



Saga. 01
NEW MEXICO ENERGY, MINERALS and
NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

January 23, 2003

File Copy
Lori Wrotenbery
Director
Oil Conservation Division

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

Attention: Bonnie Husband

Re: *Administrative application for Saga Petroleum L.L.C.'s ("Saga") proposed State Land Section 32 Well No. 10 to be drilled at an unorthodox Drinkard oil well location within the E/2 SE/4 of Section 32, Township 18 South, Range 38 East, NMPM, Hobbs-Drinkard Pool (31730), Lea County, New Mexico, being a standard 80-acre stand-up oil spacing and proration unit for the Hobbs-Drinkard Pool, 2223 feet from the South line and 860 feet from the East line (Unit I) of Section 32.*

Dear Ms. Husband:

This letter acknowledges receipt of Saga's formal administrative application dated January 14, 2003. The Division received this application on January 17, 2003, and assigned it NMOC Administrative application reference No. pMES0-301763322. Please refer to this number in future correspondence with the Division.

My preliminary review indicates that the information provided in your application is not sufficient to process an administrative order at this time. It appears that your application is incomplete with respect to: (i) notice [please refer to Division Rule 1207.A (2) (see copy attached)]; and (ii) details as to why a standard location to the south of Saga's existing State Land Section 32 Well No. 8 (API No. 30-025-07542) would not be an acceptable location.

Review of the Division's records indicate there are only two Hobbs-Drinkard producing oil wells within the E/2 of Section 32: (i) Apache Corporation's State Well No. 5 (API No. 30-025-23116), located at a standard oil well location within a standard 80-acre lay-down oil spacing and proration unit comprising the N/2 NE/4 of Section 32, which is also a single state lease issued by the New Mexico State Land Office (State Lease No. A-01469), 660 feet from the North and East lines (Unit A) of Section 32; and (ii) of course Saga's State Land Section 32 Well No. 9 (API No. 30-025-23309), located at a standard oil well location within a standard 80-acre stand-up oil spacing and proration unit comprising the W/2 SE/4 of Section 32, which is also a single state lease (State Lease No. A-02747), 2130 feet from the South line and 1980 feet from the East line (Unit J) of Section 32. Since Saga's proposed State Land Section 32 Well No. 10 is to be dedicated to the E/2 SE/4 of Section 32, which is also a single state lease (State Lease No. A-01159), in order to form a standard 80-acre stand-up oil spacing and proration unit for the Hobbs-Drinkard Pool, therefore the remaining 80 acres comprising the S/2 NE/4 of Section 32, which is also a single state lease (State Lease No. A-01118), appears not to have an operating Hobbs-Drinkard oil well. I find that within the S/2 NE/4 of Section 32 OXY Permian Ltd. operates wells completed in the Hobbs-Grayburg San Andres Pool, Byers-Queen Gas Pool, Hobbs-Upper Blinebry Pool, Hobbs-Lower Blinebry Pool, and Hobbs-Paddock Pool, but no Hobbs-Drinkard oil wells. Therefore, under Division Rule 1207.A(2) (a). 1 (see copy attached) there is no **designated Drinkard operator** within this adjoining 80-

acre oil unit. This means that Division Rules 1207.A (2) (a). 2 and 3 apply. Please identify and list all working interest in the Drinkard interval within the S/2 NE/4 of Section 32 and provide proof of notice as required.

With regards to Saga's offsetting unit to the west in the W/2 SE/4 of Section 32, Division Rule 1207.A (2) further goes on to say:

"In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit".

Please identify the working interests within this offsetting 80-acre unit and either provide adequate notice to them or explain why notice is not required in this case.

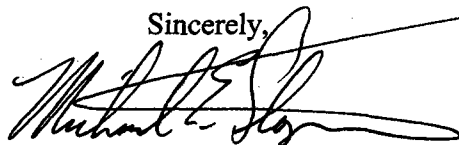
From the information provided and the diagram submitted there appears to be no reasons given why a standard location south of Saga's No. 8 well could not be drilled and still satisfy your geological parameters. Please provide a more detailed explanation and if necessary another plat of the entire NE/4 SE/4 (Unit I) of Section 32 that shows all topographic features.

Since the submitted information is insufficient to review, the application was ruled as incomplete on January 23, 2003. Please submit the above stated information by Friday, January 31, 2003.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. The additional information can be faxed to (505) 476-3471, or mailed to the Division in Santa Fe. If the necessary information is not submitted, your application will be returned to you.

Should you have any questions concerning this matter you will first want to contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421, or you may contact me in Santa Fe at (505) 476-3465 or e-mail me at "mstogner@state.nm.us." Thank you.

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

- (d) All unopposed pooling applications will be set for hearing. If the Division finds the application complete, the information submitted with the application will constitute the record in the case and an order will be issued based on the record. [Rn, 19 NMAC 15.N.1207.A.(4), 7-15-99, A, 7-15-99]
- (e) At the request of any interested person or upon the Division's own initiative, any pooling application submitted shall be set for full hearing with oral testimony by the applicant. [Rn, 19 NMAC 15.N.1207.A.(4), 7-15-99; A, 7-15-99]

*Division Rule
1207.A.*

(2) Unorthodox Well Locations: [1-1-87...2-1-96; Rn, 19 NMAC 15.N.1207.A.(5), 7-15-99; A, 7-15-99]

- (a) Definition: "Affected persons" are the following persons owning interests in the adjoining spacing units:
- (i) the Division-designated operator;
 - (ii) in the absence of an operator, any lessee whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application is filed; and
 - (iii) in the absence of an operator or lessee, any mineral interest owner whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application was filed.

In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit. [1-1-87...2-1-96; N, 7-15-99]

- (b) If the proposed location is unorthodox by being located closer to the outer boundary of the spacing unit than permitted by rule, notice shall be given to the affected persons in the adjoining spacing units towards which the unorthodox location encroaches. [Rn, 19 NMAC 15.N.1207.A.(5).(a), 7-15-99, A, 7-15-99]
- (c) If the proposed location is unorthodox by being located in a different quarter-quarter section or quarter section than provided in special pool orders, notice shall be given to all affected persons. [Rn, 19 NMAC 15.N.1207.A.(5).(a), A, 7-15-99]

(3) Non-Standard Proration Unit:

Notice shall be given to all owners of interests in the mineral estate to be excluded from the proration unit in the quarter-quarter section (for 40-acre pools or formations), the one-half quarter section (for 80-acre pools or formations), the quarter section (for 160-acre pools or formations), the half section (for 320-acre pools or formations), or section (for 640-acre pools or formations) in which the non-standard unit is located and to such other persons as required by the Division. [1-1-87...2-1-96; Rn, 19 NMAC 15.N.1207.A.(6), 7-15-99, A, 7-15-99]

(4) Special Pool Orders Regulating or Affecting a Specific Pool:

- (a) Except for non-standard proration unit applications, if the application involves changing the

Stogner, Michael

From: Stogner, Michael

Sent: Friday, January 31, 2003 4:29 PM

To: 'Bonnie Husband'

Subject: RE: State Land Section 32 Well No. 10

I did not receive a response to my letter of January 23rd. Did I miss it or do you require additional time?

1/31/2003

Stogner, Michael

From: Bonnie Husband [bhusband@sagapetroleum.com]
Sent: Monday, February 03, 2003 7:03 AM
To: Stogner, Michael
Subject: Re: State Land Section 32 Well No. 10

Just received record search data - list of mineral interest owners from Mike O'Brien on Jan 31st, will mail letters to that list advising them of Saga's NSL today. You did not mention location staked at the NSL because of Duke PL and power lines - only that geological reasoning was not sufficient to warrant the NSL in your letter.

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Sent: Friday, January 31, 2003 5:29 PM
Subject: RE: State Land Section 32 Well No. 10

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2/3/2003

Stogner, Michael

From: Stogner, Michael
Sent: Wednesday, February 05, 2003 9:35 AM
To: 'Bonnie Husband'
Subject: RE: State Land Section 32 Well No. 10

In my of January 23, 2003 I stated "From the information provided and the diagram submitted there appears..." The "diagram" I refer to is your drawing of the pipelines and power lines. From this drawing I can not determine why Saga can not move the well further south and east to avoid these obstructions. Perhaps a more detailed map showing all obstructions within the NE/4 SE/4 (Unit I) of Section 32 could clarify this matter. I'll move this deadline for completing this application back until Thursday, Feb. 13th.

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From: Bonnie Husband [bhusband@sagapetroleum.com]
Sent: Wednesday, February 05, 2003 10:13 AM
To: Stogner, Michael
Subject: Re: State Land Section 32 Well No. 10

I have contacted John West Engineering to provide a 1x1000' topo map w/all obstructions on same, I believe I called him on Monday. Should receive map by early next week, I would imagine - did say they had some aerial photos of this area also. WI in the W/2 SE/4 are same, Saga LLC, Saga Corp & Forest Oil Corp. Waiting on this topo map before furnishing list of interest owners in the W/2 SE/4 and S/2 NE/4 to you.

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