

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

May 1, 2000

HAND DELIVERED

Mr. David R. Catanach
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Mrs. Lyn Hebert, Esq.
Division Attorney
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

RESPONSE TO MOTION TO DISMISS OR CONTINUE

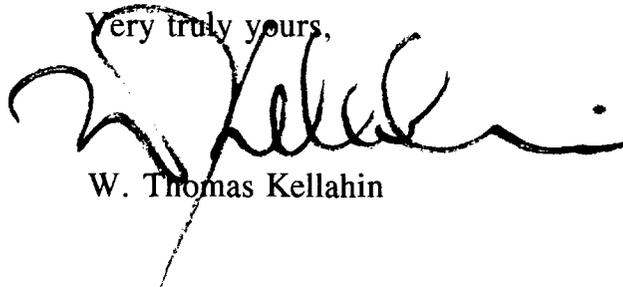
Re: Case 12393
Application of Santa Fe Snyder Corporation
for compulsory pooling, Lea County, New Mexico

Re: Case (pending)
Application of Southwestern Energy Production Company
for compulsory pooling, Lea County, New Mexico

Dear Mr. Catanach and Mrs. Hebert:

Santa Fe Snyder Corporation's case is currently set for hearing on the Examiner's Docket scheduled for May 4, 2000. Today, Southwestern Energy Production Company filed a request to either dismiss or continue Santa Fe's pooling case (12393) but in doing so referenced the wrong case number (12367) Santa Fe is opposed to this motion, asks that the Division deny Southwestern's request and proceed to hear Santa Fe's application on May 4, 2000 for the reasons set forth in the attached response.

Very truly yours,



W. Thomas Kellahin

cc: James Bruce, Esq.,
Attorney for Southwestern
Santa Fe Snyder Corporation
Attn: Steve Smith

00 APR 31 PM 1:04
OIL CONSERVATION DIV.

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

**IN THE MATTER OF THE APPLICATION CASE NO. 12393
OF SANTA FE SNYDER CORPORATION
FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO**

**SANTA FE SNYDER CORPORATION'S
RESPONSE TO
SOUTHWESTERN'S REQUEST
FOR
CONTINUANCE OR DISMISSAL**

09 APR 31 PM 1:04

OIL CONSERVATION DIV.

Comes now Santa Fe Snyder Corporation ("Santa Fe"), by its attorneys, Kellahin and Kellahin, hereby moves the Division to deny Southwestern Energy Production Company ("Southwestern") motion to dismiss or continue this case because (i) Santa Fe has owned an interest in this spacing unit commencing on December 1, 1999, some eight days prior to proposing its well and (ii) Southwestern's competing pooling case to pool the W/2 of this section filed on April 27, 2000 for hearing on June 1, 2000 is now moot because the Bureau of Land Management ("BLM") will deny a request by Southwestern to communitize multiple leases in the W/2 of Section 17, T23S, R34E.

SUMMARY OF PROCEEDINGS

On April 6, 2000, Santa Fe Snyder Corporation ("Santa Fe") filed the referenced compulsory pooling application which is set for hearing on May 4, 2000. This application seeks to pool the N/2 of the section which consists of a single federal oil & gas lease.

On April 27, 2000, James Bruce, on behalf of Southwestern Energy Production Company ("Southwestern") filed a competing compulsory pooling application which will be set for hearing on June 1, 2000. This application seeks to pool the W/2 of this section.

This section consists of two federal oil and gas leases, one comprising the N/2 and the other comprising the S/2 of this section. The Bureau of Land Management ("BLM") has advised that it will approve Santa Fe's orientation of this spacing unit and will reject Southwestern's orientation.

RELEVANT FACTS

(1) Section 17, T23S, R34E, NMPM, Lea County New Mexico consists of two federal oil and gas leases:

(a) the N/2 is federal lease NM-97157 dated 9/1/96 with the working interest ownership divided 50 % to Santa Fe and 50 % to Southwestern,

(b) the S/2 is federal lease LC-065194 dated 5/1/51 with 100 % of the working interest ownership held by Santa Fe.

(2) Prior to December 8, 1999, Santa Fe commenced developing the prospect for a Morrow gas well in the N/2 of this section.

(3) On March 1, 1999, Concho Resources, Inc. assigned 50% of the working interest in the N/2 of this section to Southwestern.

(4) On March 3, 1999, Concho Resources Inc. and Southwestern signed a Joint Operating Agreement covering the N/2 of this section.

(5) On September 1, 1999, Santa Fe approved an AFE for this well to be called the Paloma Blanco "17" Federal Well No. 1 to be drilled in the NW/4 of Section 17.

(6) On December 1, 1999, Concho Resources, Inc. represented to Santa Fe that the N/2 of this section was not subject to any joint operating agreement and assigned the remaining 50% of the working interest in the N/2 of this section to Santa Fe by an assignment which was recorded on April 14, 2000. **See Exhibit A.**

(7) Santa Fe's interest is not subject to the unrecorded Joint Operating Agreement because Santa Fe acquired its interest as a good faith purchaser without knowledge of the existence of an unrecorded joint operating agreement dated March 3, 1999 between Concho and Southwestern covering the N/2 of this section.

(8) On December 9, 1999, Santa Fe formally proposed its well at a location in Unit E and the N/2 of this section as a spacing unit to Southwestern for an estimated total completed well cost of \$1,368,954 to be drilled to an estimated total depth of 13,700 feet in the Morrow formation. **See Exhibit B.**

(9) By letter dated December 14, 1999 from Southwestern to Concho Resources, Inc., Southwestern claimed that Santa Fe's well proposal was invalid because of the Joint Operating Agreement between Concho and Southwestern.

(10) By letter dated February 8, 2000, Santa Fe offered to purchase Southwestern's interest.

(11) On or about March 27, 2000 Santa Fe filed its Application for Permit to Drill ("APD") with the Bureau of Land Management ("BLM"). **See Exhibit C.**

(12) By letter dated March 9, 2000 and some three months after Santa Fe's well proposal and more than a year after acquiring its interest, Southwestern proposed the drilling of a well in Unit D and the W/2 of this section as a spacing unit for an estimated total completed well cost of \$1,508,100 to be drilled to an estimated total depth of 12,700 feet in the Atoka formation. **See Exhibit D.**

(13) On April 6, 2000, Santa Fe filed its compulsory pooling application with the Division which set it for hearing on May 4, 2000.

(14) By letter dated April 7, 2000, **but effective retroactively to November 30, 1999**, Southwestern and Concho agreed that the Joint Operating Agreement dated March 15, 1999 was **not** effective as to the N/2 of Section 17.

(15) On April 10, 2000, Southwestern received Santa Fe's pooling application and notice of hearing.

(16) By letter dated April 13, 2000, Santa Fe again asked Southwestern to voluntarily participate in Santa Fe's well as proposed on December 9, 1999 and, in the alternative, invited Southwestern to consider selling its interest to Santa Fe.

(17) By letter dated April 25, 2000, Southwestern wrote Santa Fe and again claimed that Santa Fe's proposal was invalid because of the Joint Operating Agreement dated March 15, 1999. However, Southwestern failed to disclose to Santa Fe that effective November 30, 1999, Southwestern had agreed that this JOA was "terminated in all respects" as to the N/2 of Section 17.

(18) On April 27, 2000, Southwestern filed its compulsory pooling application and requested a hearing on June 1, 2000.

(19) By letter dated May 1, 2000, the BLM advised the Division that the BLM would reject Southwestern's attempt to form a W/2 spacing unit because Federal regulations preclude the communitization of multiple leases when a single federal lease can be developed in conformity with established well spacing patterns. See 43 C.F.R. 3105.2-2. **See Exhibit E.**

DISCUSSION

Southwestern has failed to submit any affidavits or documentation to support its unsupported claims. Southwestern incorrectly contends that Santa Fe had no interest in this spacing unit on December 9, 1999 when Santa Fe proposed its well to Southwestern. In fact, it is undisputed that Santa Fe obtained a term assignment of 50% of the working interest in the N/2 of this section from Concho Resources, Inc. on December 1, 1999 eight (8) days prior to proposing its well.

Southwestern, whose well proposal was made on March 9, 2000, incorrectly contends that it has the first valid pooling application which will not be heard until June 1, 2000 thus precluding the Division from deciding Santa Fe's application now set for hearing on May 4, 2000. In fact, Santa Fe, with 75% of the working interest in this section, was the first to propose the drilling of a deep gas well in this section.

For almost five (5) months, Southwestern has sought to delay Santa Fe's efforts to get this well drilled. Southwestern first claimed that Santa Fe's well proposal was invalid because of a pre-existing joint operating agreement between Concho Resources, Inc. and Southwestern, but then abandoned that claim when these parties terminated this joint operating agreement retroactive to November 30, 1999.

Now, Southwestern claims Santa Fe's well proposal was invalid because Santa Fe had no interest in the N/2 of this section on December 9, 1999 when it is undisputed that Santa Fe obtained its interest on December 1, 1999.

Southwestern, despite having an interest in the N/2 of this section for more than one (1) year, waited until March 9, 2000, some three (3) months after Santa Fe's well proposal, to propose its well. Southwestern, despite receiving notice of Santa Fe's pooling application on April 10, 2000, then waits until just one week before the hearing on Santa Fe's pooling application to file its own pooling application which it asked to be set for hearing on June 1, 2000.

Despite receiving notice of Santa Fe's pooling application on April 10, 2000, Southwestern waited until May 1, 2000, just 3 days before the hearing, to ask that Santa Fe's case be dismissed or continued.

Contrary to Southwestern's claims, Santa Fe has attached documentation and a sworn verification of the facts which demonstrate that there is no merit to Southwestern's claims. All Southwestern is doing is wasting the Division time by inappropriately delaying and frustrating Santa Fe's efforts to drill a deep gas well in Section 17.

Ultimately, Southwestern's efforts will fail because its proposal will require consolidating multiple leases which is contrary to the Bureau of Land Management ("BLM") regulations and policy concerning the communitization of multiple leases when a single federal lease can be developed by Santa Fe in conformity with Division established well spacing patterns.

CONCLUSION

This is a matter within the exclusive jurisdiction of the BLM who will reject Southwestern's proposal. This action by the BLM in exercising its jurisdiction over these federal oil and gas leases, has made moot Southwestern's competing pooling application.

Accordingly, the Division has no alternative but to dismiss Southwestern's pooling application, deny its motion to continue and to proceed to hear Santa Fe's pooling application on May 4, 2000.

Respectfully submitted,



W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing pleading was transmitted by facsimile this 1st day of May, 2000 to James Bruce, attorney for Southwestern.



W. Thomas Kellahin

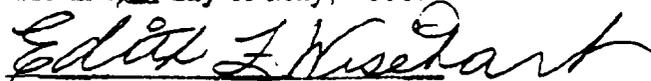
VERIFICATION

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

Comes now Steve Smith, being first duly sworn, upon his oath deposes and states: That he is a qualified professional petroleum landman employed by Santa Fe Snyder Corporation, Midland, Texas, and has personal knowledge about this facts of this case, that he has read the foregoing pleading and knows the contents thereof and that the same is true and correct of his own knowledge, information and belief.

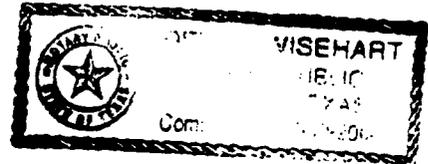
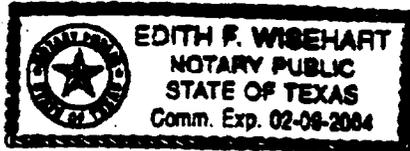

Steve Smith

SUBSCRIBED AND SWORN to before me by Steve Smith, who personally appeared before me this 6th day of May, 2000.


Notary Public

My Commission Expires: 2/9/2004

SEAL:



57307

TERM ASSIGNMENT

STATE OF NEW MEXICO)
)
COUNTY OF LEA)

On this the 1st day of December, 1999, Concho Resources Inc., 110 W. Louisiana, Suite 410, Midland, Texas 79701 (hereinafter referred to as "Assignor"), for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and confessed, without warranty of title, express or implied, subject to the reservations, conditions and covenants provided for herein, and only for the term herein provided, does hereby grant, bargain, sell, transfer, assign and convey unto Santa Fe Snyder Corporation, 550 W. Texas, Suite 1330, Midland, Texas 79701 (hereinafter referred to as "Assignee"), an undivided fifty percent (50%) of the operating rights in and to the leases described in Exhibit "A" attached hereto and made a part hereof ("said Leases"), together with all rights and privileges thereunder or appurtenant thereto, insofar as said Leases cover oil, gas and other liquid and gaseous hydrocarbons and associated minerals.

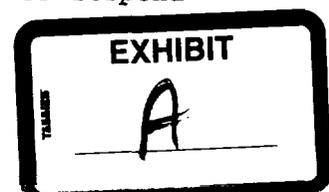
The leasehold interests herein assigned are hereinafter referred to as "said Assigned Interest". This agreement shall be for a term of two (2) years from the Effective Date ("Primary Term") and, as long thereafter as oil and/or gas is produced in paying quantities.

I.

Assignor reserves from this Term Assignment an overriding royalty interest equal to the difference between lease burdens and 25% of 8/8ths in and to the oil, gas and other liquid and gaseous hydrocarbons and associated minerals produced and saved from said leases. Such overriding royalty interest shall be free and clear of all working interest costs of exploring, drilling, equipping and operating, but shall bear its proportionate part of gross production taxes and shall be paid in the same manner as the royalty is to be paid pursuant to the terms of said leases. The overriding royalty herein reserved shall be proportionately reduced as to each lease assigned hereunder if such lease covers less than the full mineral interest and/or the assignment made hereunder does not convey full leasehold rights in such lease. If any lease is pooled or communitized under the lease authority or authority of any government agency, the overriding royalty herein reserved shall be pooled and communitized and paid on a pooled or communitized basis in the same manner as the base royalty of such lease is pooled or communitized. The term "Lease Burdens" as used in this agreement with respect to said Assigned Interest for said Leases shall mean the royalty and any other interest in production reserved to the owners of the minerals covered by said Leases, plus all overriding royalties, production payments, carried working interests, net profit interest, and all other burdens and encumbrances to which said Assigned Interest is subject on the Effective Date of the assignment.

II.

Assignee accepts said Assigned Interest subject to all of the express and implied covenants and obligations of said Leases, insofar as same relate to said Assigned Interest. Assignee indemnifies and agrees to respond



to, defend and save Assignor harmless from and against any and all claims for damages and forfeiture made by any person, partnership, corporation or other legal entity that is based on any failure, or alleged failure of Assignee, to indemnify, defend and save Assignor, together with Assignor's co-lessees and co-venturers, and its and their parents, subsidiaries, affiliates, agents, directors, officers, employees and servants, harmless from and against all claims, demands, damages, lawsuits, liability, judgments, expenses, attorney's fees and court costs of every kind and character arising out of or resulting from the operations of Assignee, its contractors and subcontractors, upon said Lease and lands covered hereby, including injury to or death of persons, damage to or destruction of property, and environmental damage and cleanup expenses, and including claims based on acts or omissions of Assignee's contractors, subcontractors, heirs, successors and assigns.

III.

If Assignor currently makes rental payments on said Lease, Assignor shall pay any delay rentals necessary to maintain in force and effect said Lease insofar as it covers the lands described on Exhibit "A" and Assignee shall promptly reimburse Assignor for its proportionate share of the amount paid upon receipt of invoice; PROVIDED, HOWEVER, Assignor shall not be liable to Assignee for its failure to timely and properly make such payments for any reason, including negligence. If any rental payment is applicable both to lands assigned hereby and to other lands, such payment shall be prorated on a surface acre basis.

Assignee shall not at any time release said Leases to the owners of the minerals thereunder. Should Assignee elect to discontinue Assignee's interest in said Leases, Assignee shall execute and deliver to Assignor a reassignment on a form satisfactory to Assignee, of all of Assignee's interests in the assigned lands. The reassignment tendered to Assignor shall warrant the reassigned interest to be free and clear of any mortgage, lien, encumbrances, claims, contractual obligations, overriding royalty burden or production payment created by, through or under Assignee or by its authority.

IV.

Assignee shall not assign, sell, transfer, mortgage, hypothecate or otherwise alienate the Properties without the express prior written consent of Assignor, which consent will not be unreasonably withheld, and any attempt to do so without Assignor's prior written consent shall be null and void.

V.

If at the expiration of the Primary Term of this Assignment, oil and/or gas is not being produced from the said Assigned Interest or lands pooled therewith, but Assignee is then engaged in drilling or reworking operations thereon, this Assignment shall remain in force so long as drilling or reworking are prosecuted (whether on the same well or different wells) with no cessation of more than sixty (60) consecutive days, and, if they result in production in paying quantities, for so long thereafter as oil and/or gas are produced or capable of being produced in paying quantities from said Assigned Interest or lands pooled therewith. If oil and/or gas on said Assigned Interest or lands pooled therewith should cease producing in paying quantities from any cause, this Assignment nevertheless shall continue in force and effect as long as additional drilling operations or reworking operations are conducted on the said Assigned Interest or on lands validly

pooled therewith, which additional operations shall be deemed to be had when not more than sixty (60) consecutive days elapse between the abandonment of operations on one well and the actual commencement of drilling on another well, and, if production in paying quantities is obtained, this Assignment shall continue as long thereafter as oil and/or gas is produced or capable of being produced in paying quantities from the said Assigned Interest or lands pooled therewith, and as long thereafter as additional operations, either drilling or reworking, are had thereon.

- (a) If Assignee, at the expiration of the Primary Term is engaged in actual drilling or reworking operations, this Assignment shall remain in full force and effect as to all lands covered hereby for so long as such operations continue to completion or abandonment and for so long thereafter as continuous development is conducted, being defined as no more than one hundred eighty (180) days elapsing between the completion or abandonment of one well and the commencement of actual drilling or reworking operations on another well; or
- (b) if at the expiration of the Primary Term, Assignee is not conducting actual drilling operations, but Assignee has completed a well on the said Assigned Interest prior to the expiration which is capable of producing oil and/or gas in paying quantities, this Assignment shall remain in full force and effect for so long as actual drilling or reworking operations on an additional well are commenced within one hundred eighty (180) days following the expiration of the Primary Term, and this Assignment shall continue in force for so long thereafter as continuous development is conducted, being defined as no more than one hundred eighty (180) days elapsing between the completion or abandonment of one well and the commencement of actual drilling or reworking operations on the next succeeding well.
- (c) At such time as Assignee (1) fails to commence said continuous development, or (2) once commenced, fails to continue same, this Assignment shall automatically terminate as to (a) all land not included within the aerial boundaries of the proration or spacing unit assigned to a well then producing oil or gas in paying quantities and (b) all subsurface depths, in said proration or spacing unit(s) to 100 feet below the base of the deepest producing formation in said producing well(s) thereon. The term "proration or spacing unit" as used herein shall be the number of acres which are allocated to a well under regulation of the Oil Conservation Division, Energy, Minerals and Natural Resources Department, of the State of New Mexico or other governmental body having jurisdiction over producing tracts for production of oil or gas under State Wide Rules or Special Field Rules as applicable to the area involved herein so as to enable the well to produce a full allowable.
- (d) The term "completion" as used herein shall mean the date of rig release.

VI.

This assignment and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns; PROVIDED, HOWEVER, no transfer or encumbrance of any of said Assigned Interest shall be made unless the same be made expressly subject to this assignment and unless the vendee, Assignee or transferee shall assume all of the obligations of this assignment.

VII.

The address for giving all notices required hereunder, until changed by written notice to the same addresses, shall be as set forth in the first paragraph of this instrument.

VIII.

Assignee shall comply and shall require that all of Assignee's contractors and subcontractors comply with any and all applicable laws and regulations, federal, state and local, and with the requirements of each regulatory body or official asserting jurisdiction over Assignee's Operations under this assignment.

Assignee shall, at Assignee's sole cost and expense, maintain the lands in a clean and orderly condition, remove all waste products, fill in all pits dug in connection with Operations hereunder and restore the lands as nearly as possible to their original condition.

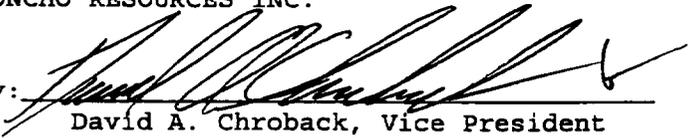
This assignment is made and accepted without any representations and warranties, express, implied or statutory.

THIS ASSIGNMENT, INCLUDING ALL ITS EXHIBITS, SHALL BE INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE IN WHICH THE SAID LEASE IS LOCATED WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. This assignment may not be amended except by an instrument in writing signed by the party charged with such amendment. This assignment may be executed by the parties in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first stated above.

ASSIGNOR:

CONCHO RESOURCES INC.

By: 

David A. Chroback, Vice President

ASSIGNEE:

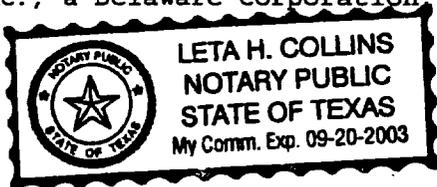
SANTA FE SNYDER CORPORATION

APPROVED

By: *R.B. Rice*
 Its: R.B. Rice, Attorney-in-Fact

STATE OF TEXAS)
)
 COUNTY OF MIDLAND)

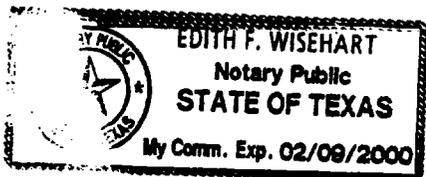
The foregoing instrument was acknowledged before me this 8th day of December, 1999, by David A. Chroback, Vice President of Concho Resources Inc., a Delaware corporation, on behalf of said corporation.



Leta Collins
 Notary Public
 My Commission Expires:

STATE OF TEXAS)
)
 COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 6th day of January, 2000, by R.B. Rice, Attorney-in-Fact of Santa Fe Snyder Corporation, a Delaware corporation, on behalf of said corporation.



Edith F. Wisehart
 Notary Public
 My Commission Expires:

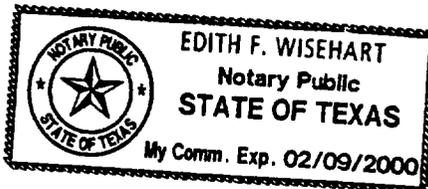


EXHIBIT "A"

Attached to and made a part of that certain
Term Assignment dated December 1, 1999,
between Concho Resources Inc., as Assignor,
and Santa Fe Snyder Corporation, as Assignee

Oil and Gas Lease

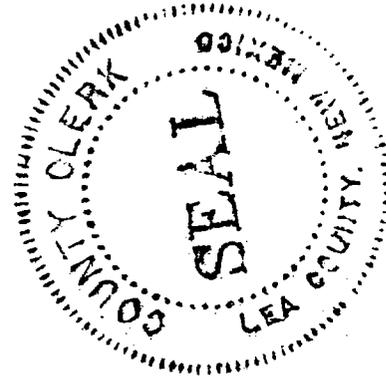
Serial No: NM 97157
Date: 09/01/96
Lessor: United States of America
Original Lessee: Penwell Energy, Inc.
Description: T-23-S, R-34-E, N.M.P.M.
Section 17: N/2
Lea County, New Mexico
Recorded: Book 743, Page 567,
Lea County, New Mexico

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

APR 14 2000

at 10.39 o'clock A M
and recorded in Book 1012
Page 136
Pat Chappelle, Lea County Clerk
By Kath Mames Deputy

57307



Santa Fe Snyder Corporation
VIA FAX AND CERTIFIED MAIL
Fax (281) 618-4757

December 9, 1999

Southwestern Energy Production Company
2350 N. Sam Houston Parkway East, Suite 300
Houston, Texas 77032
ATTN: Mr. Samuel Glenn Thompson

Re: Well Proposal
Paloma Blanco "17" Federal #1
1,980' FNL & 660' FWL
Section 17, T-23-S, R-34-E
Lea County, New Mexico
PALOMA PROSPECT - NM-0964

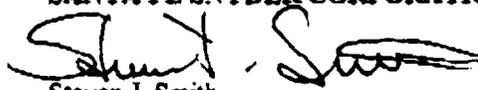
Ladies and Gentlemen:

Santa Fe Snyder Corporation (Santa Fe) hereby proposes to drill a 13,700' Morrow test at a location 1,980' FNL & 660' FWL of Section 17, T-23-S, R-34-E, Lea County, New Mexico. If the well is successfully completed in the Morrow formation, a proration unit consisting of the N/2 of Section 17 would be established. Based upon our most current title information, Southwestern Energy Production Company appears to own an undivided 50% of the operating rights in the N/2 of said Section 17. If this is incorrect, please advise.

Enclosed for your review and further handling are duplicate original AFE Well Cost Estimates for the proposed well. Should you choose to participate in the proposed well, please execute and return one copy of this letter and one copy of the enclosed AFE. I will be forwarding an Operating Agreement for your review and execution in the next few days.

Sincerely,

SANTA FE SNYDER CORPORATION



Steven J. Smith
Senior Staff Landman

_____ Southwestern Energy Production Company hereby elects to **PARTICIPATE** in drilling the proposed Paloma Blanco "17" Federal #1 Well.

_____ Southwestern Energy Production Company hereby elects **NOT TO PARTICIPATE** in drilling the proposed Paloma Blanco "17" Federal #1 Well.

SOUTHWESTERN ENERGY PRODUCTION COMPANY

By: _____

Title: _____

Date: _____

PalomaBlanco17.doc

Central Division
680 W. Texas, Suite 1330
Midland, Texas 79701
916/687-3881



Form 3160-3
(July 1992)

SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK

DRILL

DEEPEN

b. TYPE OF WELL

OIL WELL

GAS WELL

OTHER

SINGLE ZONE

MULTIPLE ZONE

2. NAME OF OPERATOR

Santa Fe Snyder Corp.

3. ADDRESS AND TELEPHONE

550 W. Texas, Suite 1330; Midland, Texas 79701 (915) 682-6373

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)*

At (W) 1980' FWL & 660' FWL

At proposed prod. zone

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*

20 miles west of Jal, New Mexico

16. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT.

660'

(Also to nearest dry, unit line, if any)

16. NO. OF ACRES IN LEASE

330

17. NO. OF ACRES ASSIGNED TO THIS WELL

320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

NA

18. PROPOSED DEPTH

14000'

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DV, RT, GR, etc.)

3470' GR

22. APPROX. DATE WORK WILL START*

April 25, 2000

23.

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	H-40 13 3/8"	48.0	650'	500 sx to circulate
12 1/4"	K-55 9 5/8"	40.0	5000'	1450 sx to circulate
8 3/4"	S-95 & P-110 7"	26.0	11800'	800 sx to TOC @ 6000'
6 1/8"	S-95 4 1/2"	13.5	14000'	250 sx (circ to liner top)

We propose to drill to a depth sufficient to test the Morrow formation for gas. If productive, a 4 1/2" liner will be run to TD. If non-productive, the well will be plugged and abandoned in a manner consistent with Federal Regulations. Specific programs as per Onshore Oil and Gas Order No. 1 are outlined in the following attachments:

Drilling Program

- Exhibit A - Operations Plan
- Exhibit B - BOP and Choke Schematic 5-M
- Exhibit B(A) - BOP and Choke Schematic 10-M
- Exhibit C - Drilling Fluid Program
- Exhibit D - Auxiliary Equipment

- Exhibit E - Topo Map at Location
- Exhibit F - Map Showing Existing Wells
- Exhibit G - Well Site Layout
- Surface Use and Operations Plan

Santa Fe Snyder Corp. accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land or portion thereof, as described above.

Bond Coverage: Blanket Bond

BLM Bond File No.: UT-0855

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.

SIGNED: James P. [Signature]

TITLE: Agent for Santa Fe Snyder Corp., 3-27-00

(This space for Federal or State office use)

PERMIT NO. _____

APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY _____

TITLE _____

DATE _____

*See Instructions On Reverse Side

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 as to any matter within its jurisdiction.





**Southwestern Energy
Production Company**

A subsidiary of Southwestern Energy Company

2366 N. Sam Houston Parkway East
Suite 300
Houston, Texas 77032
(281) 612-4700 FAX: (281) 612-6767

Samuel Glenn Thompson
Staff Landman

March 9, 2000

VIA FAX AND CERTIFIED MAIL

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

Attn: Mr. Curtis D. Smith fax # 915-686-6714

Re: SWN Baywatch "17" Fed Com #1
1310' FNL & 1310' FWL
Sec 17-23S-34E
Lea County, NM
Antelope Bay II Prospect

Gentlemen:

Southwestern Energy Production Company (SWN) proposes the drilling of a 12,600' Atoka Test at the captioned location as a W/2 spacing unit. According to Conoco Santa Fe owns an interest in Conoco's acreage in the SW/4 of Section 17.

You will find enclosed SWN's AFE relative to the drilling of said proposed well. If you are interested in participation SWN will gladly forward its standard Operating Agreement naming SWN as Operator. In the event you would rather farmout or sell please advise and SWN will negotiate. Since SWN has an interest that expires in the near term please consider an early response.

If you require further information do not hesitate to contact the undersigned landman.

Respectfully,


SG Thompson
Mba/sgt





United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL FIELD OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019

IN REPLY REFER TO:
3160 (3105.2-2)
NM-97157
LC-065194

New Mexico Oil Conservation Division
Attn: Mr David R. Catanach
2040 S. Pacheco
Santa Fe, New Mexico 87505

Re: NMOCD Case 12393
Application of Santa Fe Snyder Corporation
for Compulsory Pooling, Lea County, New Mexico

Dear Mr. Catanach,

This letter is in reference to the above case and the Bureau of Land Management's regulation and policy concerning the communitization of multiple leases when a single federal lease can be developed in conformity with established well spacing patterns.

Federal Regulation 43 CFR 3105.2-3 concerning communitizations or drilling agreements states the following:

3105.2-2 Purpose

When a lease or a portion thereof **cannot** be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

As stated in the regulation the objective of communitization is to provide for the development of separate tracts which cannot be independently developed or operated in conformity with well spacing patterns established in the area. As a general guideline communitization will not be authorized when a single Federal lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West spacing) pattern established by State order.

In certain instances the Bureau of Land Management will approve a communitization even though the lease can be independently developed in conformance with state established spacing if adequate engineering and/or geological data is presented to indicate that communitizing two or more leases or unleased Federal acreage will result in more efficient drainage of an area.

If you have any questions concerning this matter please call Alexis C. Swoboda, 505-627-0228.

Sincerely yours,

Larry D. Bray
Assistant Field Manager
Lands and Minerals Division

