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LEA SOUTH AREA
LEA CO., NEW MEXICO

DATE 11-8-89

CASE NO.

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

October 19, 1989

Chevron USA, Inc.
P. O. Box 1635
Houston, Texas 77251

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

EXHIBIT NO. 2

Re: Farmout Request
SW/4 Section 16,
T-21-S, R-35-E
Lea County, New Mexico
South Osudo Prospect

Attn: Mr. Ray M. Vaden

Gentlemen:

Santa Fe Energy Operating Partners, L.P. has acquired the South Osudo Prospect from Petro-Quest Exploration. At Santa Fe's request, Petro-Quest has attempted to negotiate a reasonable farmout covering Chevron's interest in the SW/4 of Section 16, T-21-S, R-35-E, Lea County, New Mexico.

Santa Fe proposes to drill a 12,400 Morrow test at a legal location in the W/2 of Section 16, T-21-S, T-35-E, Lea County, New Mexico. Santa Fe requests you support this test by (i) joining in the drilling of the proposed test or (ii) granting a farmout of your interest under the following general terms.

1. On or before 180 days from the date of a formal agreement Santa Fe will cause the drilling of a well at a legal location in the W/2 of Section 16 to a depth of 12,400' or sufficient to test the Morrow formation.
2. Upon completion of a well capable of commercial production, Santa Fe would earn 100% of Chevron's interest in the spacing unit from the surface to 100' below the total depth drilled.
3. Chevron would reserve an overriding royalty interest sufficient to deliver a 75% NRI lease to Santa Fe, with the option to convert the retained overriding royalty interest to a 25% working interest after payout of the initial test. (proportionately reduced)
4. Chevron would have a one time election on subsequent well to either retain its' overriding royalty interest or participate with its' after payout working interest.
5. All operations conducted on the spacing unit where Santa Fe and Chevron were working interest parties would be conducted under a mutually acceptable A.A.P.L. Form 610-1982 Model Form Operating Agreement.

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

Chevron USA, Inc.
October 19, 1989
Page 2

6. All contracts would be subject to management approval.

If Chevron elects to participate in the proposed test please let me know and I will forward a Well Cost Estimate and a Proposed Operating Agreement.

Should Chevron elect to farmout its' leasehold interest under the above proposed terms, please sign in the space provided below.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: 
Gary Green, Landman

Chevron USA, Inc. hereby agrees to Farmout its' leasehold acreage under the above proposed general terms.

By: _____

Title: _____

Date: _____

GG/pt

cc: Chevron USA, Inc.
P. O. Box 1150
Midland, Tx. 79702
Attn: Mr. Mickey Cohlma

pt1290



Chevron U.S.A. Inc.

P.O. Box 1635, Houston, TX 77251 • Phone (713) 754-2681

Ray M. Vaden
Land Representative
Interior Division
Land Department
Central Region

Petro-Quest Exploration
Attention: Mr. Steven Wentworth
P. O. Box 10016
Midland, TX 79702

July 17, 1989

BEFORE EXAMINER CATARIACH	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	2A
CASE NO.	9815

Farmout Request
SW $\frac{1}{4}$, Sec. 16, T21S-R35E
Lea County, New Mexico
Chevron Lease 0-15711-06
CN#3-02489
Osudo South Area

Gentlemen:

In reference to your letter of February 13, 1989 requesting a farmout of the captioned lands, please be advised that we will consider, subject to final management approval, the requested farmout.

In order to pursue the trade and secure Chevron's management approval of terms, we would like to clarify that our intent would be to offer a farmout of Chevron's operating rights based upon the following general terms and conditions:

Financial Information: This offer is made subject to receipt by Chevron of a current financial statement and written bank reference. Chevron reserves the right to withdraw this offer at any time if, in the opinion of Chevron, adequate financial responsibility is not shown.

Farmout Premises: The farmout premises will be that portion of the SW $\frac{1}{4}$ of Section 16, T21S-R35E, that is included in the drilling and spacing unit of the commercially productive initial test well and will be limited from the surface to the lesser of the base of the deepest formation found to be commercially productive in the initial test well, the total depth drilled, 50' below the deepest perforation, the base of the Morrow Formation, or 12,600' beneath the surface.

Initial Test Well: Within 120 days of the date of Chevron's Well Contribution Agreement, Petro-Quest Exploration shall commence drilling operations for a 12,600' Morrow test well at a legal location of farmouttee's choice within a drilling and spacing unit encompassing the SW $\frac{1}{4}$ of Section 16, T21S-R35E. Said well shall be drilled to a depth adequate to test the Morrow Formation or to a subsurface depth of 13,900 feet, whichever, is the lesser depth.

Interest Earned: Completion of the initial test well as a commercial producer will earn you 100% of Chevron's operating rights in the initial test well proration unit, not to exceed 40 acres for oil or 320 acres for gas.

ib 320

Interest Retained by Chevron: 1/8th of 8/8ths overriding royalty in the initial test well production until payout with the option of converting said override to either a 17.5% override or to a 50% working interest after payout of the initial test well. Any Chevron acreage not included in the initial test well's proration unit shall be retained by Chevron.

Call on Production: Shall be retained by Chevron.

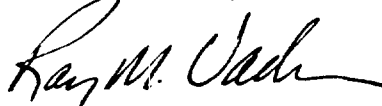
Logs: Although specific log requirements will be specified in the Well Contribution Agreement, in general, you will be required to supply the following logs for the initial test well: Compensated Neutron Formation Density Log with Gamma Ray, Borehole Compensated Sonic Log with Gamma Ray, and Resistivity log.

Additional Terms and Conditions: Should the parties agree to pursue a farmout of the captioned acreage, the trade will be subject to Chevron's standard terms, conditions, and agreements. All terms and conditions will be subject to final management approval prior to the execution of instruments covering the trade. Chevron makes no representation or warranties, express or implied, as to the title of this lease.

Upon your acceptance, we will recommend to management that the farmout be approved and the necessary instruments prepared. This offer is not exclusive and Chevron reserves the right to withdraw it without further notice to you. Unless we receive a firm commitment from you within thirty (30) days from the date hereof, this offer will automatically terminate after said thirty (30) day period.

Should you have any questions, please contact me at 713/754-2681.

Yours very truly,



Ray M. Vaden

RMV/tmh

13-Sep-89

0026

SANTA FE ENERGY COMPANY
GENERALIZED WELL COST ESTIMATE

NAME: P. Q. Osudo No. 2
LOC: Section 16-21S-35E, Lea County, New Mexico
DESC: Drill and complete a 12,400' Morrow Well

ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCER
501-000	TANGIBLE WELL COSTS		
-41	CONDUCTOR CSG	3,000	3,000
-41	SURFACE CSG	9,200	9,200
-41	PROTECTION CSG 13-3/8" @ 400'	102,080	102,080
-41	DRILLING LINER 9-5/8" @ 5,350'	160,320	160,320
-41	PROD CSG 7" @ 11,370'		
-41	PROD LINER 4-1/2" 11,000' - 12,400'		11,870
-42	TUBING 2-3/8" @ 12,400'		58,900
-43	WELLHEAD	5,000	25,000
-44	PMPG UNIT		
-45	PRIME MOVER		
-50	OTHER OWN HOLE EQUIP		11,000
-50	ROOS		
-50	SUBSURFACE PMPS		
-55	CSG EQUIP	1,000	1,000
-55	ELECTRICAL		
-55	MISC. TANGIBLES		
-55	ROD EQUIP		
-55	TUBING EQUIP		
	TOTAL TANGIBLE COSTS	280,600	382,370
541-000	LEASE FACILITY COSTS		
-50	FLOW LINES		5,000
-50	LABOR		9,000
-50	OTHER PROD EQUIP		25,200
-50	TANK FACILITIES		6,500
	TOTAL LEASE FACILITY COSTS	0	45,700
511-000	INTANGIBLE WELL COSTS		
-21	LOCATION	30,000	30,000
-22	FENCING	1,000	1,000
-26	WTR & FUEL FOR RIG		
-31	CONTRACTOR MOVING EXP	25,000	25,000
-32	CONT FOOTAGE OR TURNKEY		
-32	CONTRACTOR DAY WORK	170,000	170,000
-33	DRLG FLUID & ADDITIVES	50,000	50,000
-34	BITS & REAMERS	50,700	50,700
-36	CORING & CORE ANALYSES		
-37	CEMENT	68,000	79,000
-39	INSPECTION & TSTG OF TANG	10,000	10,000
-41	DIRECTIONAL DRLG SURVEYS	3,000	3,000
-42	DRILLING EQUIP RENTAL	30,000	30,000
-43	OPEN HOLE LOGGING	32,000	32,000
-44	DRILL STEM TSTG	10,000	10,000
-45	MUD LOGGING	15,750	15,750
-51	TRANSPORTATION	10,000	10,000
-52	COMPLETION UNIT		21,000
-53	COMPLETION TOOL RENTAL		15,000
-54	CASED HOLE LOGS & PERFIN		6,000
-55	STIMULATION		25,000
-56	RIG SITE SUPERVISION	15,600	20,800
-72	ADMINISTRATIVE OVERHEAD	10,000	15,000
-99	FSHG TOOLS & EXPENSES		
-99	TESTING: BHP, GOR, 4 PT. POT		5,000
	ABANDONMENT COST	15,000	
	OTHER INTANGIBLES		
0	CONTINGENCY (10%)	54,605	62,425
	TOTAL INTANGIBLES	600,655	686,675
	TOTAL COSTS	881,255	1,114,745

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

EXHIBIT NO. 3

CASE NO. 9815

Drilling Dept: *Michael R. Bunker*

Date: 9/13/89

Operations Dept: *Thomas E. Derry*

Date: 9-13-89

SFEC Approved By: *D.B. Kipert*

Date: 9-15-89

Non Operator Approval By: _____

Date: _____

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL P-566 806 498
Return Receipt Requested

October 24, 1989

Chevron USA, Inc.
P. O. Box 1635
Houston, Texas 77251

Attn: Mr. Ray M. Vaden

Re: W/2 Section 16,
T-21-S, R-35-E
Lea County, New Mexico

Gentlemen:

Attached is a copy of Santa Fe Energy Operating Partners, L.P.'s application for an order pooling all interest in the W/2 of Section 16, T-21-S, R-35-E, Lea County, New Mexico.

Should you have any questions, please give me a call.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By:


Gary Green, Landman

GG/pt

cc: Chevron USA, Inc.
P. O. Box 1150
Midland, Texas 79702
Attn: Mr. Mickey F. Cohlma

pt1293
Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	4
CASE NO.	9815

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P., FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

Case No. _____

APPLICATION

Santa Fe Energy Operating Partners, L.P., hereby makes application for an order pooling all interests from the surface to the base of the Morrow formation in the W $\frac{1}{2}$ of Section 16, Township 21 South, Range 35 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show:

1. Applicant is a working interest owner in the W $\frac{1}{2}$ of said Section 16.

2. Applicant proposes to drill a well in the W $\frac{1}{2}$ of Section 16, at a standard location, to the base of the Morrow formation, and seeks to dedicate the W $\frac{1}{2}$ of Section 16 to the well.

3. Applicant has in good faith sought to join all other mineral interest owners in the W $\frac{1}{2}$ of Section 16 for the purposes set forth herein.

4. Although Applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have refused to join in dedicating their acreage. Therefore, Applicant seeks an order pooling all mineral interest owners

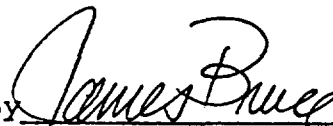
underlying the W $\frac{1}{2}$ of Section 16, pursuant to N.M. Stat. Ann. § 70-2-17 (1987 Repl.).

5. Applicant requests the Division to consider the cost of drilling and completing the well, the allocation of the cost thereof, as well as actual operating charges and costs charged for supervision. Applicant requests that it be designated as operator of the well and that the Division set a penalty of 200% for the risk involved in drilling the well.

6. The pooling of all interests underlying the W $\frac{1}{2}$ of Section 16 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

7. Applicant requests that this matter be heard at the November 15, 1989 Examiner hearing.

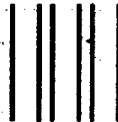
HINKLE, COX, EATON, COFFIELD &
HENSLEY

By 

James Bruce
500 Marquette, N.W.
Suite 740
Albuquerque, New Mexico 87102
(505) 768-1500

Attorneys for Applicant

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS



SENDER INSTRUCTIONS

Print your name, address and ZIP Code in the space below.

- Complete items 1, 2, 3, and 4 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.



PENALTY FOR PRIVATE
USE, \$300

RETURN
TO



Print Sender's name, address, and ZIP Code in the space below.

S. Osudg
Prospect
Gary Green

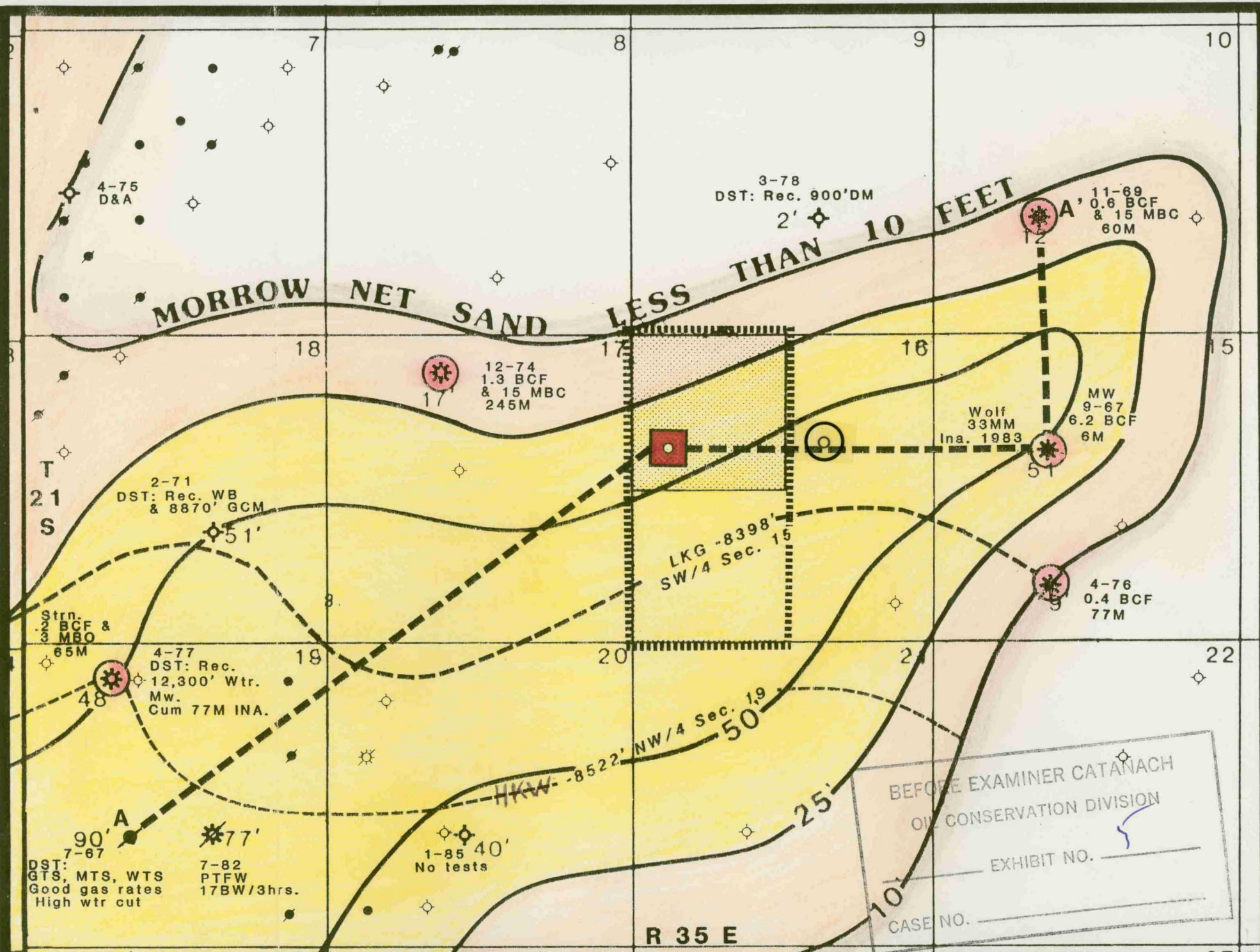
SANTA FE ENERGY

500 WEST ILLINOIS, SUITE 500

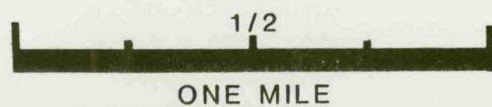
MIDLAND, TEXAS 79701



SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.	
1. <input checked="" type="checkbox"/> Show to whom delivered, date, and addressee's address. (Extra charge) 2. <input type="checkbox"/> Restricted Delivery (Extra charge)	
3. Article Addressed to: Chevron USA, Inc. P. O. Box 1635 Houston, Texas 77251 Attn: Mr. Ray M. Vaden	4. Article Number B-566 806 498 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X CURTIS NICKERSON	
7. Date of Delivery OCT 30 1988	



- SFEOP, LP ACREAGE
- PROPOSED LOCATION
- MORROW COMPLETIONS
- HKW --- HIGHEST KNOWN WATER
- LKG --- LOWEST KNOWN GAS
- 8/80
1.2BCF
287M
- COMPLETION DATE
CUM THRU 6-89
DAILY PROD.
- 51'
- FEET SAND W/GR \geq
60 API UNITS
- PRORATION UNIT



	SANTA FE ENERGY OPERATING PARTNERS, LP.
	PERMIAN BASIN DISTRICT MIDLAND, TEXAS
Lea South Area	
OSUDO SOUTH PROSPECT	
Lea County, New Mexico	
SOUTH OSUDO FAN NET SAND ISOPACH & PRODUCTION DATA	
C.I.: 25'	Date: 10-24-89

