

STATE OF NEW MEXICO OIL CONSERVATION DIV.  
 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. 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.

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## 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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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
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 Billie 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                   Oil Conservation Division  
25

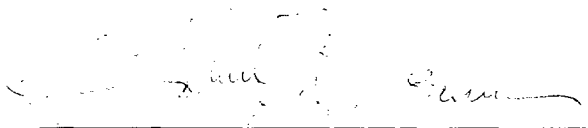
## CERTIFICATE OF REPORTER

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