the SE/4 of Section 29, among other land, under the terms of Lease No. 1, to Scott W. Tanberg.

9. By Transfer of Operating Rights dated October 12, 1995, approved December 1, 1995, recorded in Book 707, page 77, Lea County Records, Amerada Hess Corporation assigned an undivided 75% interest in the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, from the surface down to the base of the Morrow Formation, to Robert E. Landreth. This assignment is made subject to the terms of a Letter Agreement dated May 26, 1995, between the parties.

10. By Transfer of Operating Rights dated October 10, 1995, approved February 1, 1996, apparently unrecorded in the county records, Santa Fe Energy Resources, Inc. assigned an undivided 50% of the operating rights in Lease No. 2 to Southwestern Energy Production Company.

11. By Transfer of Overriding Royalty Interest as yet unexecuted, Robert E. Landreth and wife, Donna P. Landreth, assigned to Scott W. Tanberg an overriding royalty interest equal to .8229166% of production from the SE/4 of Section 29, from the surface down to the base of the Morrow Formation, before Payout, increasing to 1.375% of production after Payout. Payout, as used in this assignment, refers to the point in time at which all costs, expenses and penalties provided for in Compulsory Pooling Order R-13764, entered February 14, 1997 in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico, have been paid.

UNIT AGREEMENT

Captioned land is subject to the Unit Agreement for the Development and Operation of the Gaucho Unit Area dated December 20, 1995, approved by the Bureau of Land Management effective March 20, 1996, covering all oil and gas in any and all formations under the following-described lands situated in Lea County, New Mexico:

T-22-S, R-34-E, N.M.P.M.

Section 17: All
Section 19: E/2
Section 20: All
Section 29: All
Section 30: All

containing 2,870.64 acres, more or less.

Santa Fe Energy Resources, Inc. is designated as Unit Operator. All costs and expenses incurred by the Unit Operator in conducting unit operations shall be paid and apportioned among the owners of the working interests in accordance with the Operating Agreement entered into between the parties. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Unit Operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all the land regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this Unit Agreement, whichever is later. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced in a single pool or zone. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating and other production or development purposes, or for repressuring or recycling in accordance with the plan of development and operations that has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased federal land, if any, included in the participating area established for such production. Each tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land included in the participating area.

The Unit Operator must commence the drilling of an adequate test well at a location approved by the AO within six months after the effective date of the agreement and to continue such drilling diligently until the Morrow "A" Sand has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities, or the Unit Operator shall at any time establish to the satisfaction of the AO that further drilling of the well would be unwarranted or impracticable; provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 13,050 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six months between the completion of one well and the commencement of drilling

October 6, 1997

operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for approval of the AO an acceptable plan of development and operation for the unitized land which, when approved by the AO, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. The Unit Agreement has been executed or ratified by Santa Fe Energy Resources, Inc., Southwestern Energy Production Company, Conoco Inc. and J. O. Easley, Inc. The SE/4 of Section 29 has not been committed to the Gaucho Unit, although it lies within the boundaries of the unit.

OPERATING AGREEMENT

The oil and gas leasehold estate in captioned land is subject to the terms of an Operating Agreement dated May 1, 1996, between Santa Fe Energy Resources, Inc., as Operator, and Southwestern Energy Production Company and Robert E. Landreth, as Non-Operators. The agreement is prepared on AAPL Form 610-1982, and contains a 100%/300% non-consent penalty. The preferential right to purchase provision has been stricken from the agreement, and it contains numerous other additions and deletions with which we presume you are familiar. The Operating Agreement initially was executed by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. It was executed by Robert E. Landreth on April 30, 1997. Exhibit "A" attached to the Operating Agreement, as amended, includes as Contract Area "B" the S/2 of Section 29, from the surface down to the base of the Morrow Formation. The interests of the parties are set forth as follows:

<u>Owner</u>	<u>BPO 300%</u>	<u>APQ 300%</u>
Santa Fe Energy Resources, Inc.	45.3125%	25%
Southwestern Energy Production Company	45.3125%	25%
Amerada Hess Corporation	-0-	12.5%
Robert E. Landreth	9.375%	37.5%

Amerada Hess Corporation has not executed the Operating Agreement.

COMMUNITIZATION AGREEMENT

The Morrow, Azoka, Strawn and Wolfcamp Formations underlying the S/2 of Section 29 are subject to the terms of Communitization Agreement NM 94525, dated March 1, 1997, approved May 14, 1997, covering natural gas and associated liquid hydrocarbons produced from said formations. This Communitization Agreement has been executed Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company.

EXPLORATION AGREEMENT

The interests owned by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company in the oil and gas leasehold estate in captioned land are subject to the terms of an Exploration Agreement dated July 17, 1995, between Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. Under the terms of this agreement, Santa Fe agrees to assign to Southwestern an undivided 50% of its interest in all existing leases in each prospect. In addition, each prospect is established as an Area of Mutual Interest for three years from the date of the agreement. In the event one of the parties to the agreement acquires a lease covering lands within a prospect from a third party (as defined in the agreement, a lease includes a farmout agreement), the acquiring party will promptly notify the non-acquiring party of its acquisition in writing, including a description of the interests acquired, the total cost of the interests, including all land and legal costs associated with the acquisition, the proportionate share of such interest that the non-acquiring party

is entitled to acquire, and any other pertinent terms of the acquisition, including copies of pertinent documents. The non-acquiring party shall then have 20 days from the receipt of such notice to elect to acquire its proportionate share of the subsequently acquired lease. If the acquiring party has not received an election in writing from the non-acquiring party within said 20-day period, the non-acquiring party conclusively shall be presumed to have elected not to acquire its proportionate share of the subsequently acquired lease, and this agreement shall no longer be effective as to such subsequently acquired lease.

The Exploration Agreement names Santa Fe Energy Resources, Inc. as Operator for all operations conducted on the lands covered thereby, and is made subject to the terms of an Operating Agreement attached to the Exploration Agreement as Exhibit "B". The agreement also provides that a separate Operating Agreement will be entered into for each prospect. The agreement also contains a provision whereby a party which elects not to participate in the drilling of the initial well on a prospect relinquishes all of its rights and interests in that prospect to the party electing to participate in the drilling of such initial well.

COMPULSORY POOLING PROCEEDINGS

Captioned land, from the surface down to the base of the Morrow Formation, is subject to Order R-10764, dated February 14, 1997, entered in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico, creating a pooled unit consisting of the S/2 of Section 29, from the surface down to the base of the Morrow Formation. Pursuant to the terms of this order, Robert E. Landreth elected to participate in the drilling of the subject well with respect to an undivided 18.75% working interest in the SE/4 of Section 29, or an undivided 9.375% working interest in the proration unit for the subject well, and to be force pooled as to an undivided 56.25% working interest in the SE/4 of Section 29, or an undivided 28.125% working interest in the proration unit for the subject well. Amerada Hess Corporation elected to allow its interest in captioned land to be force pooled.

PATENT INFORMATION

The E/2 of Section 29 was awarded to the State of New Mexico by the Department of the Interior on July 28, 1930. All minerals were reserved to the United States of America.

The W/2 of Section 29 was patented to the State of New Mexico by Patent No. 30-69-0005, dated July 9, 1968. All minerals were reserved to the United States of America.

EASEMENTS

This opinion does not cover surface easements.

ENCUMBRANCES

None.

TAXES

Ad valorem taxes are not assessed against lands owned by the United States of America and the State of New Mexico.

TITLE REQUIREMENTS

1.

We direct your attention to the fact that the primary term of Lease No. 1 analyzed above has expired, and the primary term of Lease No. 2 will expire December 1, 1997. We note also that the abstracts furnished for examination reflect that rentals were paid to maintain the leases analyzed above in effect during their primary terms except for the time period from July 1, 1992 to July 1, 1993, as to Lease No. 1, and the time period from December 1, 1992 to December 1, 1993, as to Lease No. 2.

REQUIREMENT: You must satisfy yourself that rentals were paid to maintain the leases analyzed above in effect during the time periods set forth above. In addition, with respect to Lease No. 1, you must satisfy yourself that this lease has been maintained beyond the expiration of its primary term by drilling or development operations or continuous production in commercial quantities from the lands covered thereby or lands pooled therewith.

2.

We direct your attention to the unusual provisions contained in the leases, assignments and agreements covering captioned land, especially the terms of Assignment No. 5, as amended.

REQUIREMENT: You should thoroughly familiarize yourself with all of the terms and provisions of the leases, assignments and other agreements covering captioned land and be certain to conduct your operations accordingly.

3.

We direct your attention to the fact that Assignment No. 10 apparently has not yet been filed for record in Lea County, New Mexico.

REQUIREMENT: Assignment No. 10 should be filed for record in Lea County, New Mexico.

4.

Assignment No. 9 is made subject to the terms of a letter agreement dated May 26, 1995, between Amerada Hess Corporation and Robert E. Landreth, which has not been furnished for our examination.

REQUIREMENT: Submit for examination a copy of the above-described letter agreement or otherwise satisfy yourself as to its terms and provisions.

5.

Assignment No. 11 has not yet been executed.

REQUIREMENT: Assignment No. 11 should be executed, filed with the Bureau of Land Management as required by federal regulations and filed for record in Lea County, New Mexico.

6.

Inasmuch as the SE/4 of Section 29 has not been committed to the Gaucho Unit, it has become necessary to communitize the leases analyzed above to form a sufficient proration unit for the subject well. This communitization agreement has been executed by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. However, it has not yet been executed or ratified by Robert E. Landreth, Scott W. Tanberg or Fred L. Engle.

October 6, 1997

REQUIREMENT: Robert E. Landreth, Scott W. Tanberg and Fred L. Engle should be called upon to execute or ratify the communitization agreement analyzed above.

7.

We have assumed that the participating area for the subject well will consist of the S/2 of Section 29, but this must be confirmed.

REQUIREMENT: You should confirm our assumption that the participating area for the subject well consists of the S/2 of Section 29. If it does not, it will be necessary to recalculate the ownership of production from captioned land.

COMMENT

This opinion cannot cover such matters as area, boundaries, location on the ground or other matters which can be determined only by an actual ground survey.

The abstracts and lease files furnished for examination have been returned to Mr. Joe Hammond in your Midland office, together with a copy of this opinion.

Respectfully submitted,

TURNER & DAVIS

By: 

Frank N. Cremer

FNC:lf

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. 11715
ORDER NO. R-10764

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 6, 1997 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 14th day of February, 1997, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Santa Fe Energy Resources, Inc., seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, thereby forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Antelope Ridge-Atoka Gas Pool and dedicating said unit to its proposed Gaucho Unit Well No. 2 (API No. 30-025-33682) to be drilled at a standard gas well location in the NE/4 SW/4 (Unit K) of said Section 29.

(3) The applicant is an interest owner in the S/2 of said Section 29 and as such has the right to drill for and develop the minerals underlying the proposed gas spacing and proration unit.

EXHIBIT

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(4) There are other owners of mineral interest in the proposed proration unit who have not agreed to pool their interests.

(5) At the time of the hearing Santa Fe Energy Resources, Inc. and Amoco Production Company, Inc., both owners of certain mineral interests in the proposed unit, entered appearances through legal counsel.

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(7) Santa Fe Energy Resources, Inc. should be designated the operator of the subject well and unit.

(8) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(9) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(11) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) \$6,000.00 per month while drilling and \$600.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate

share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before May 15, 1997, the order pooling said unit should become null and void and of no further effect whatsoever.

(15) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(16) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Antelope Ridge-Atoka Gas Pool. Said unit is to be dedicated to the applicant's proposed Gaucho Unit Well No. 2 (API No. 30-025-33682) to be drilled at a standard gas well location in the NE/4 SW/4 (Unit K) of said Section 29.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the fifteenth day of May, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the fifteenth day of May, 1997, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Santa Fe Energy Resources, Inc. is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

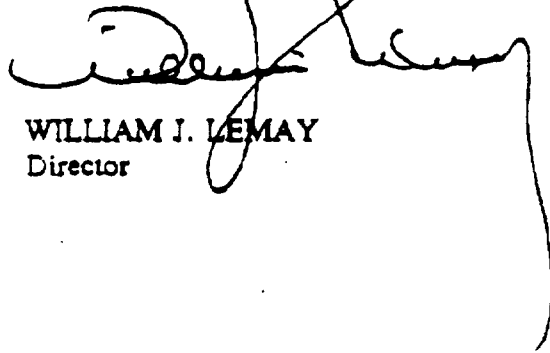
- (a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

- (b) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (9) \$6,000.00 per month while drilling and \$600.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (10) Any unleased mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.
- (11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.
- (12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.
- (13) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.
- (14) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.
- (15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Case No. 11715
Order No. R-10764
Page No. 6

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read 'William J. Lemay', is written over the typed name and title. The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

WILLIAM J. LEMAY
Director

SEAL

 **Santa Fe Energy Resources, Inc.**

CERTIFIED MAIL

February 17, 1997

Mr. Robert E. Landreth
505 N. Big Spring, Ste. 507
Midland, Texas 79701

Mr. Dan Foland
Amerada Hess Corporation
P. O. Box 2040
Houston, Texas 77252-2040

**RE: COMPULSORY POOLING
CASE NO. 11715
ORDER NO. R-10764
T-22-S, R-34-E, Sec. 29: S/2
Lea County, New Mexico**

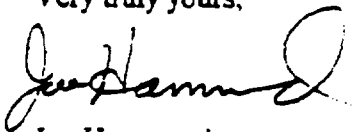
Gentlemen:

Referencing the above captioned acreage, please find enclosed herewith, a copy of Compulsory Pooling Order No. R-10764 and our associated AFE for the drilling of the Gaucho Unit No. 2 well.

Please advise Santa Fe of your election to participate or elect to non-consent under the order within 30 days of receipt hereof.

Please do not hesitate to call should you have any questions.

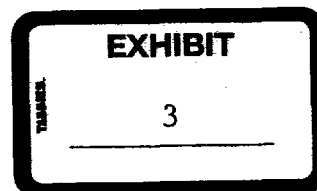
Very truly yours,



Joe Hammond
Sr. Landman

cc: New Mexico Oil Conservation Division
2040 S. Pacheco St.
Santa Fe, NM 87505

Central Division
550 W. Tenth, Suite 1330
Midland, Texas 79701
915/687-3881



gaucho2.doc



Santa Fe Energy Resources, Inc.

March 24, 1997

Mr. Robert E. Landreth
505 N. Big Spring
Suite 507
Midland, Texas 79701

Re: **Gaucha Unit #2 Well**
Compulsory Pooling
Order No. R-10764
S/2 Sec. 29, T-22-S, R-34-E
Lea County, New Mexico
SFERI Cont. #NM-30,107-002

Dear Mr. Landreth:

Reference is made to the above captioned Compulsory Pooling Order and your request for an extension of time in which to elect to participate and pay your pro rata share of costs or non-consent the Gaucha Unit #2 Well proposal.

Please be advised that Santa Fe hereby grants to Robert E. Landreth, and/or to your successor or assigns, an extension until Friday, March 28th at 5:00 p.m. CST in which to elect under the above captioned order. As you are aware, should you sell/assign your interest in the Gaucha Unit #2 Well to a third party, such third party must pay its proportionate share of well costs to Santa Fe by Friday, March 28, 1996 at 5:00 p.m. CST or you (or such party) will automatically be in a non-consent status.

Please indicate your receipt hereof by signing and returning to the undersigned one copy of this letter by **Fax at 686-6714**.

Yours very truly,

R. I. Arnold
Division Exploration Manager

JWH/eriv

RECEIVED this _____ day of March, 1997.

By: _____
Robert E. Landreth

EWOR1725

Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3851

EXHIBIT

4

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. G SPRING SUITE 507

MIDLAND TEXAS 79701

(915) 684-4781

FAX: (915) 684-4783

March 28, 1997

FACSIMILE: 915/686-6714

Santa Fe Energy
550 W. Texas Suite 1330
Midland, TX 79701

Attention: Mr. Randy Arnold and
Mr. Joe Hammond

Re: Gaucho Unit No. 2 Well

Gentlemen:

In line with your letter of March 24, 1997 and our related conversations and agreement, please be advised that I elect to participate in the drilling of the captioned well to the extent of 25% of my 37.5% working interest, with the balance to be subject to the Compulsory Pooling Order in effect for this well. Enclosed herewith is a check for \$116,250.00, representing my 9.375% working interest to casing point, based on the AFE which you furnished, executed copy of which is attached.

With respect an Operating Agreement for this well, I have only the Operating Agreement dated May 1, 1996 which was prepared for the Gaucho Unit No. 1 well. I assume that I will be executing an Operating Agreement which covers only the S/2 Section 29, T22S, R34E. The prior Operating Agreement contains a provision in Article XV-A to the effect that non-consenting parties relinquish all interest in a reworking operation. While this is probably intended to apply only to working interest, I do have an overriding royalty as a result of prior trades with Amerada Hess, and I believe this paragraph needs to be modified so that it is clear that my override would not be relinquished under those circumstances. Also, Sharon Miller in your Houston office has indicated that Santa Fe is willing to market my share of the gas and to make disbursements thereon, although I have not yet received her letter.

Sincerely,



Robert E. Landreth

REL/sp

EXHIBIT

5



Santa Fe Energy Resources, Inc.

APR 1 1997

VIA FACSIMILE & U.S. MAIL

Fax #684-4783

March 31, 1997

Mr. Robert E. Landreth
505 North Big Spring
Suite 507
Midland, Texas 79701

Re: Gaucho Unit No. 2-Y Well
S/2 Sec. 29, T-22-S, R-34-E
Lea County, New Mexico

Dear Mr. Landreth:

Pursuant to our telephone conversation concerning the Gaucho No. 2 Well, please be advised that while fishing for stuck drill pipe substantial circulation was lost in the hole. Efforts to restore circulation for further fishing operations were deemed inadvisable due to the hole condition. Santa Fe has therefore proceeded to abandon the initial hole and skid the rig 75 feet to the east in order to re-drill this well. The new well name will be the Gaucho Unit No. 2-Y Well and it will spud immediately.

Please indicate your concurrence to this abandonment and redrill by signing and returning one copy of this letter by Fax # (915) 686-6714 within 48 hours. ~~This redrill is proposed under the~~ existing JOA and AFE.

For your information, current well ownership is as follows:

Santa Fe	45.3125%	(35.640625% NRI)
Southwestern	45.3125%	(35.640625% NRI)
Robert E. Landreth	9.375%	(7.21875% NRI)

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

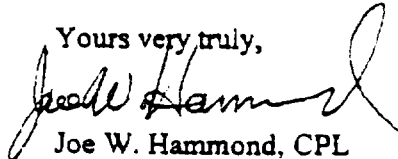
EXHIBIT

6

Mr. Robert E. Landreth
March 31, 1997
Page 2

Should you have any further questions, please do not hesitate to call.

Yours very truly,


Joe W. Hammond, CPL
Senior Landman

JWH/efw

This abandonment and redrill is

AGREED TO AND ACCEPTED

this 1st day of April, 1997.

By:


Robert E. Landreth

EWOR1753

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. BIG SPRING SUITE 507

MIDLAND TEXAS 79701

(915) 684-4781

FAX (915) 684-4783

April 1, 1997

RECEIVED

APR 03 1997

LAND DEPT.
MIDLAND, TX

FACSIMILE: 686-6714

Mr. Joe Hammond
Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, TX 79701

Attention: Mr. Joe Hammond

Re: Gaucho Unit Well No. 2-Y
Lea County, New Mexico

Dear Joe:

Enclosed please find an executed copy of your letter dated March 31, 1997, evidencing my election to participate in the re-drilling of the captioned well.

I believe this would be a good time to address the Operating Agreement covering this well, insofar as it affects my interest. As I mentioned in my March 28 letter, I do not know if it is Santa Fe's intent that I execute the Operating Agreement dated May 1, 1996, which describes the Gaucho Unit No. 1 well as being the Initial Well. I suppose I could execute that agreement subject to a modification to the effect that I am executing only as to the contract area covering the Gaucho Unit No. 2 (and possibly the Gaucho Unit No. 4), and that the initial well affecting my interest is the Gaucho Unit Well No. 2. I also pointed out in my March 28 letter that Article XV-A needs to be revised because of an overriding royalty interest which I own under NM61360 which is separate and apart from my working interest.

Sincerely,



Robert E. Landreth

REL/sp

EXHIBIT

7

**Santa Fe Energy Resources, Inc.**

MAY 11 1998

May 4, 1998

Mr. Robert E. Landreth
505 N. Big Spring
Suite 507 Texas 77252-2040
Midland, Texas 79701

Re: Compulsory Pooling Order No. R-10764
Gaucho Federal Unit Wells No. 2 & 2-Y
S/2 Section 29, T-22-S, R-34-E
Lea County, New Mexico
SFE Contract No. NM-30,107-02Y

Gentlemen:

Pursuant to the provisions of NMOCD Compulsory Pooling Order #R-10764 issued in connection with the drilling of the Gaucho Federal Unit No. 2 & 2-Y wells, enclosed is an itemized schedule of actual well costs through March 31, 1998 which include all costs associated with drilling the No. 2 Well to 3,783' where the wellbore was lost (see attached Sundry Notice) and moving the rig in order to drill and complete the No. 2-Y Well.

If you have any questions, my direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.

Steven J. Smith
Senior Staff Landman

Enclosure

cc: New Mexico Oil Conservation Division - Santa Fe

rland002.doc

2, 250, 911.54 Thru Feb. 1998

EXHIBIT

8

OPERATOR'S COPY

RECEIVED

Form 3160-5
(June 1990)UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENTFORM APPROVED
Budget Bureau No. 1004-0133
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT—" for such proposals.

APR 3 1 25 PM '97

5. Lease Designation and Serial No.

NM-69596

6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE

RECEIVED

Type of Well
☐ Oil Well ☒ Gas Well ☐ Other

7. Name of Operator

Santa Fe Energy

8. Address and Telephone No.

550 W. Texas, Suite 1330, Midland, Texas 79701

9. Location of Well (Footage, Sec., T., R., M., or Survey Description)

Sec. 27, T22S, R34E

1650' FSL, 1650' FWL

JUN 1 6 1997

LAND DEPT
MIDLAND, TX

10. If Unit of CA, Agreement Designation

Gaucho

11. Well Name and No.

Gaucho Unit No. 2

12. API Well No.

13. Field and Pool or Exploratory Area

NORTH RELL LAKE-MORRIS

14. County or Parish, State

LEN, New Mexico

CHECK APPROPRIATE BOX(S) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION

- ☐
- Notice of Intent
-
- ☒
- Subsequent Report
-
- ☐
- Final Abandonment Notice

TYPE OF ACTION

- ☐
- Abandonment
-
- ☐
- Reconstriction
-
- ☐
- Plugging Back
-
- ☐
- Casing Repair
-
- ☐
- Altering Casing
-
- ☒
- Other
- MOVE LOCATION

- ☒
- Change of Plans
-
- ☐
- New Construction
-
- ☐
- Non-Routine Fracturing
-
- ☐
- Water Shut-Off
-
- ☐
- Conversion to Injection
-
- ☐
- Dispose Water

(Note: Report results of completion operations on Well Completion or Completion Report and Log form.)

15. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

The subject well spud at this location on 3/4/97. On 3/24/97 while drilling at 3783', circulation was lost and the drill string became stuck in the well. Fishing operations commenced and proceeded with the recovery of part of the drill string on 3/28/97. Attempts to recover the remainder of the drill string continued until the morning of 3/30/97 when the drill string became stuck at 850'± with the bit at 3430'±. Circulation was lost and efforts to regain circulation were not successful. Verbal approval to plug the well were obtained on 3/30/97. Permission is requested to move the rig 75 to 100' East of its present location. In order to drill a well and test the Morrow in this production unit. The original Archaeological Survey covers the area to be impacted by moving this well. The new well hole will be at 1650' FSL AND 1750'± FWL.

16. I hereby certify that the foregoing is true and correct.

Signed Michael R. HunterTitle Division Operations ManagerDate 3/30/97

(This space for Federal or State office use)

Approved by _____
Conditions of approval, if any:

Title _____

ACCEPTED FOR REPORT

Date _____

JUN 12 1997

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 or to any officer within its jurisdiction.

Santa Fe Energy Resources, Inc.
Statement of Gross Costs
As of October, 1997

Gaucha Unit #2 and #2Y
Lea County, New Mexico
SFER Property Number: 30107-002 and 30107-02Y

		<u>Gross Amounts</u>
Capital Expenditures		
Tangible		
Casing	\$242,561.36	
Tubing	58,352.47	
Wellhead	16,196.84	
Non-Controllable Material	25,934.53	
Facilities	25,444.58	
Total Tangible		\$368,489.78
Intangible		
* Company Labor	\$5,526.05	
Location & Roads	84,894.63	
Fencing & Soundproofing	598.39	
Fuel, Water, Power	64,909.39	
Drill Contractor's Moving Exp.	20,272.97	
Drilling Contractor's Services	690,080.25	
Drilling & Completion Fluids	160,199.96	
Bits & Reamers	70,289.33	
Cementing & Service Equipment	141,496.85	
Casing Testing & Inspection	44,852.21	
Direction Drill Serv & Surveys	9,504.52	
Drilling Tool/Equip. Rent & Serv.	444,369.67	
Open Hole Logging	63,917.55	
Transportation & Hauling	40,663.01	
Completion Contractor's Serv.	114,868.65	
Completion Tool/Equip. Rent & Serv.	46,859.04	
Cased Hole Wireline Service	29,440.39	
Stimulation	14,250.99	
Contract Supervision	48,483.27	
Communications	8,669.03	
Legal/Title Curative Costs	4,166.03	
JTB-PMTA (Co. owned vehicle use)	1,141.30	
* JTB-Drilling Overhead	22,546.75	
Miscellaneous IDC	24,011.87	
Total IDC		\$2,156,022.10
Total Capital Expenditures		\$2,524,511.88
Total Expenditures		<u>\$2,524,511.88</u>

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

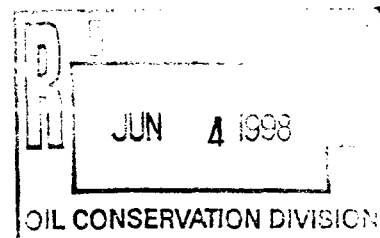
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
MICHAEL H. FELDEWERT
ANTHONY F. MEDEIROS
PAUL R. OWEN
KATHERINE M. MOSS
JACK M. CAMPBELL
OF COUNSEL

June 4, 1998

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043
E-MAIL: ccbspa@ix.netcom.com

HAND DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

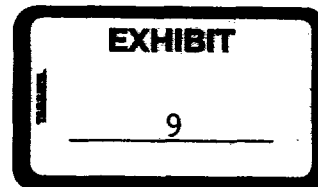


Re: Case No. 11715 (Order No. R-10764) Application of Santa Fe Energy
Resources, Inc. for compulsory pooling, Lea County, New Mexico.

Dear Ms. Wrotenbery:

By Order No. R-10764, the Division granted the application of Santa Fe Energy Resources, Inc. in Case 11715 thereby compulsory pooling the interest of Robert E. Landreth in the S/2 of Section 29, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

By letter dated May 4, 1998, Santa Fe Energy Resources, Inc. provided to Mr. Landreth an itemized schedule of actual well costs for the drilling of the Gaucho Federal Unit Well Nos. 2 and 2Y which it has drilled on this pooled unit.



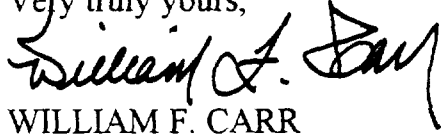
Lori Wrotenbery, Director

June 4, 1998

Page 2

Robert E. Landreth hereby objects to the actual well costs for these wells and requests that the Division determine the actual well costs after public notice and hearing as provided in order paragraph 5 of Order No. R-10764.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a stylized "C".

WILLIAM F. CARR

Attorney for Robert E. Landreth

cc: James Bruce Esq.