

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12417
ORDER NO. R-11640**

**APPLICATION OF SAGA PETROLEUM, L.L.C FOR STATUTORY
UNITIZATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 7, 2000, and on July 12, 2001, at Santa Fe, New Mexico before Examiner David R. Catanach.

NOW, on this 24th day of August, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Division Cases No. 12417 and 12418 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Saga Petroleum, L.L.C. ("Saga") seeks: (i) the statutory unitization, pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978, of 800 acres, more or less, being a portion of the Crossroads Siluro-Devonian Pool, Lea County, New Mexico, and to be known as the Crossroads Siluro Devonian Unit, hereinafter sometimes referred to as the "Unit Area"; and (ii) approval of the Unit Agreement and the Unit Operating Agreement, which were submitted in evidence as applicant's Exhibits No. 3 and 4, respectively, in this case.

(4) Saga proposes to institute an enhanced oil recovery project for the secondary recovery of oil and gas from the Unitized Formation within the Unit Area (the subject of companion Case No. 12418).

(5) Cases No. 12417 and 12418 were originally heard on September 7, 2000, at which time these cases were taken under advisement. Subsequent to the hearing, the Division determined that: i) notice was not provided to all parties entitled to receive notice in Case No. 12417; and ii) the additional engineering data requested by the Division at the September 7, 2000 hearing had not been provided by the applicant. These cases were reopened and heard on July 12, 2001 in order to allow the applicant the opportunity to correct the deficiencies in the application.

(6) The Crossroads Siluro-Devonian Pool has been reasonably defined by development.

(7) The proposed Crossroads Siluro Devonian Unit consists of three separate fee leases located in Township 9 South, Range 36 East, NMPM, Lea County, New Mexico, and comprises 800 acres, more or less, described as follows:

<u>Lease Name</u>	<u>Lease Description</u>
Texaco U.D. Sawyer Lease	320 acres, more or less, comprising the E/2 of Section 34;
Santa Fe Pacific Lease	160 acres, more or less, comprising the NW/4 of Section 27;
U.D. Sawyer Lease	320 acres, more or less, comprising the E/2 of Section 27.

(8) The proposed Unitized Formation is that interval underlying the Unit Area comprising the Siluro-Devonian formation as it occurs between the depths of 11,948 feet and 12,178 feet as recorded on a certain well log run on the Sun Exploration & Production Company U.D. Sawyer Well No. 11 located 2700 feet from the North line and 1610 feet from the East line (Unit J) of Section 27, Township 9 South, Range 36 East, NMPM, Lea County, New Mexico.

(9) The fee leases proposed to be included in the Unit Area are owned by 10 working interest owners and 33 royalty and overriding royalty interest owners.

(10) The applicant testified that its efforts to obtain voluntary participation in the Crossroads Siluro Devonian Unit Area commenced two years prior to the hearing, and as of the hearing date, 100% of the working interest owners and approximately 85% of the royalty and overriding royalty interest owners within the Unit Area have voluntarily

agreed to pool their interests.

(11) The applicant notified all interest owners in the proposed Crossroads Siluro Devonian Unit of its application in this case. No other interest owner appeared at the hearing.

(12) The applicant presented evidence indicating that the individual tract participation and allocation of production within the proposed Crossroads Siluro Devonian Unit was determined in accordance with the following weighted formula:

45%--Current production from each lease
55%--Remaining reserves

(13) Utilizing the above-described formula, Saga has determined that the Texaco U.D. Sawyer Lease, the Santa Fe Pacific Lease and the U.D. Sawyer Lease should be allocated 37.703%, 51.410% and 10.886%, respectively, of unit production.

(14) The unitized management, operation and further development of the Unitized Formation within the Unit Area is reasonably necessary in order to effectively carry on secondary recovery operations and will result in the recovery of an additional 1.361 million barrels of secondary reserves that would otherwise not be recovered, thereby preventing waste.

(15) The statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights and the terms and conditions of such unitization, including, but not limited to, the participation formula contained in the Unit Agreement, are fair, reasonable, equitable and in accordance with the Statutory Unitization Act. All of the conditions necessary for the entry of an order, as provided in NMSA Sec 70-7-6 exist.

(16) The proposed unitized method of secondary recovery operations within the Unit Area is feasible and will result with reasonable probability in the recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(17) The estimated additional costs of such operations will not exceed the estimated value of the additional oil recovered plus a reasonable profit.

(18) Statutory unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest and royalty interest owners within the

proposed secondary recovery project area.

(19) The operator has made a good faith effort to secure voluntary unitization of the Unitized Formation within the Unit Area.

(20) The Unit Agreement and Unit Operating Agreement, applicant's Exhibits No. 3 and 4 in this case, should be incorporated by reference into this order

(21) The Crossroads Siluro Devonian Unit Agreement and the Crossroads Siluro Devonian Unit Operating Agreement provide for unitization and unit operation upon terms and conditions that are fair, reasonable and equitable, and include:

- (a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and that is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;
- (b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;
- (c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how such costs shall be paid, including a provision specifying when, how and by whom such costs shall be charged to the owners, or the interests of such owners, and how their interests may be sold and the proceeds applied to the payment of their costs;
- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions that are just and reasonable and that allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable;
- (e) a provision designating a Unit Operator and providing for supervision and conduct of unit operations, including the selection, removal and substitution of an operator from among the working interest owners to conduct unit operations;

- (f) a voting procedure for matters to be decided by the working interest owners under which each working interest owner shall have a voting interest equal to its participation; and
- (g) a provision specifying the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and provision for the settlement of accounts upon such termination.

(22) The statutory unitization of the Crossroads Siluro Devonian Unit Area is in conformity with the above findings, will prevent waste and protect correlative rights of all interest owners within the proposed Unit Area, and should be approved.

IT IS THEREFORE ORDERED:

(1) The application of Saga Petroleum, L.L.C. for the statutory unitization of 800 acres, more or less, being a portion of the Crossroads Siluro Devonian Pool, Lea County, New Mexico, to be known as the Crossroads Siluro Devonian Unit, is hereby approved pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978.

(2) The Crossroads Siluro Devonian Unit shall comprise the following described 800 acres, more or less, of fee lands in Lea County, New Mexico:

TOWNSHIP 9 SOUTH, RANGE 36 EAST, NMPM

Section 27: N/2, SE/4

Section 34: E/2

(3) The "Unitized Formation" shall comprise the Siluro Devonian formation underlying the Unit Area as it occurs between the depths of 11,948 feet and 12,178 feet as recorded on a certain well log run on the Sun Exploration & Production Company U.D. Sawyer Well No. 11 located 2700 feet from the North line and 1610 feet from the East line (Unit J) of Section 27, Township 9 South, Range 36 East, NMPM, Lea County, New Mexico.

(4) The Crossroads Siluro Devonian Unit Agreement and Crossroads Siluro Devonian Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits No. 3 and 4, respectively, are hereby incorporated by reference into this order.

(5) The applicant shall institute a water injection program for the secondary recovery of oil and associated gas, condensate and all associated liquefiable hydrocarbons within the Unit Area, such operations being the subject of companion Case No. 12418.

(6) Since the persons owning the required statutory minimum percentage of interest in the Unit Area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the Unit Area are hereby unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(7) The applicant shall notify the Division Director in writing of any removal or substitution of the applicant as unit operator by any other working interest owner within the Unit Area.

(8) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE in Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

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