

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

OIL CONSERVATION DIV.
 99 MAY 13 AM 8:51

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 12,133
)
 APPLICATION OF SAGA PETROLEUM, L.L.C.,)
 FOR APPROVAL OF A UNIT AGREEMENT,)
 LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 29th, 1999
 Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 29th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

April 29th, 1999
Examiner Hearing
CASE NO. 12,133

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APPLICANT'S WITNESS:	
<u>JOE COMPTON</u> (Geologist)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:45 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,133.

4 MR. CARROLL: Application of Saga Petroleum,
5 L.L.C., for approval of a unit agreement, Lea County, New
6 Mexico.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe law firm Campbell, Carr,
9 Berge and Sheridan. We represent Saga Petroleum, L.L.C.,
10 in this matter, and I have one witness.

11 EXAMINER ASHLEY: Any additional appearances?

12 Will the witness please stand to be sworn in?

13 (Thereupon, the witness was sworn.)

14 JOE COMPTON,

15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Would you state your name for the record, please?

20 A. My name is Joe Compton.

21 Q. Mr. Compton, where do you reside?

22 A. Midland, Texas.

23 Q. By whom are you employed?

24 A. I am a partner in the firm of Avalon Energy.

25 Q. And could you explain the relationship of Avalon

1 Energy to Saga Petroleum?

2 A. We are partners in a number of properties, but
3 not in this one. I have no vested interest. I'm just
4 doing this, I guess, on a consulting basis, you might say.

5 Q. Have you previously testified before this
6 Division?

7 A. Yes, I have.

8 Q. At the time of that testimony, were your
9 credentials as an expert witness in petroleum geology
10 accepted and made a matter of record?

11 A. Yes, they were.

12 Q. Are you familiar with the Application filed in
13 this case?

14 A. I am.

15 Q. Are you familiar with the proposed Crossroads
16 Siluro-Devonian Unit?

17 A. Yes, I am.

18 Q. Have you made a geological study of the area
19 which is the subject of the proposed unit?

20 A. I have.

21 Q. And are you prepared to share the results of that
22 study with Mr. Ashley?

23 A. Yes.

24 MR. CARR: Are Mr. Compton's qualifications
25 acceptable?

1 EXAMINER ASHLEY: Yes, they are.

2 Q. (By Mr. Carr) Would you briefly summarize what
3 it is that Saga Petroleum seeks with this Application?

4 A. Okay, Crossroads Devonian is a field that's
5 located about 20 miles due north of Tatum, New Mexico, just
6 south of the Roosevelt County line. It was originally
7 discovered in 1948, and since then about 20 million barrels
8 have been produced -- in excess of 20 million barrels have
9 been produced from the field.

10 Saga is right now the operator of record on three
11 leases that are sort of at the upper apex of the structure
12 on the field, and the production at this point is reduced
13 to the point that all of the leases combined here are only
14 making between 40 and 50 barrels a day.

15 And what we would like to do by a unitization
16 here is to combine the facilities so that we won't be doing
17 redundant operations in three leases, and reduce the
18 overhead, therefore extend the economic life of the
19 remaining reserves.

20 Q. And you're asking the Division to approve the
21 proposed unit agreement?

22 A. Yes, we are.

23 Q. How many acres are in the unit?

24 A. More or less, 800.

25 Q. And what is the character of the land? State,

1 fee, federal?

2 A. They're all fee.

3 Q. Have you prepared exhibits for presentation in
4 this case?

5 A. Yes, I have.

6 Q. Would you identify what has been marked as Saga
7 Exhibit Number 1 for Mr. Ashley?

8 A. Okay, Exhibit Number 1 is the unit agreement for
9 the development and operation of the Crossroads Siluro-
10 Devonian Unit area. This is a form agreement for state and
11 fee land that we used. It's a New Mexico form agreement.

12 Q. And you've modified that to include just --

13 A. For the appropriate -- for this appropriate
14 situation.

15 Q. And so it includes just provisions which will
16 relate to the fee lands?

17 A. That's correct.

18 Q. Let's go to Exhibit Number 2. Would you identify
19 that?

20 A. Okay, is that Exhibit A?

21 Q. Exhibit Number 2 is --

22 A. Yes, Exhibit A.

23 Q. -- on the back.

24 A. This is a map of the leases involved. If you'll
25 look down on the lower left-hand corner of the exhibit,

1 you'll see a legend there that has a unit outline that
2 identifies the outline that we're proposing. The numbers
3 there identify the tracts within the unit area, and then
4 below that are the legend of the -- just the well status.

5 There are three leases involved here. One is the
6 Santa Fe Lease in the northwest corner of -- northwest
7 quarter of 27, the U.D. Sawyer Lease in the east half of
8 Section 27, and the Texaco Sawyer Lease in the east half of
9 Section 34. All of the sections are located in Township 9
10 South, Range 36 East, of Lea County, New Mexico.

11 Q. Let's go now to Exhibit Number 3. These are
12 copies of Schedules B and C to the unit agreement. Would
13 you explain to Mr. Ashley what these show?

14 A. Okay, Exhibit B is -- and Exhibit Number 3 --
15 Exhibit Number 3 is Exhibit B to the unit operating
16 agreement, and this shows the schedule of tract
17 participation as it applies to the working interest
18 participants within the unit.

19 Q. And then behind that we have included in Exhibit
20 3 the Exhibit C to the unit agreement. What does this
21 show?

22 A. Okay, this is a breakdown of the various
23 interests within each the leases within the proposed unit.
24 These are broken down by royalty owners, overriding royalty
25 owners and working interest owners.

1 Q. What percentage of these royalty and working
2 interest owners have you been able to get voluntarily
3 committed to the unit plan?

4 A. Before I came to Santa Fe yesterday, I spoke with
5 Saga. We have 98 1/2 percent of the working interest
6 owners ratifying the unit operating agreement and the unit
7 agreement, and we've got back just about 50 percent of the
8 royalty interest owners, just a little over 50 percent.

9 We anticipate that we will probably get a hundred
10 percent, or very close to that, on both royalty interests
11 and then the working interest side. We've already got it
12 on the working interest.

13 Q. What working interest owner has not voluntarily
14 committed?

15 A. Okay, we sent out -- We've sent out actually five
16 different operating agreements. One of those is to Yellow
17 Queen Uranium, and that's in the Santa Fe tract. Also Alfa
18 Resources. And the U.D. Sawyer, the Gerald D. Mills and
19 the Patricia Shaw. That's the only ones that we have not
20 heard from.

21 Q. Have you been able to get Meteor Petroleum to
22 participate?

23 A. We haven't been able to get anything back from
24 them, but yes, they will participate.

25 Q. Will they be in the unit, or are they not

1 committing their interest?

2 A. They will be in the unit.

3 Q. And will they commit their interest?

4 A. Yes.

5 Q. And is that --

6 A. We presume that they will.

7 Q. Is that an interest owner that has not yet
8 voluntarily joined?

9 A. Yes.

10 Q. Do they have the 1.5 percent of the working
11 interest that is not at this time committed?

12 A. They are -- I believe the Yellow Queen Uranium
13 interest there, and they -- Well, then, the total unit
14 interest there, you can see their interest is fairly small
15 at .006, less than one percent.

16 Q. Obviously with these percentages, you will have
17 effective control of unit operations?

18 A. Yes, we will.

19 Q. Does Saga seek to be designated as unit operator?

20 A. Yes. They're currently the operator of all the
21 leases right now.

22 Q. What horizons are being unitized?

23 A. ~~Just the Yellow Queen Division.~~

24 Q. And that is the primary objective in the unit?

25 A. Yes, it is.

1 Q. Is this portion of the Devonian -- this is within
2 the Crossroads Siluro-Devonian Pool?

3 A. Yes, it is.

4 Q. All right, let's go to Exhibit Number 4, your
5 structure map. Would you review that for Mr. Ashley and
6 explain the unit boundaries in relationship to your current
7 interpretation of this geological feature?

8 A. Okay, if you'll look at the structure map there,
9 two things that are of interest and important here. One is
10 the original oil-water for the Crossroads Devonian was at
11 an estimated structural level there of a subsea of minus
12 8200 feet. And currently in the Section 27 leases there,
13 it appears that the current oil-water is at a subsea of
14 about 7960 feet. And in the acreage to the south in
15 Section 34 it appears that it's around 8150 subsea.

16 What we're demonstrating by this is that
17 essentially there's no productive area outside of these
18 current leases that we are currently trying to unitize
19 here.

20 Q. If you'll look at your structure map, there is a
21 small strip of land -- it looks like at the crest of the
22 structure -- that would appear in the west half of Sections
23 34 and 27, that, even though geologically it looks like
24 it's in the reservoir, it's outside the unit boundary. Can
25 you explain that?

1 A. Yes, what occurs in Devonian here, those wells,
2 one of them was originally completed in the Devonian, very
3 briefly, but in this area the reservoir is often capped --
4 well, the reservoir is a dolomite. It varies locally. It
5 also has a limestone cap that varies in thickness over
6 the -- varies locally in thickness over the extent of the
7 reservoir. And within -- as luck would have it, right on
8 the very top of the structure there, there's a fairly thick
9 limestone development on top of the pay, which effectively
10 depressed the effective pay below the oil-water. Those
11 were not very good wells.

12 Q. In your opinion, do the proposed unit boundaries
13 encompass the remaining productive portion of this
14 reservoir?

15 A. Yes.

16 Q. Let's go to what has been marked as Saga Exhibit
17 Number 5. Would you identify that and review it for the
18 Examiner?

19 A. It's a stratigraphic cross-section that just
20 shows a representation of the wells across the unit area,
21 and it runs from A to A', which is from southwest to
22 northeast. The only producer on the cross-section at this
23 point is the fourth from the right, from A' there. It
24 would be listed as Mid Continent Petroleum U.D. Sawyer
25 Number C-1, which is -- believe, the Number 2 well in the

1 U.D. Sawyer lease right now.

2 Q. If we look at the wells on the right-hand side of
3 the exhibit toward A', those first three wells, they are
4 below where you're showing the current oil-water contact to
5 be in the reservoir?

6 A. Yes, yes. These are all inactive.

7 Q. And if we go all the way to the well on the
8 extreme left, the U.D. Sawyer Number B-1 --

9 A. Yes.

10 Q. -- if we look at that log, can you tell from the
11 log characteristics that you, in fact, have that limestone
12 cap?

13 A. Well, yes, you can see on that log that you've
14 got quite a bit of limestone development on top of the
15 Devonian reservoir, and you can also see the perforations
16 that were attempted for a completion. That was
17 unsuccessful, and that well was subsequently recompleted in
18 the Mississippian and made some amount of production from
19 the Mississippian.

20 Q. Mr. Compton, what does your geologic study tell
21 you about the Devonian formation in this area?

22 A. Typically in this area, it's a dolomite tan
23 medium -- medium to coarsely crystalline, locally vuggy.
24 Porosity varies, and also you've got some stratigraphic
25 complications within that reservoir itself.

1 Q. What benefits do you see accruing from
2 unitization?

3 A. As far as any extended development in here, there
4 probably won't be any more drilling planned. What we're
5 trying to do at this point is just to reduce the overhead
6 effectively to enable a longer economic life for the leases
7 involved.

8 Q. In your opinion, will approval of this
9 Application be in the best interest of conservation, the
10 prevention of waste and the protection of correlative
11 rights?

12 A. Yes, it will.

13 Q. Were Exhibits 1 through 5 prepared by you or
14 compiled under your direction?

15 A. Yes.

16 MR. CARR: At this time, Mr. Ashley, we would
17 move the admission into evidence of Saga Exhibits 1 through
18 5.

19 EXAMINER ASHLEY: Exhibits 1 through 5 will be
20 admitted as evidence.

21 MR. CARR: And that concludes my examination of
22 Mr. Compton.

23 EXAMINATION

24 BY MR. CARROLL:

25 Q. Mr. Compton, I might be mistaken. Did you

1 mention a company by the name of Meteor?

2 A. Meteor development, yes.

3 MR. CARR: That's the same one.

4 Q. (By Mr. Carroll) So you've been in contact with
5 them?

6 A. We've tried to contact them.

7 Q. Tried to?

8 A. They're very difficult to get in contact with.

9 Q. Yes, we're well aware of that. So the last
10 address you have is in Denver?

11 A. That's right. I can give you what we have, I'd
12 be glad to.

13 Q. Would you, please?

14 A. Sure. I don't know all of this story. I came in
15 late on the -- but I've heard rumors.

16 EXAMINATION

17 BY EXAMINER ASHLEY:

18 Q. Mr. Compton, could we go over the -- Let's see,
19 it's the one that's -- I guess it's Exhibit 3. If we could
20 go over by tract, and tell me which parties have agreed to
21 participate and which haven't.

22 A. Okay.

23 Q. At the top it says Exhibit C.

24 A. Yes.

25 Q. That Tract 1, that Texaco Sawyer.

1 A. Okay, the Exhibit B, the only ones affected by
2 Exhibit B will be the working interest owners.

3 Q. Yeah.

4 A. Okay. Tract Number 1, Saga Petroleum, Force
5 Energy and Saga Petroleum Corp have all agreed.

6 In Tract Number 2, Saga Petroleum, Force Energy
7 and Saga Petroleum Corp. have agreed. We have not heard
8 from Yellow Queen Uranium or Alfa Resources at this point.
9 Alfa Resources, I understand we've had phone -- Saga has
10 had a phone conversation with them, and they said that they
11 would very likely agree to it. That was just by phone.
12 Nothing -- We've gotten no paperwork back.

13 On Tract Number 3, Saga Petroleum L.L.C., Force
14 Energy, Saga Petroleum Corp., Saga Petroleum FF -- L.L.C.
15 for the account of, and the Marius Jensen Nygaard have all
16 agreed. At this point we have not heard back from Gerald
17 D. Mills, Yuma Exploration or Patricia Shaw.

18 I might mention here that in the past Patricia
19 Shaw and Gerald E. Mills have generally gone along with
20 whatever the operator of record wanted to do in there.

21 Q. Now, tell me again what the designations are up
22 here, like it says Tract 1, Texaco Sawyer --

23 A. Okay --

24 Q. -- Tract 2, Santa Fe --

25 A. -- Tract 1, Texaco Sawyer, that would be the east

1 half of Section 34. That would be the east half of Section
2 34, all of that 320 acres. On Exhibit C, if you'll look
3 there right below the tract number, you'll see the legal
4 description which identifies the legal for each of the
5 tracts.

6 Tract Number 2 is the northwest quarter of
7 Section 27, and Tract Number 3 is the east half of Section
8 27.

9 Q. After each one of the tracts, like it says Tract
10 Number 1, Texaco Sawyer, is that just the lease name,
11 Texaco Sawyer?

12 A. That's just the lease name --

13 Q. Okay.

14 A. -- right.

15 Q. Now, looking back at Exhibit Number 2 -- actually
16 the structure map, Exhibit Number 4, the wells to the north
17 and east of the unit, did you say that some of those were
18 Siluro-Devonian producers that had been plugged that were a
19 part of this pool?

20 A. In what section?

21 Q. I guess all the way around the perimeter of the
22 unit, along the perimeter.

23 A. Yes, the bulk of those were -- in fact, all of
24 those were at one point Siluro-Devonian producers, and they
25 have since been plugged out. They were watered out at this

1 point.

2 Q. Uh-huh.

3 A. Your drive mechanism in here is a water drive.

4 Q. And you mentioned that you won't be drilling any
5 more wells out there, that you're just wanting this more to
6 reduce overhead rates?

7 A. That's correct.

8 Q. Can you explain kind of what you're going to be
9 doing out there, then?

10 A. What we'd like to do is to combine -- You know,
11 it's just simply a matter of economics at this point, since
12 the production is so low, that when we buy something or put
13 in some additional facilities, we'll be able to just
14 centralize that, rather than to duplicate the effort on
15 three different leases.

16 EXAMINER ASHLEY: Okay.

17 FURTHER EXAMINATION

18 BY MR. CARROLL:

19 Q. Mr. Compton, what's Meteor's interest in this
20 unit?

21 A. They have a small working interest, is all I
22 know.

23 Q. But they don't show up on these exhibits?

24 A. Well, that is Meteor by another name, I believe.

25 Q. What other name?

1 A. The Yellow Queen Uranium, I believe. I can get
2 the specifics of that for you, because I'm not familiar
3 with all of the -- Like I said, I have a very passing
4 knowledge of the Meteor development problem off to the
5 east.

6 MR. CARROLL: CARR: Okay, yeah, if you could
7 supply us with that information, we'd appreciate it.

8 That's all I have.

9 EXAMINER ASHLEY: I have nothing further. Thank
10 you, Mr. Compton.

11 THE WITNESS: Okay.

12 MR. CARR: That concludes our presentation.

13 EXAMINER ASHLEY: There being nothing further in
14 Case 12,133, this case will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 11:08 a.m.)

17 * * *

18
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 12133
 heard by me on 4-29 1999.

23 Mark Ashley, Examiner
24 Of Conservation Division
25

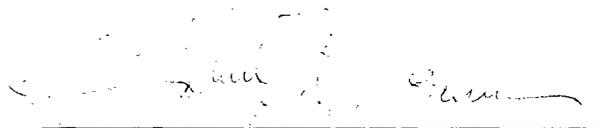
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 1st, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002