

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:

APPLICATION(S) OF OXY USA, INC.
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NOS. 15⁸⁶~~589~~,
15870,
15871

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 26, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, October 26, 2017, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

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APPEARANCES

FOR APPLICANT OXY USA, INC.:

JORDAN L. KESSLER, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
jlkessler@hollandhart.com

FOR INTERESTED PARTY CONCHO RESOURCES:

WILLIAM F. CARR, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
wcarr@hollandhart.com

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1 (10:13 a.m.)

2 EXAMINER DAWSON: At this time I'm going to
3 call Case Number 15869, Case Number 15870, and Case
4 Number 15871, which will be consolidated. And all these
5 cases pertain to an application of OXY USA, Incorporated
6 for a nonstandard spacing and proration unit and
7 compulsory pooling in Eddy County, New Mexico.

8 Call for appearances, please.

9 MS. KESSLER: Mr. Examiner, Jordan Kessler,
10 from the Santa Fe office of Holland & Hart, on behalf of
11 the Applicant.

12 EXAMINER DAWSON: Okay, Ms. Kessler. Do
13 you have any witnesses?

14 MS. KESSLER: Two.

15 EXAMINER DAWSON: Can your witnesses please
16 stand and be sworn into record by the court reporter?

17 MR. CARR: May it please the Examiner,
18 William F. Carr, with Concho Resources, entering our
19 appearance in this case. We're in the process of
20 discussing a trade with OXY, but I do not intend on
21 participating otherwise in the proceeding.

22 EXAMINER DAWSON: Okay. Thank you,
23 Mr. Carr.

24 (Mr. Murphrey and Mr. Troutman sworn.)

25 EXAMINER DAWSON: You may call your first

1 witness.

2 MS. KESSLER: Thank you.

3 JEREMY MURPHREY,

4 after having been first duly sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. KESSLER:

8 Q. Please state your name for the record and tell
9 the Examiners by whom you're employed and in what
10 capacity.

11 A. My name is Jeremy Murphrey. I'm employed as a
12 land negotiator advisor or landman with OXY USA.

13 Q. Have you previously testified before the
14 Division?

15 A. I have.

16 Q. Were your credentials as a petroleum landman
17 accepted and made a matter of record?

18 A. They were.

19 Q. Are you familiar with the consolidated
20 applications filed in this matter?

21 A. I am.

22 Q. And are you familiar with the status of the
23 lands in the subject area?

24 A. Yes, ma'am.

25 MS. KESSLER: Mr. Examiners, I would tender

1 Mr. Murphrey as an expert in petroleum land matters.

2 EXAMINER DAWSON: Mr. Murphrey will be
3 accepted as an expert in petroleum land matters at this
4 time.

5 Q. (BY MS. KESSLER) Mr. Murphrey, generally, what
6 does OXY seek under these applications?

7 A. We're seeking three 320-acre nonstandard
8 spacing units, as well as pool the uncommitted interest
9 owners in the Bone Spring.

10 Q. For Case Number 15869, are you seeking
11 dedication of two initial wells?

12 A. We are, the number -- I'm sorry -- 21 and 22H.

13 Q. Okay. And for Case Number 15871, are you
14 seeking dedication --

15 A. That's correct, those wells will be the #24H
16 and the #25H.

17 Q. Please turn to Exhibit 1. Is this the draft
18 C-102 for the Corral Fly 2-1 State #21H well?

19 A. That is correct.

20 Q. And can you please identify the spacing unit
21 for this well?

22 A. The spacing unit for the #21H will be the north
23 half of the north half of Sections 2 and 1 of Township
24 25 South, Range 29 East, Eddy County, New Mexico.

25 Q. You're seeking to pool uncommitted interest

1 owners of the Bone Spring Formation?

2 A. That's correct.

3 Q. What pool is involved in this application?

4 A. The pool will be the Pierce Crossing; Bone
5 Spring, East. The pool code will be 96473.

6 Q. Is this pool governed by Division statewide
7 rules?

8 A. That's correct.

9 Q. And will the completed interval for the 21H
10 well comply with the 330-foot setbacks?

11 A. It will.

12 Q. Is the proposed spacing unit comprised of state
13 lands?

14 A. That's correct.

15 Q. Let's turn to Exhibit 2. Is this the draft
16 C-102 for the Corral Fly #22H well?

17 A. Yes, ma'am.

18 Q. And this is the same spacing unit as the 21H
19 well, correct?

20 A. That's correct.

21 Q. That would be the north half-north half of
22 Sections 1 and 2?

23 A. That's correct.

24 Q. Again, do you seek to pool uncommitted interest
25 owners in the Bone Spring Formation?

1 A. Yes, ma'am.

2 Q. Will the completed interval for the 22H well
3 comply with Division statewide setbacks?

4 A. It will not. However, we will be applying
5 administratively for the NSL.

6 Q. And it's the same pool as the 21H, correct?

7 A. That's correct.

8 Q. Why is OXY seeking to dedicate two initial
9 wells to the spacing unit?

10 A. By drilling these wells back-to-back, we hope
11 to incur a cost savings through our operations.

12 Q. Okay. So economic efficiencies associated with
13 pad drilling and pad completions; is that correct?

14 A. Yes, ma'am.

15 Q. I just want to take a step back.

16 All of the interest owners that you seek to
17 pool, were they provided notice of OXY's plan to drill
18 and complete back-to-back?

19 A. Yes, ma'am.

20 Q. And none of them objected, correct?

21 A. That's correct.

22 Q. Now, let's turn to Exhibit 3. Is this the
23 draft C-102 for the 23H well?

24 A. Yes, ma'am, it is.

25 Q. What is the spacing unit for this well?

1 A. The spacing unit for the 23H will be the south
2 half of the north half of Section 2 and Section 1,
3 Township 25 South, Range 29 East, Eddy County, New
4 Mexico.

5 Q. And do you seek to pool uncommitted interest
6 owners in the Bone Spring Formation?

7 A. That's correct.

8 Q. And this will be dedicated to the 23H well,
9 correct?

10 A. That is correct.

11 Q. Is this in the same Pierce Crossing; Bone
12 Spring, East Pool?

13 A. Yes, ma'am.

14 Q. And will the completed interval for the 23H
15 well comply with Division statewide setbacks?

16 A. It will.

17 Q. Is this also state land?

18 A. Yes, ma'am.

19 Q. Is Exhibit 4 the draft C-102 for the 24H well?

20 A. It is.

21 Q. Please identify this spacing unit.

22 A. The spacing unit for the #24H will be the north
23 half of the south half of Sections 2 and 1, Township 25
24 South, Range 29 East, again in Eddy County, New Mexico.

25 Q. And this is the same pool?

1 A. Yes, ma'am.

2 Q. And you seek to pool Bone Spring uncommitted
3 interest owners, correct?

4 A. That's correct.

5 Q. Will the completed interval for the 24H well
6 comply with Division statewide setbacks?

7 A. It will.

8 Q. Is it also state land?

9 A. That's correct as well.

10 Q. Let's turn to Exhibit 5. Is this the draft
11 C-102 to the 25H well?

12 A. It is.

13 Q. This is the same spacing unit as the 24H well,
14 correct?

15 A. That's correct. The north half of the south
16 half of Sections 2 and 1 of Township 25 South, Range 29
17 East.

18 Q. And the spacing unit will be dedicated to the
19 24 and 25H wells, correct?

20 A. That's correct.

21 Q. Will the completed interval for this well
22 comply with Division statewide setbacks?

23 A. It will not. However, we will be applying
24 administratively for the NSL on this one.

25 Q. And, once again, does OXY seek to dedicate two

1 initial wells for economic efficiencies associated with
2 pad drilling and pad completions?

3 A. Yes, we do.

4 Q. And the interest owners that you seek to pool
5 were also provided notice of your plan to dedicate two
6 initial wells for this application, correct?

7 A. Yes, ma'am.

8 Q. And none of them objected?

9 A. That's correct.

10 Q. Is Exhibit 6 an ownership breakdown for the
11 north half-north half spacing unit?

12 A. It is.

13 Q. And this will be dedicated to the 21H and 22H
14 wells, correct?

15 A. That's correct.

16 Q. The ownership between the two wells will be
17 identical; is that correct?

18 A. That's correct.

19 Q. Can you please list the parties that you seek
20 to force pool as shown on this exhibit?

21 A. Yes. We will force pool COG Production, LLC;
22 and EOG Y Resources, Inc.; EOG A Resources, Inc.; and
23 EOG M Resources, Inc.

24 Q. Are these all working interest owners?

25 A. That's correct.

1 Q. Is Exhibit 7 an ownership breakdown of the
2 south half-north half spacing unit?

3 A. That's correct.

4 Q. This spacing unit will be dedicated just to the
5 23H well, correct?

6 A. Correct.

7 Q. What interests are you requesting to pool for
8 this spacing?

9 A. Vanguard Operating, LLC; COG Production, LLC;
10 EOG Y Resources, Inc.; EOG A Resources, Inc.; EOG M
11 Resources, Inc.

12 Q. Again, these are all working interest owners?

13 A. That's correct.

14 Q. Is Exhibit 8 an ownership breakdown for the
15 north half-south half spacing unit?

16 A. That's correct.

17 Q. This will be dedicated to the 24H and the 25H
18 wells, correct?

19 A. That is correct.

20 Q. And ownership between the two wells is
21 identical?

22 A. Yes.

23 Q. What parties do you seek to pool for this
24 spacing unit?

25 A. COG Production, LLC; EOG Y Resources, Inc.; EOG

1 A Resources, Inc.; and EOG M Resources, Inc.

2 Q. Again, all working interest owners?

3 A. That's correct.

4 Q. Can you please discuss your efforts to reach an
5 agreement with each of those parties that you seek to
6 pool for the various applications?

7 A. Yes. Vanguard Operating has executed our AFEs
8 for all of our proposed wells, and we should have an
9 executed operating agreement from them next week.

10 We're in trade discussions with Concho and
11 the EOG entities as well, and it's a matter of just
12 negotiating now the exchange agreement, most likely to
13 include those trades before December 1st, so sometime in
14 November.

15 Q. And in the event you reach an agreement with
16 any of these parties, will you notify the Division?

17 A. Yes, we will.

18 Q. Is Exhibit 9 a copy of the well-proposal letter
19 that you sent to uncommitted interest owners for each of
20 the five wells?

21 A. Yes, it is.

22 Q. And you sent this back on August 10th, correct?

23 A. That's correct.

24 Q. Did the well-proposal letters each include an
25 AFE?

1 A. They did.

2 Q. And if we turn to Exhibit 10, does this exhibit
3 include the AFE for each of the five wells?

4 A. It does.

5 Q. Are the AFEs consistent with what OXY has
6 incurred for drilling similar Bone Spring wells in the
7 area?

8 A. It is.

9 Q. Have you estimated overhead and administrative
10 costs for drilling and producing each of the wells?

11 A. We have.

12 Q. What are those costs?

13 A. 7,500 and 750.

14 Q. And are those rates consistent with what other
15 operators in the area are charging for similar wells?

16 A. They are.

17 Q. Do you ask that the rates be incorporated into
18 any order resulting from this hearing?

19 A. Yes, we do.

20 Q. And that they be adjusted in accordance with
21 the COPAS accounting procedures?

22 A. Yes.

23 Q. For any of the uncommitted interest owners, do
24 you request the Division impose a 200 percent risk
25 penalty?

1 A. We do.

2 Q. Were you able to locate valid addresses for
3 each of the uncommitted owners?

4 A. Yes, we were.

5 Q. I see Exhibit 11 includes a Notice of
6 Publication. Was this just out of an abundance of
7 caution?

8 A. Yes.

9 Q. Did OXY identify the operators or lessees of
10 record in the 40-acre tract surrounding each of the
11 proposed nonstandard unit?

12 A. We did.

13 Q. Were they included in the notice of this
14 hearing?

15 A. Yes, they were.

16 Q. And is Exhibit 12 an affidavit prepared by my
17 office with attached letters providing notice of this
18 hearing to the parties that you seek to pool, as well as
19 the offsets for each of the three applications?

20 A. Yes, it is.

21 Q. Were Exhibits 1 through 10 prepared by you or
22 compiled under your direction and supervision?

23 A. They were.

24 MS. KESSLER: Mr. Examiners, I'd move
25 admission of Exhibits 1 through 12, which include my two

1 notice affidavits.

2 EXAMINER DAWSON: Exhibits 1 through 12
3 will be admitted into the record at this time.

4 (OXY USA, Inc. Exhibit Numbers 1 through 12
5 are offered and admitted into evidence.)

6 EXAMINER DAWSON: Thank you.

7 Do you have any questions, Mr. Brooks?

8 MR. BROOKS: Yes.

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. Are these wells -- these five wells equally
12 spaced and are they equal -- are they parallel wells
13 that have the same distance between each two?

14 MS. KESSLER: I believe that's correct, but
15 the geologist can definitely answer that.

16 EXAMINER BROOKS: Okay.

17 Q. (BY EXAMINER BROOKS) Now, you have two of them
18 located in -- well, I have to say which halves. Two of
19 them located in the north half-north half, and that's
20 the numbers 21 and 22, and then you have only one
21 located in the south half-north half, the #23; is that
22 right?

23 A. That's correct.

24 Q. And you have two to be located in the south
25 half -- in the -- in the north half-south half?

1 A. That's correct, the 24 and 25.

2 Q. Now, are these -- when do you plan to drill
3 these wells? Do you have that information?

4 A. Yes, sir. Our schedule is moving a little, but
5 no earlier than the middle of December, we will begin
6 the program with the 21H.

7 Q. Okay. You're not going to drill two at a time
8 like they sometimes do?

9 A. No. We won't have two rigs on the pad.

10 Q. You'll drill each well separately?

11 A. Yes, sir.

12 Q. Okay. And you understand that anyone who is
13 compulsory pooled will have a separate election on each
14 well?

15 A. Yes, sir. That's correct.

16 Q. Okay. And these are -- all being big
17 companies, I assume you have gotten notice to everybody,
18 although we've had some problems with EOG getting return
19 receipt -- people getting return -- getting return
20 receipts requested.

21 A. Yes, sir. We have received the return of the
22 green card or return receipt from all of the parties.

23 EXAMINER BROOKS: Okay. Thank you. That's
24 all my questions.

25

CROSS-EXAMINATION

2 BY EXAMINER DAWSON:

3 Q. Mr. Murphrey, the question I have is: The
4 south half of the south half of Sections 1 and 2 --

5 A. Yes, sir.

6 Q. -- of 25 South, 29 East, Eddy County --

7 A. Uh-huh.

8 Q. -- do you guys own that acreage down there?

9 A. We do. And I believe that well will be a
10 7,500-foot lateral, and it will be set for hearing
11 November 30th.

12 Q. Okay. So there are plans to develop that south
13 of -- south half of those two sections?

14 A. It'll -- because there is an existing Bone
15 Spring well down in the south half of the southwest
16 quarter of Section 1 that's operated by EOG, we
17 shortened the lateral on the 26H well. So it'll now be
18 a 7,500-foot lateral.

19 Q. But you do have plans to eventually develop the
20 section fully?

21 A. Yes, sir.

22 Q. That's all the questions I have. Thank you
23 very much.

24 MS. KESSLER: I'll call my next witness.

25 EXAMINER DAWSON: Okay. Thank you.

1 TONY TROUTMAN,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Please state your name for the record.

7 A. Tony Troutman.

8 Q. By whom are you employed and in what capacity?

9 A. I work for OXY USA as a senior geologist.

10 Q. Have you previously testified before the
11 Division?

12 A. I have not.

13 Q. Can you please outline your educational
14 background?

15 A. I have a master's degree from the University of
16 Texas at Austin in geoscience. I have a bachelor's
17 degree from the University of Southern California in
18 geology.

19 Q. And what has your work experience been?

20 A. I have 16 years' experience. I've been three
21 years at OXY working the Permian Basin. Prior to that,
22 I worked for Swift Energy Company, and prior to that, I
23 worked at Shell Oil.

24 Q. And during this time, were you employed as a
25 petroleum geologist?

1 A. Correct.

2 Q. And what has been your experience and
3 responsibilities in the Permian Basin?

4 A. I work primarily the Delaware Basin in
5 New Mexico.

6 Q. Are you a member of any professional
7 associations?

8 A. I'm a member of the American Association of
9 Petroleum Geologists, the Society of Professional Well
10 Log Analysts and the West Texas Geology Society.

11 Q. Among other associations?

12 A. Among others.

13 Q. Are you familiar with the applications filed in
14 these consolidated cases?

15 A. I am.

16 Q. And have you conducted a geologic study of the
17 subject acreage?

18 A. I have.

19 MS. KESSLER: Mr. Examiner, I tender
20 Mr. Troutman as an expert in petroleum geology.

21 EXAMINER DAWSON: Mr. Troutman will be
22 admitted as an expert in petroleum geology at this time.

23 Q. (BY MS. KESSLER) Let's turn to Exhibit 13. And
24 can you please identify this exhibit for the Examiners?

25 A. That's a structural map of the top of the 2nd

1 Bone Spring Sand in subsea depth.

2 Q. Does this show the proposed wells as blue
3 sticks?

4 A. The proposed wells are all shown on here. I'm
5 also showing the location of the cross sections that
6 will be in the two following exhibits.

7 Q. To clarify, this shows the 26H well and the
8 south half of Section 1 and the south half-southeast
9 quarter of Section 2, but that is not included in
10 today's hearings, correct?

11 A. That's correct.

12 Q. This was just shown for development purposes?

13 A. Right.

14 Q. Now, looking at the structure in these two
15 sections, what do you see with respect to dip?

16 A. There is a slight dip to the east. The change
17 in depth is about 200 feet across this two-mile section
18 that we're including in these units.

19 Q. Is the structure relatively consistent
20 throughout the two sections?

21 A. It is.

22 Q. Have you identified any geologic hazards to
23 drilling horizontal wells?

24 A. No, I have not.

25 Q. What is Exhibit -- let me take a step back. It

1 looks like you've prepared two cross-section exhibits, a
2 west-to-east cross section and a north-to-south cross
3 section?

4 A. Correct.

5 Q. Is Exhibit 14 the west-to-east structural cross
6 section you've prepared?

7 A. It is.

8 Q. Can you please walk us through this exhibit?

9 A. Okay. The bold line on the top is the top of
10 the 2nd Bone Spring Sand. You can see that the
11 thickness is consistent from 250 to maybe 270 feet on
12 the east and thickening towards the east.

13 Q. What is your target interval?

14 A. The target interval will be the Lower 2nd Bone
15 Spring Sand in the, roughly, 8,800 feet measured depth
16 showing on the left -- far left side of the cross
17 section.

18 Q. What do you see with respect to continuity of
19 the formation across the proposed nonstandard units?

20 A. I think it's consistent in thickness in
21 reservoir quality across this interval.

22 Q. Okay. There is no major thickening or thinning
23 across --

24 A. No.

25 Q. -- our two proposed sections?

1 Is Exhibit 15 the north-to-south cross
2 sectional you prepared?

3 A. It is.

4 Q. Can you please walk us through this map?

5 A. Again, it's showing the 2nd Bone Spring Sand
6 interval. It's roughly in a strike direction, so there
7 is very little change in elevation across this. And
8 we'll be targeting that lower lobe in the 2nd Bone
9 Spring Sand.

10 Q. Does this exhibit also show that the formation
11 is relatively continuous across the two proposed units?

12 A. Yes, it does.

13 Q. Based on your study of this area, have you
14 identified any geologic impediments to the developing
15 this acreage using two-mile horizontal wells?

16 A. No, I have not.

17 Q. And in your opinion, can the area be
18 efficiently and economically developed by horizontal
19 wells?

20 A. Yes.

21 Q. Do you believe that, on average, each of the --
22 for each of the proposed nonstandard units, each well
23 will contribute more or less equally?

24 A. Yes, I do.

25 Q. And in your opinion, will granting OXY's

1 applications be in the best interest of conservation,
2 the prevention of waste and the protection of
3 correlative rights?

4 A. Yes.

5 Q. Were Exhibits 13 through 15 prepared by you or
6 compiled under your direction and supervision?

7 A. Yes.

8 MS. KESSLER: Mr. Examiners, I'd move
9 admission of Exhibits 13 through 15.

10 EXAMINER DAWSON: Exhibits 13 through 15
11 will be admitted to the record at this time.

12 (OXY USA, Inc. Exhibit Numbers 13 through
13 15 are offered and admitted into evidence.)

14 EXAMINER DAWSON: Thank you, Ms. Kessler.
15 Mr. Brooks, do you have any questions?

16 EXAMINER BROOKS: No questions.

17 CROSS-EXAMINATION

18 BY EXAMINER DAWSON:

19 Q. I only have a few questions, Mr. Troutman. So
20 the preferred direction for drilling in this area is
21 from east to west; is that correct?

22 A. Yes. The maximum horizontal stress in this
23 area runs approximately north 30 degrees east, so you
24 can drill north-south or east-west with roughly the same
25 result.

1 Q. Okay. So OXY's -- they're going forward now
2 and drilling more two-mile Wolfcamp wells?

3 A. We are.

4 Q. And those seem to be much better estimated
5 ultimate recovery on those wells or -- versus a
6 one-mile?

7 A. It improves our efficiency. We lose less of
8 the reservoir to, you know, the elbow -- to the curve of
9 the well. Yes. I think it improves our economics.

10 Q. Okay. And these wells are drilled from the
11 east to the west, and they are -- you're drilling toe
12 up, right, updip?

13 A. These will be drilled from west to east, and
14 they will be slightly toe down.

15 Q. Oh, toe down. All right. I see it on the
16 C-102. Okay. Great.

17 That's all the questions I have. Thank you
18 very much.

19 EXAMINER DAWSON: Thanks, Ms. Kessler.

20 So at this time, Case Numbers 15869, 15870
21 and 15871 will be taken under advisement.

22 At this time we'll take a five-minute
23 break. It's 10:40. We will be adjourned until 10:45.

24 (Case Numbers 15869, 15870 and 15871
25 conclude, 10:40 a.m.)

(Recess, 10:40 a.m. to 10:46 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____
_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

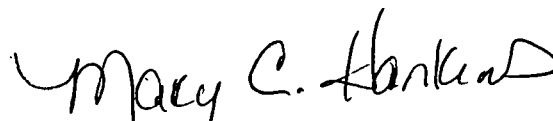
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MARY C. HANKINS, CCR, RPR
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