



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson

Governor

Joanna Prukop

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

January 8, 2003

Saga Petroleum L.L.C.
415 West Wall – Suite 1900
Midland, Texas 79701

Telefax No. (915) 684-4285

Attention: Bonnie Husband
bhusband@sagapetroleum.com

RE: NMOCD Correspondence Reference No. SD-03-01: *Hobbs-Drinkard Pool (31730) development within the existing non-standard 80-acre stand-up oil spacing and proration unit comprising the SW/4 NE/4 (Unit G) and NW/4 SE/4 (Unit J) of Section 33, Township 18 South, Range 38 East, NMPM, Lea County, New Mexico.*

Dear Ms. Husband:

Reference is made to the following: (i) the file on Division Administrative Order DHC-3086, dated December 12, 2002 (*application reference No. pKRV0-234656309*); (ii) Saga Petroleum, L.L.C.'s ("Saga") administrative application filed on December 23, 2002 (*application reference No. pKRV0-235835106*) for an unorthodox wildcat Tubb gas well location for the existing Conoco State Well No. 3 (**API No. 30-025-35961**), located in Unit "J" of Section 33, Township 18 South, Range 38 East, NMPM, Lea County, New Mexico; (iii) my letter to you concerning this well and these two applications dated December 27, 2002; (iv) your telefaxed response of January 8, 2003 with a copy of the amended Division form C-102 depicting the 80 acres comprising the SW/4 NE/4 and NW/4 SE/4 of Section 33 as the dedicated acreage for this well in the Hobbs-Drinkard Pool, all of which serve to confirm Saga's plans for the development of the Drinkard formation within the above-described 80-acre non-standard oil spacing and proration unit, which was approved by Division Order No. R-4166, issued in Case No. 4564 on July 7, 1971. For administrative and record keeping purposes this matter I will be assigned application reference **No. pMES0-300859887**.

The rules currently governing spacing, well locations, gas/oil ratio limitation, and allowables for the Hobbs-Drinkard Pool include, but not necessarily limited to:

- (a) the "*Special Rules and Regulations for the Hobbs-Drinkard Pool*", as promulgated by Division Order No. R-3811, as amended; and
- (b) Division Rules 104 and 505.A.

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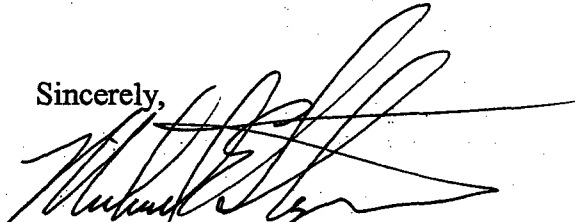
It is our understanding that oil and casinghead gas production attributed to the Hobbs-Drinkard Pool within this non-standard 80-acre unit is to be simultaneously dedicated to the following two wells:

(1) the existing Conoco State Well No. 1 (API No. 30-025-23759), located at a standard oil well location 1980 feet from the North line and 2130 feet from the East line (Unit G) of Section 33; and

(2) the aforementioned Conoco State Well No. 3 located at a standard infill oil well location 2110 feet from the South line and 2055 feet from the East line (Unit J) of Section 33.

Furthermore, the provisions set forth in Division Administrative Order DHC-3086 shall remain in full force and affect until further notice.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe
William F. Carr, Legal Counsel for Saga Petroleum, L.L.C. – Santa Fe
Wil Jones, NMOCD – Santa Fe
File: DHC-3086