

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY,
MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF
SHAHARA OIL LLC FOR (1) CREATION OF A
TERTIARY RECOVERY PROJECT FOR THE
GRAYBURG-JACKSON PREMIER SAND UNIT,
(2) APPROVAL OF TWO UNORTHODOX WELL
LOCATIONS, AND (3) QUALIFICATION OF
THAT PROJECT FOR THE RECOVERED
OIL TAX RATE, EDDY COUNTY, NEW MEXICO.

CASE NO. 12445

OIL CONSERVATION DIV.
00 MAY 24 AM 10:21

APPLICATION

SHAHARA OIL LLC, a New Mexico limited liability company, the "Applicant", whose address is 207 W. McKay, Carlsbad, New Mexico 88220, applies for an Order (1) creating a tertiary recovery project using micro-emulsion flooding for enhanced recovery of oil from the Grayburg-Jackson Premier Sand Unit in Eddy County, New Mexico, (2) approving two new proposed unorthodox well locations, and (3) qualifying that project for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act. In support thereof, Applicant states:

1. Applicant is the operator and project manager for AROC (Texas) Inc. and Stanley L. Atnipp, the owners of one hundred percent (100%) of the operating rights in and to the Grayburg-Jackson Premier Sand Unit covering the following described lands (960 acres, more or less) in Eddy County, New Mexico, to wit:

Township 17 South, Range 30 East, N.M.P.M.

Section 27: W/2, W/2SE/4, SE/4SE/4
Section 28: E/2NE/4, SE/4
Section 33: N/2NE/4,
Section 34: N/2N/2
Section 35: NW/4NW/4

2. By Order No. R-2749, dated July 29, 1964, the Oil Conservation Commission authorized General American Oil Company of Texas to institute a waterflood project in the

Grayburg-Jackson Pool into the Premier Sand underlying those lands heretofore described. A copy of that Order R-2749 is attached hereto, marked Exhibit "A." Those land are within the Grayburg-Jackson Seven Rivers, Queen, Grayburg, San Andres Pool, as defined by the Commission.

3. The Unit Area has heretofore been operated under the terms and provisions of that certain Unit Agreement dated as of December 10, 1964, duly approved by the Director, United States Geological Survey. A copy of that Unit Agreement is attached hereto, marked Exhibit "B." Those operations will continue after entry of the Order herein requested.

4. A plat of the Unit Area is attached hereto, marked Exhibit "C." The project involves the drilling of 11 new producing wells and one new injection well, and the conversion of 10 currently existing well bores to injection wells. A list of the project's 21 producing wells is attached hereto, marked Exhibit "D." A list of the project's 14 injection wells is attached hereto, marked Exhibit "E." The wells so listed on Exhibits "D" and "E" are identified both by name and location, with further explanation of whether the same are new wells to be drilled, current wells to be converted, or current producers or injectors which will remain as such.

5. As part of the project, Applicant intends to drill one new producing well and convert an existing well bore to an injection well at unorthodox locations. Those two wells are well 1 (MA No. 7) on Exhibit D (a new producing well to be drilled) and well 14 (MA No. 2) on Exhibit E (an existing well bore to be converted to an injection well). The operating rights to the Premier Sand Formation underlying the W/2 NE/4 Section 28 adjacent to those two unorthodox locations are owned by AROC (Texas) Inc. and Stanley L. Atnipp, who as aforestated in paragraph 1, are the owners of the operating rights in and to the Grayburg-Jackson Premier Sand Unit.

6. The water to be used as make-up water for the project will be water from the project's producing wells and water purchased from other operators in the area. No fresh water would be used.

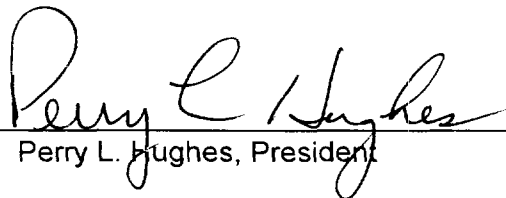
7. Applicant proposes micro-emulsion flooding into the Unitized Formation which will, with reasonable probability, prevent waste and result in increased recovery of an estimated 1,530,300 barrels of oil and 256,320 MCF of gas from the Unitized Formation over the life of the project which is estimated to be 15 years. This additional recovered production would have an estimated value of \$39,610,072.

8. The estimated costs of the proposed project are \$7,200,070, which includes capital expenditures of \$2,962,115 and operating costs of \$4,237,955. Thus, after payment of production taxes of \$2,962,092 and deduction of royalty, the future net working interest income over the life of the project would be \$24,941,975.

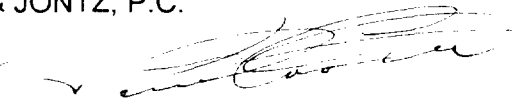
WHEREFORE, Shahara Oil LLC requests that this Application be set for hearing before one of the Division's Hearing Examiners at the earliest possible date and that after proper notice and such hearing, the Division enter its Order (1) approving the proposed tertiary recovery project using micro-emulsion flooding for enhanced recovery of oil from the Grayburg-Jackson Premier Sand Unit in Eddy County, New Mexico, (2) approving the two unorthodox well locations heretofore described, and (3) qualifying the project for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act.

Respectfully submitted,

SHAHARA OIL LLC

By  _____
Perry L. Hughes, President

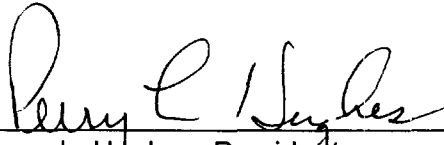
EASTHAM JOHNSON MONNHEIMER
& JONTZ, P.C.

By  _____

Paul A. Cooter
PO Box 1276
Albuquerque, NM 87103

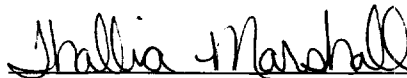
STATE OF NEW MEXICO
COUNTY OF EDDY

Perry L. Hughes, being duly sworn upon his oath, states that he is the President of Shahara Oil LLC, a New Mexico limited liability company, that he is familiar with the matters and facts set forth in the foregoing Application, including Exhibits "A" through "E" attached hereto and that the same are true and correct.



Perry L. Hughes, President
Shahara Oil LLC

Subscribed and sworn to this 22nd day of May, 2000.



Notary Public

My commission expires:

11/06/00