Santa Fe Pacific Exploration Company Managing General Partner

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February 8, 1990

Oil Conservation Division P. O. Box 2088 Santa Fe, NM 87501

Attention: William J. LeMay OCD Director

> Re: Rule 309-A Exception State Lease No. LG-6977 Sharp Shooter 2 State No. 1 Sharp Shooter 2 State No. 2 Sharp Shooter 2 State No. 3

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) proposes to build a common battery to serve present and future wells on the referenced lease. All of the production that will go into the battery will be from the North Young Bone Spring Pool. All interests, including the State of New Mexico's royalty interest, are also uniform in all wells. The reason for making application now is due to Amoco's reversionary option in wells No. 2 and 3. At payout of each well, Amoco has the option to convert their current ORRI to a 3.125% WI. The proposed facility will provide accurate measurement to determine each well's production, sales, and revenue by periodic testing. The handling of payout calculations and potential future WI differences will therefore be satisfied.

In accordance with rule 309-B, SFEOP hereby requests exception to rule 309-A and administrative approval to commingle production from all North Young Bone Spring Pool wells on the subject lease. In fulfilment of rule 309-B, SFEOP makes the following statements:

- 1. All production is from the North Young Bone Spring Pool. Please see Attachments No. 1, 2, 3, & 4 showing plats of the leasehold, well location, and pool assignments.
- 2. Adequate facilities will be provided for accurately determining production from each well at reasonable intervals. Please see Attachment No. 5 showing proposed battery schematic.
- 3. All parties, except one, owning an interest in the lease, and the purchaser of the commingled production therefrom have consented in writing to the commingling. Please see Attachments No. 6, 7, & 8 showing corresondence with the referenced parties.

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

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Oil Conservation Division Page 2 February 8, 1990

- 4. The party owning an interest that has not responded is the New Mexico State Land Office. Their interest is uniform throughout the lease and for the entire life of the lease. They are not affected by this request. They were contacted by certified mail on January 10, 1990. See Attachments No. 9 & 10 showing copies of correspondence and certification of receipt.
- 5. The proposed battery is substantially in accordance with the Division's "Manual for the Installation and Operation of Commingling Facilities". See Attachment No. 5 showing proposed battery schematic.

Two additional copies of the application are included to satisfy Rule 309-B triplicate filing instructions. Please return the third enclosed copy upon approval for our files. Should you need further information or explanation, please contact either myself or Patrick Gaume, Sr. Production Engineer, at this office.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, LP By Santa Fe Pacific Exploration Company as Managing General Partner

By Thomas E. Gentry /C

District Operations Manager

PJG:dw-2044

Attachments

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DISTRICT I P.O. Box 1980, Hobbs, NM 88240

DISTRICT II P.O. Drawer DD, Artesia, NM 88210

DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410

State of New Mexico (Linergy, Minerals and Natural Resources Department

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ATTACHMENT 2 OF 10

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT All Distances must be from the outer boundaries of the section

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.nit to Appropriate .strict Office .state Lease - 4 copies Fee Lease - 3 copies

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DISTRICT I P.O. Box 1980, Hobbs, NM 88240

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Sec. 12

DISTRICT II P.O. Drawer DD, Antesia, NM 88210

DISTRICT III 1000 Rio Brazos Rd., Aziec, NM 87410

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ŧ State of New Mexico Energy, Minerals and Natural Resources Department

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OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

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<u>STRICT I</u> P.O. Box 1980, Hobbs, NM 88240

DISTRICT II P.O. Drawer DD, Artesia, NM 88210

DISTRICT III

State of New Mexico inergy, Minerals and Natural Resources Depan t

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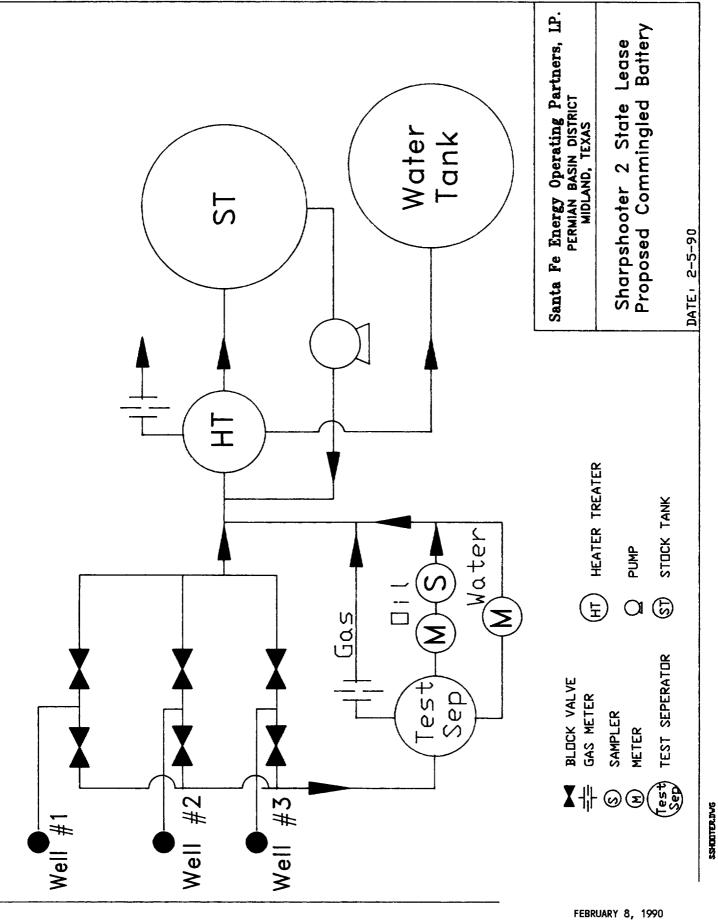
OIL CONSERVATION DIVISION P.O. Box 2088

Santa Fe, New Mexico 87504-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT

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STATE LEASE NO. LC-6977 ATTACHMENT 4 OF 10



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RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 5 OF 10

Santa Fe Pacific Exploration Company Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

Amoco Production Company P.O. Box 3092 Houston, Texas 77253

ATTN: Tim Custer

Re: OD-NM-617,202 Central Battery Sharpshooter "2" State #1 Sharpshooter "2" State #2 Sharpshooter "2" State #3 Lea County, New Mexico Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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

FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 6 OF 10 Page 1 of 2 Page 2 Amoco Production Company January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

By: Patrick J. Tower, Senior Landman

1

RECEIVED

FEB - 51990

LAND DEPT.

MIDLAND, TX

PJT/efw

AGREED TO AND ACCEPTED this <u>3</u>| day of January, 1990.

AMOCO PRODUCTION COMPANY

By:

Title: LANDMAN

RETURN THIS COPY TO SANTA FE ENERGY OPERATING PARTNERS, L.P.

Santa Fe Pacific Exploration Company Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

Mitchell Energy Corporation Independence Plaza 400 West Illinois, Suite 1000 Midland, Texas 79701

ATTN: Larry Cunningham

Re: OD-NM-617,270 Central Battery Sharpshooter "2" State #1 Sharpshooter "2" State #2 Sharpshooter "2" State #3 Lea County, New Mexico Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

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

FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 7 OF 10 Page 1 of 2 Page 2 Mitchell Energy Corporation January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

Tower, Senior Landman By: Patrick J.

PJT/efw

AGREED TO AND ACCEPTED this \Im day of January, 1990.

MITCHELL ENERGY CORPORATION

By: <u>E. R. Earla</u> Title: <u>Dist - Prod. Mgr.</u>

RECEIVED JAN - 9 1990 LAND DEPT. MIDLAND, TX

RETURN THIS COPY TO SANTA FE ENERGY OPERATING PARTNERS, L.P.

FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 7 OF 10 Page 2 of 2



Texaco Trading and Transportation Inc P O Box 60628

P O Box 60628 Midland TX 79711-0628 915 563 1313

January 3, 1990

Santa Fe Energy Company Mr. Pat Gaume 500 West Illinois Midland, Texas 79701

RE: <u>Sharp Shooter 2 State</u> TTTI#81955 Lea County, New Mexico

Mr. Gaume:

This will serve as our consent for commingling of wells 1 and 2 from the above referenced lease. If I may be of any further assistance please call me.

Very truly yours,

Thomas J. Savage

Thomas J. Savage Manager Business Development

cc: John Munsch 1616 South Voss Suite 700 Houston, Texas 77057

> FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 8 OF 10

Santa Fe Pacific Exploration Company Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

New Mexico State Land Office P.O. Box 1148 Santa Fe, New Mexico 87501

ATTN: Floyd Prando

Re: OD-NM-617,270 OD-NM-617,202 Central Battery Sharpshooter "2" State #1 Sharpshooter "2" State #2 Sharpshooter "2" State #3 Lea County, New Mexico Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

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

FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 9 OF 10 Page 1 of 2 Page 2 New Mexico State Land Office January 5, 1990

facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

YOUN atrick By: Patrick J, Tower, Senior Landman

PJT/efw

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AGREED TO AND ACCEPTED this _____ day of January, 1990.

STATE OF NEW MEXICO

By:____

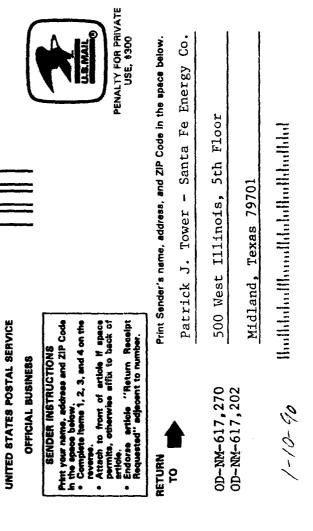
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FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 9 OF 10 Page 2 of 2

EFW834-3

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FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 10 OF 10 Page 1 of 2



FEBRUARY 8, 1990 RULE 309-A EXCEPTION STATE LEASE NO. LC-6977 ATTACHMENT 10 OF 10 Page 2 of 2

Santa Fe Pacific Exploration Company Managing General Partner

1010

April 2, 1990

Oil Conservation Division P. O. Box 2088 Santa Fe, NM 87501 CASE FILE- 9923

Attention: William J. LeMay OCD Director

> Re: Rule 309-A Exception State Lease No. LG-6977 Sharp Shooter 2 State No. 1 Sharp Shooter 2 State No. 2 Sharp Shooter 2 State No. 3

Gentlemen:

By letter of February 8, 1990, Santa Fe Energy Operating Partners, L.P. (SFEOP) made application for a Rule 309-A Exception for the subject lease. The February 8th letter, with its ten attachments, addressed the requirements of Rule 309-B, and included approval letters from the oil transporter and all interest owners <u>except</u> the royalty interest owner, The State of New Mexico Land Office.

We have now received a favorable response from the New Mexico State Land Office. They do not oppose our request for a single battery. Please find attached a copy of the New Mexico State Land Office letter dated March 21, 1990, and other pertinent correspondence between SFEOP and the New Mexico State Land Office. We request that this letter with attachments be added to our letter of February 8, 1990, and become part of our Rule 309-A Exception application for State Lease No. LG-6977.

Sincerely,

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

By Patrick Jung Jan

Patrick J. Gaume Sr. Production Engineer

PJG:dw-2114

Attachments

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



State of New Mexico Commissioner of Public Lands

March 21, 1990

W. R. Humphries COMMISSIONER

ACIMINODIOLI ELI	Santa Ro Fn	ergy Operating Partners, L.P.
Advisory Board	Permian Bas:	
George Clark Chairman	500 W. Illin Midland, TX	nois Suite 500 79701
Kristin Conniff Vice Chairman	Re:	State of New Mexico Lease No. LG-6977
Melvin Cordova Joe Kelly	Attn:	Patrick J. Gaume
Robert Portillos Nancy Lynch Vigil	Dear Sir:	
Rex Wilson		is in reply to your letter of March 1.

requesting an opinion about commingling on the above referenced lease.

5, 1990,

The lessee of record for LG-6977 is Amoco Production Company. The lease encompasses lots 1-4, S1/2N1/2, NW1/4SW1/4, N1/2SE1/4, and the SE1/4SE1/4 of section 2, Township 18S, Range 32E. As long as all the production that is sold from this lease comes only from the lease premises as above described, and as long as the production is from the same formation or pool, then the lessee does not need permission from the Commissioner of Public Lands to sell that production using a single point of sale. Any other situation requires the Commissioner's approval.

Since the Commissioner does not recognize or approve undivided interests in oil and gas leases issued on state trust lands, reversionary interests, overriding royalty interests, or working interests do not affect the lessee's right to produce and market hydrocarbons from the lease. The lessee (in this case Amoco Production Company) is held solely responsible for payment of all royalties, and for compliance with all lease terms and conditions.

If you should have any other questions, please do not hesitate to contact us.

Sincerely,

W. R. HUMPHRIES COMMISSIONER OF PUBLIC LANDS BY: HarrowFLOYD O. PRANDO, Director Oil, Gas and Minerals Division (505) 827-5744

WRH/FOP/BS/dj

cc: Susan Howarth

Santa Fe Pacific Exploration Company Managing General Partner

March 15, 1990

CERTIFIED - RETURN RECEIPT REQUESTED

New Mexico State Land Office P. O. Box 1148 Santa Fe, New Mexico 67501

Attention: Susan Howarth

Re: NMOCD Rule 309-A Exception State Leas No. LG-6977 Central Battery Sharpshooter "2" State #1 Sharpshooter "2" State #2 Sharpshooter "2" State #3 Lea County, New Mexico SFEOP January 5, 1990 Letter NM Land Office 2-2-90 Letter

Dear Susan:

As we discussed in our telephone conversation of March 14th, Santa Fe Energy Operating Partners, LP's (SFEOP) letter of January 5, 1990 was not as clear as it could have been in expressing why SFEOP wanted the royalty interest owner, (New Mexico State Land Office), to approve the building of a central battery on a single lease, to serve wells drilled in that lease, in which all wells produce from the same oil pool.

The reason is that Amoco farmed out the lease to SFEOP and retains a reversionary option in Well Nos. 2 and 3. At payout of these wells, Amoco has the option to convert their current ORRI to a 3.125% working interest. Except for Amoco's reversionary option we would have a single lease with all wells in that lease producing from a common pool, and all interests, (WI, RI, & ORRI), would be uniform for all wells in the lease. A11 interests are uniform today, and may stay uniform throughout the life of the lease, but if Amoco exercises its option in either well, then the working interest (WI) would become slightly different between wells in this lease. Because a change in WI could happen, SFEOP has decided to apply for a NMOCD Rule 309-A Exception, before the fact, you might say. To get a rule 309-A exception one must fulfill rule 309-B. Rule 309-B requires that all interest owners, (WI, RI & ORRI), and the oil transporter be contacted and their approval requested for a central battery. Approval for a Rule 309-A Exception is more liklely if all parties approve and return the central battery request letter. Our January 5, 1990 letter was a central battery request letter.

Permian Basin District 500 W. Illinois Suite 500 Midland, Texas 79701 915/687-3551 As we discussed on the phone, and as this letter explains, SFEOP's request is not applicable to the New Mexico State Land Office Rule Nos. 1.053, 1.054, nor 1.055. To our knowledge, our request is applicable only to NMOCD Rule 309-B.

In accordance with NMOCD Rule 309-B SFEOP requests your approval to build a central battery to be built within the boundaries of a single lease, namely, State Lease No. LG-6977, to serve wells drilled in said subject lease, and that all wells served by this battery will produce from the same oil pool, namely, the North Young Bone Spring Pool. Please indicate your consent to this request by signing this letter in the space provided below and returning the original to the undersigned.

Your immediate approval is most appreciated.

Should you have any questions, please feel free to call me at 915/687-3551.

Sincerely yours,

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

Patrick J. Gaume

Patrick J. Gaume Senior Production Engineer

PJG:s1-1211

AGREED TO AND ACCEPTED this ____ day of March, 1990.

STATE OF NEW MEXICO

Ву:

Title:









W.R. HUMPHRIES

Commissioner of Public Lands

P.O. BOX 1148 SANTA FE, NEW MEXICO 87504-1148

February 2, 1990

Santa Fe Energy Operating Partners, L.P. 500 W. Illinois, Suite 500 Midland, Texas 79701

VD	TP
PT 2/8	DBK
GG	DB
EW	DF
PR	DRFT
File	

ATTN: Mr. Ratrick Tower

RE: Request to Commingle

Gentlemen:

We received your letter dated January 5, 1990 wherein you request to commingle production from Sharpshooter "2" State Wells #1, 2, and 3. We must reserve approval at this time because your application did not contain all the necessary information.

We have enclosed copies of the State Land Office Rules that address commingling. Rule 1.055 lists the information that is required for approval of a request to commingle by the Commissioner of Public Lands. Your request can be processed as soon as we receive this information.

If you have any questions, please contact Susan Howarth at (505) 827-5791.

Very truly yours,

W.R. HUMPHRIES, COMMISSIONER OF PUBLIC LANDS

BY: - 1 Coylo Main

FLOYD D. PRANDO, Director Dil and Gas Division (505) 827-5744

STATE LAND OFFICE RULES 1.053 AND 1.054

COMMINGLING AND OFF LEASE STORAGE OF OIL AND GAS ON STATE TRUST LANDS

1.053 <u>Commingling</u> <u>Prohibited--Different</u> <u>Beneficiary</u> <u>Institutions.</u>

It is required that all production of oil or gas or both from lands belonging to different trust beneficiaries shall be segregated. The commingling, confusion, or the intercommunication of such production by the use of common tankage facilities, before marketing, with the production from any other trust lands or any lands not belonging to the State of New Mexico is strictly prohibited.

1.054 <u>Commingling Allowed--Off</u> Lease <u>Storage--Grandfather</u> <u>Clause.</u>

A. Except as provided in Rule 1.053, commingling of oil and gas production, including downhole commingling, if properly metered or allocated and accounted for, may be permitted within the discretion of the Commissioner only after his receipt of a written application containing the information specified in Rule 1.055 and application fee as set in Rule 1.067.

B. Off lease storage of production may be permitted within the discretion of the Commissioner, if there shall be no commingling or intercommunication of production between handling, separation, treatment or storage facilities, only after his receipt of a written application containing the information specified in Rule 1.055 and an application fee as set in Rule 1.067.

C. Oil and gas lessees commingling or off lease storing production, or both, on the effective date of this Rule, without the written approval of the Commissioner, may continue to do so provided that within 90 days after the effective date of this Rule such lessees submit to the Commissioner in writing the information requested in Rule 1.055 together with the date such commingling or off lease storage began. Failure to comply with this regirement shall be considered grounds for cancellation of the pertinent lease or leases.

STATE LAND OFFICE RULE 1.055

COMMINGLING AND OFF LEASE STORAGE OF OIL AND GAS ON STATE TRUST LANDS

1.055 <u>Application</u> for <u>Permission</u> to <u>Commingle</u> or <u>Off Lease</u> <u>Store Production</u>. Applications for permission to commingle or off lease store production shall be directed to the Commissioner and shall include:

- A. Formal application stating the type of permission desired and the reason therefor, accompanied by an application fee of thirty dollars (\$30.00).
- B. Plat showing the location of leases, wells , flow lines and common tankage. All plats and diagrams should differentiate between surface and underground pipe.
- C. A list of the involved leases arranged by their State Land Office Lease Number, their legal description, and including state beneficiaries.
- D. A designation of the pool from which each well produces.
- $\underbrace{\mathcal{K}}_{}$ E. An economic analysis of proposed operation showing profit or loss to the State of New Mexico.
- F. Schematic diagram of entire system from production manifold to pipeline connection showing position of all components of flow stream.
- G. Detail drawing(s) of any component which is specifically fabricated; i.e., not commercially available.
- $-\frac{1}{2}$ H. Description of the operating sequence explaining the complete operation.
- $\underline{}$ I. Any other pertinent data that will assist the Commissioner in deciding upon the application.
- * We have NOT received this information as of $\frac{2/2/90}{(\text{New Mexico State Land Office Oil and Gas Division.)}}$

Santa Fe Pacific Exploration Company Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 5, 1990

RECEIVED JAN 10 8 34 AM '90 STATE " MAR REFERE

New Mexico State Land Office P.O. Box 1148 Santa Fe, New Mexico 87501

ATTN: Floyd Prando

Re: OD-NM-617,270 OD-NM-617,202 Central Battery Sharpshooter "2" State #1 Sharpshooter "2" State #2 Sharpshooter "2" State #3 Lea County, New Mexico Swat Prospect

Gentlemen:

Santa Fe Energy Operating Partners, L.P. (SFEOP) plans to submit an application for administrative approval to the New Mexico Oil Conservation Division (OCD) seeking an exception to Rule 309-A to permit the commingling of production into a central battery for the three (3) referenced wells. Currently SFEOP has a central battery set up for the Sharpshooter "2" State #1 Well. It would be Santa Fe's plan to lay flow lines from the No. 2 and 3 wells into the No. 1 battery. Estimates would entail \$15,000.00 for flow lines, \$15,000.00 for a metering three phase separator, and possibly another \$15,000.00 for another heater treater. Savings would be \$99,000.00 to \$114,000.00. In addition we would also save an approximate \$2,400.00 per well per year in pumper costs, due to increased efficiency of the lease. SFEOP spent \$72,165.00 to build the battery in the Sharpshooter "2" #1. Allocation of well production and subsequent revenues would be based on total battery production and periodic well tests each month. The same field test unit would measure the oil, water, and gas production from each well, thus allowing for minimal error in measurement.

As can be seen, by centralizing into the No. 1 Battery all parties involved will reduce their expenses and thus help expedite the payout of these wells. All interests, including the State of New Mexico's royalty is uniform in all three wells. The only difference being that Amoco has a payout on the #2 and #3, with their ORRI convertible to a 3.125% WI After Payout.

In this regard, it is requested that you consent to the commingling of production by signing this letter in the space provided below and returning the original to the undersigned. As Santa Fe currently has temporary

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facilities in place, your immediate approval is most appreciated.

Should you have any questions, please feel free to call myself or Pat Gaume (Engineer) at the below listed number.

Sincerely yours,

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

By J, Tower, Senior Landman Patrick

PJT/efw

AGREED TO AND ACCEPTED this _____ day of January, 1990.

STATE OF NEW MEXICO

By:_____

Title:_____