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 OF YATES PETROLEUM CORPORATION FOR AN UNORTHODOX INFILL OIL WELL LOCATION, CHAVES COUNTY, NEW MEXICO	)	CASE NO. 13,045

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

August 7th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, August 7th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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

August 7th, 2003
Examiner Hearing
CASE NO. 13,045

	PAGE
APPEARANCES	3
STATEMENT BY MR. CARR	5
APPLICANT'S WITNESS:	
TIM MILLER (Geologist)	
Direct Examination by Mr. Carr	7
Examination by Examiner Jones	22
REPORTER'S CERTIFICATE	28

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	9	21
Exhibit 2	9	21
Exhibit 3	10	21
Exhibit 4	11	21
Exhibit 5	12	21
Exhibit 6	13	21
Exhibit 7	16	21

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A P P E A R A N C E S

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* * *

ALSO PRESENT:

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* * *

WHEREUPON, the following proceedings were had at 9:28 a.m.:

EXAMINER JONES: Next case, let's call Case 13,045, which is the Application of Yates Petroleum Corporation for an unorthodox infill oil well location, Chaves County, New Mexico. This is reopened and readvertised and continued from July the 10th.

Call for appearances in this case.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P. We represent Yates Petroleum Corporation in this matter, and I have one witness.

EXAMINER JONES: Any other appearances in this case?

You may go ahead.

MR. CARR: May it please the Examiner, my witness is Tim Miller, and I would ask that the record reflect that Mr. Miller was previously sworn in the immediate preceding case and that his qualifications as an expert witness in petroleum geology have been accepted and made a matter of record before the Division.

EXAMINER JONES: Okay, we'll have his credentials and sworn testimony accepted.

MR. CARR: Mr. Jones, the Application in this case has a potentially confusing history, and it might be

helpful if at the beginning I just briefly summarize how we go to this point today.

EXAMINER JONES: Please do.

MR. CARR: On the 10th of March this year, Yates Petroleum Corporation filed an administrative application seeking approval of the well location that's before you here today, and in that application there was a sentence that read something like this: It says in the event the well is completed in the Abo formation, it would be governed by the Pecos Slope-Abo Pool Rules. There are special rules governing that Pecos Slope-Abo Gas Pool, and those rules provide that any application for an unorthodox location must go to hearing.

Because of that, on the 18th of March the Division wrote Yates and stated the Application was being set for hearing. Following that I conferred with Mr. Stogner. Yates was the original application in the case when the Pecos Slope-Abo Pool Rules were accepted. They were seeking infill locations, there were questions about correlative rights, and that is why when that Application was approved, that special hearing requirement was contained in those rules.

And I discussed the matter with Mr. Stogner, and what we did was, we filed an application to amend the Pecos Slope-Abo Pool Rules to delete that requirement and then

ask that this application be dismissed and it was.

In the meantime while we were waiting to go hearing on the pool rule part of the case, addressing the Pecos Slope-Abo, Yates amended the application and refiled it, and refiled it only for the oil zone, the Pecos Slope-Penn, which is the matter before you today. And when that Application was received, the Division reopened the case and set it back on the docket to address just the Pennsylvanian oil zone. And in the meantime we have continued the case a number of times.

It was our hope that the rules would be changed, that we could amend our administrative filing and avoid ever coming to hearing on this, but the change in the Pecos Slope-Abo Pool Rules do it all in an amended application.

We have gotten to the point where we are ready to go forward with the well, and so that is the reason we're coming here today to present to you our case on the Pecos Slope-Pennsylvanian Pool. And then if, in fact, as we said at the beginning, in the event the Abo should ever become a target, we would come back to you at that time, and hopefully by that time the rules will have been changed and we could handle that administratively.

So what we're here today is, after this long history, we're getting ready to drill the well, and we need to go forward and ask for approval to -- of an unorthodox

location in the Penn.

The second administrative application, the one just addressing the Penn, the one that's before you today, was set for hearing because the Division felt we needed to present subsurface mapping and cross-sections and discuss this location in greater detail, and that's what Mr. Miller is here to do. Okay?

TIM MILLER,

the witness herein, having been previously duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. State your name for the record.

A. My name is Tim Miller.

Q. Mr. Miller, you're familiar with the subject matter of this case?

A. Yes, I am.

Q. You've made a geological study of the area which is the subject of the Application?

A. Yes, I have.

Q. Are you prepared to share the results of your work with Mr. Jones?

A. Yes, I am.

Q. Briefly summarize what it is that Yates seeks with this Application.

A. Yates Petroleum seeks approval of an unorthodox infill oil well location in the Pecos Slope-Pennsylvanian Pool for its proposed George Federal "QJ" Well Number 11, to be drilled 2080 feet from the north line and 1350 from the west line in Unit F of Section 26, Township 6 South, Range 25 East.

Q. Will this be the second well on the 320-acre west-half spacing unit?

A. Yes, it will.

Q. The original well on that spacing unit is which well?

A. The original well on the spacing unit is the George "QJ" Federal Well Number 10, which is 660 from the south line and 1500 feet from the west line.

Q. What rules today govern development of the Pecos Slope-Pennsylvanian Pool?

A. The rules that develop this are special pool rules for the Pecos Slope-Pennsylvanian Pool, adopted by Order Number R-11,721-A, dated April 28th, 2003, and they provide for 320-acre oil spacing and authorizes an infill well in the quarter section other than the quarter section containing the original well.

Q. And today the George "QJ" Federal Well Number 11, the well that's the subject of this hearing, is the infill well on that spacing unit?

A. Yes, it is.

Q. Now, you're aware the Application was originally filed for administrative approval?

A. Yes.

Q. And you heard me summarize the history of how we got here today?

A. Right.

Q. Would you identify the documents -- just identify them -- that are contained in Yates Exhibit Number 1?

A. Okay. Originally submitted on March 10th, 2003, for the unorthodox location in the Pecos Slope-Pennsylvanian Pool and the Pecos Slope-Abo Gas Pool. The document which is Exhibit 1 is the Application letter submitted on March 10th.

Q. This is the letter from the OCD setting the original case for hearing, correct?

A. Yes, yes.

Q. And then behind that are various other letters and orders that simply support the material I reviewed in the opening statement; is that right?

A. Yes, they are.

Q. Let's just go on to what has been marked as Yates Exhibit Number 2, and I'd ask you to identify that and review that for Mr. Jones.

A. Okay, Exhibit Number 2 shows you where our well

is going to be drilled in Section 26 in the northwest quarter of 6 South, 25 East. Once again, it is unorthodox because it's 2080 feet from the north, and basically we are proposing to drill this one into this Pennsylvanian-Cisco zone.

Q. And this map also shows in the southwest quarter the location of the original well, the George "QJ" Federal Well Number 10?

A. Yes, it does.

Q. What is Exhibit Number 2?

A. Exhibit Number 2 --

Q. I'm sorry, Exhibit Number 3?

A. Exhibit Number 3 is Yates' acreage colored in yellow, and basically we have all offsetting acreage that we own here. Basically -- it's not on the plat, but the proposed well, the George "QJ" Number 11, will be up in the northwest quarter of Section 26, and again we have all acreage surrounding this George Number 11.

Q. The west half of Section 26 is, in fact, one federal lease, is it not?

A. Yes.

Q. And this well location is unorthodox because it is 100 feet closer to the centerline of the spacing unit than authorized by the special pool rules for the pool; is that right?

A. Yes, it is.

Q. And the well only encroaches on other acreage dedicated to the well and acreage in which the ownership would be common?

A. Yes, it does.

Q. There were no affected parties, therefore, to notify of the unorthodox location under the Division Rules?

A. No, there weren't.

Q. Let's go to Exhibit Number 4, and I'd ask you to first identify it and then review the information on the exhibit for the Examiner.

A. Okay, Exhibit Number 4 is a gross isopach of what we call the George-Cisco zone, which is producing in four wells on this plat: the George Number 10 which is in the southwest quarter of Section 26, the George Number 9 which is in the northwest quarter of Section 35, the George "QJ" Federal 2Y, which is in the southeast quarter of Section 25, and then the Powers "OL" Deep FE Number 6, which is in the southwest quarter of Section 27. These are the four wells that are producing from this George-Cisco zone in this Pennsylvanian Pool.

What you're looking at is a gross isopach or gross thickness map of this carbonate interval in the Cisco. This is a limestone interval, and on subsurface data so far where we are going to position our George

Number 11, just gross thickness of the limestone, we will have somewhere in the area of 25 feet or more to -- of thickness of the limestone. This subsurface, datawise, presents that this will be the best spot for the location of this well.

Q. And this is your mapping of this interval?

A. Yes, it is.

Q. And it's based on well-control information?

A. Yes.

Q. Did you also integrate seismic data into this interpretation?

A. Not into this interpretation.

Q. Let's go to Exhibit Number 5.

A. Exhibit Number 5 is a net porosity cutoff map of greater than 4 percent, and this is the general trend of the way we think this George-Cisco interval trends. Once again, where the George 11 is proposed, these are two-foot contour intervals to be a little more precise so we hopefully can narrow down where this zone goes.

Where we are positioning our George Number 11, we will have somewhere between basically 10-plus feet of a net porosity of greater than 4 percent; 4 percent, normally, in carbonates, is kind of the least economic cutoff you can use. If you get 4 percent or better -- you know, of course you'd like to have better, but that's about the lowest that

maybe will still produce a good well. So that's basically what this map is projected on.

Q. On this map you have traces for two cross-sections, A-A', correct?

A. Yes, I do.

Q. Let's go to Exhibit Number 6, cross-section A-A', and I ask you to review that for Mr. Jones.

A. You might want to have, again, your Exhibit Number 5 out so you can see the trace of the cross-section over the area.

Okay, cross-section A-A' basically runs from west to east. Starting on the left-hand side, we go over and start in Section 28, a Yates Petroleum well called the Red Rock "NB" Federal Number 1 in Section 28.

What you are looking at in this cross-section, this cross-section is just a cross-section of this George-Cisco interval. Colored in blue is the gross thickness of the interval that was shown on one of the previous exhibits, the gross isopach, and the wells that do produce you have the perforations that are colored in red and marked, and then we also have colored the neutron density porosity crossover in the wells where it does produce from.

Starting again on the left-hand side, the Red Rock "NB" Fed Number 1, this is the furthest west of any deep wells that were drilled down through this interval

into basement. Up until we drilled the Georges 9 and 10 and deepened the old Abo wells of the Powers 6 and the George 2Y, these basically were all Abo wells in this area. There was no deep production, nobody had tested anything deeper below the Abo.

You can see in the Red Rock you have the carbonate zone, but you basically don't have any productive porosity in it. It's just basically zero percent.

Moving to the right, to the next well, it's the Powers OL Deep Federal Number 6. This was an old Abo well that we deepened to basement. We found the zone. As you can see, it's a little over 10 feet thick, and we have around 6 feet of porosity, neutron density porosity crossover, probably averaging around 8.5 to 9 percent, and it is perf'd out of that zone. It went on production in October of last year, and this is production through May of this year. This is the -- probably as far as the oil goes, the poorest of the wells. It so far has made 1933 barrels of oil, 72 million cubic feet of gas and 1639 barrels of water.

Moving on to the next well, which is the George "QJ" Federal Deep Com Number 2Y, this is another old Abo well that we deepened. We found a little thicker interval of the carbonate, thicker interval of the neutron density. We have perf'd in it. It's a little better well.

Cumulative production is lower, over 8000 barrels of oil. Gas so far, it's made 102 million. And it's made 53,000 barrels of water. It went on production in June of 2002, and this is the production up through May of this year.

The cross-section goes through the projected proposed location of the George Federal 11, and we're hoping to encounter the same thickness and hopefully the same neutron density net porosity that we might have in the George 2Y, and then we have better over in the George 10, which is to the right of this.

If you move over to the George 10, this was the first well that was drilled out here all the way to the basement. As you can see, it is a very good well. To give you a little history on this well, we completed in this formation. The first two days the well basically made in the area of 2 to 3 million cubic feet of gas per day, never produced a drop of oil. And this may sound biblical, but on the third day it turned around and was flowing 500-plus barrels of oil a day and about 2 million cubic feet of gas. Surprised Yates Petroleum, they've never had a well do this to them.

Anyhow, as you can see, it's made, so far, from August of 2001 to May of 2003, 164,000 barrels of oil. It is still flowing, it does not have a pumpjack on it yet. It's made 136 million cubic feet of gas and only 136

barrels of water.

The next well we drilled out there to the right is the George Number 9. Once again, good carbonate thickness interval. It's got a very good porosity in it, just to tell you where you see the crossover colored, that porosity on that solid line, which is the density curve, is just over the 22-percent mark. Eyeballing just the average porosity, this well has an average of about 18 percent, which is very good. This well will probably surpass the George 10. It is actually the best well out there. Even though it started a little later, in January of 2002, it has made so far 109,000 barrels of oil, 172 million cubic feet of gas, and no water. And once again, this is flowing under its own power so far.

The last well on the cross-section is just to the east. You can see where the zone basically thins out. It's the Cottonwood Ranch MK State Number 6. We have some of the carbonate, we have a little development of the porosity, but then this is nonproductive.

So this east-west cross-section gives you an idea where the four productive wells are, and the two best wells are the George 9 and 10.

Q. Let's go to cross-section B-B', Exhibit Number 7.

A. Cross-section B-B' is basically a north-to-south cross-section. Starting on the left-hand side of the paper

with Yates Petroleum's Cottonwood Federal Number 5, which was a northeast offset to the original George 10, this disappointed us. We encountered the carbonate interval, as you can see colored in blue, but we had very little porosity development in the well. Otherwise this was uneconomic in this well. It is producing uphole out of the Abo sands.

The cross-section, again, runs through the proposed location of the George 11, and we would hope to have porosity, that is, in the next well, which is the George 10, which you have heard about before. The George 9, which is to the right, and of course this is moving south southwest.

The next well is the Sacra "SA" Com Number 7 [*sic*] in the northeast quarter of Section 34. You can see we're on the edge of this carbonate interval. We only have about eight feet of total thickness of the limestone itself, and basically no porosity in it.

Q. And that's the Number 17, right?

A. That's the Sacra "SA" Com Number 17.

The next well is -- moving to the southeast of the 17, is the Sacra "SA" 21. Again, we encountered the carbonate interval, which is a limestone, but once again no porosity development.

The next well is an old well, which is the Five

Mile Draw Federal Number 1. This well was drilled in the early 1980s -- or actually, I should say the late 1970s, 1979, I think. They drilled it to basement, one of the rare wells out here that Yates Petroleum actually drilled all the way to basement.

They found the interval. It is perf'd in there. We think maybe what happened, we apparently had no mudlogging unit on this well. Back then, in the late 1970s, early 1980s, most companies, including us, if you drilled Abo wells, you did not have a mudlogger on the well. You drilled to a certain depth, which you thought you could drill through all the Abo sands, then you ran your e-logs and perforated. Apparently this was one of the few wells we thought to take deeper.

What we did -- and I think -- we basically, for lack of a more scientific term, screwed up the completion of this interval. We initially didn't -- we perforated it and I think hit it with a light acid job, didn't get much out of it, so we decided to gel-frac it, and I think what ended up probably happening, we still didn't get anything out of it. We probably just plugged up all the permeability in the thing.

So that is one well that, looking at it, it has all the earmarks that it should have been a productive well out of this zone, but it doesn't do it. And I think we

just -- Back then, of course, we didn't know -- we did not have the data we have now on the George 9 and 10, and we just didn't know what we were -- and not having a mudlogger on it did not help the situation.

The last well on the cross-section is the Five Mile Draw LX Federal Com Number 2, which is directly to the west of the Five Mile Draw Number 1 I just got talking about. We did encounter the carbonate, and we actually perforated what you see, very little porosity development, but since this was a relatively new well out there we decided, well, let's just try it. We got a trace of gas out of that one. And you can see why you have a trace of gas, you have very little porosity development. There's just enough in it to say you're right on the edge of probably the trend of this carbonate.

Q. Mr. Miller, Yates is proposing to drill this well at an unorthodox location that is just 100 feet from standard location?

A. Yes, it is.

Q. Could you explain to the Examiners why Yates is proposing to drill this well at this location?

A. We are proposing to drill this well at this location on the plats that are the net porosity isopach and the gross isopach.

On subsurface data, the best location --

Subsurface data says that the best location would have been a standard location of 1980 from the north and 1980 from the west.

We have recently, last summer, ran a new, very sensitive seismic technology experiment going on out here, shot a 3-D. And that 3-D has said that the best place to hit this carbonate zone for the best porosity is at 2080 feet from the north line, making it 100 feet -- you know, making it unorthodox, as opposed -- Originally we had put it subsurfacewise at 1980.

When we analyzed the 3-D data on this new technology we are trying, which is very proprietary right now, it said -- we have come out with three wells to drill on this 3-D seismic. The best one, the first one to drill, is this George Number 11, and the best place to try to hit the porosity zone made us move it 2080 feet -- made us put it unorthodox.

So that's why we are putting it -- That's why it is in an unorthodox location, because it is on the new technology, we're trying to see if it's going to work on this 3-D seismic.

Q. Mr. Miller, by moving to this unorthodox location, the well only encroaches on property where the ownership is exactly the same as the ownership in the well at that location?

A. Yes, it does.

Q. And this technology tells you that if you move 100 feet, as you're proposing, you will encounter a better section in the reservoir?

A. Yes, we will.

Q. And by drilling this well at this location, it also affords Yates an opportunity to test this technology?

A. Yes, it does.

Q. In your opinion, will approval of the Application and drilling the well at the proposed location be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it will.

Q. Will it enable Yates to fine-tune the technology it's using to develop this resource in this area?

A. Yes, it will.

Q. Were Exhibits 1 through 7 prepared by you, or have you reviewed them and can you testify as to their accuracy?

A. Yes, they were.

MR. CARR: At this time, Mr. Jones, we move the admission into evidence of Yates Exhibits 1 through 7.

EXAMINER JONES: Exhibits 1 through 7 will be admitted to evidence.

MR. CARR: And that concludes my direct

examination of Mr. Jones -- of Mr. Miller.

EXAMINER JONES: Of Mr. Miller.

MR. CARR: I'll save my questions for you.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Miller, so the new and proprietary seismic doesn't indicate that you should move the well a little bit to the west?

A. No. Like I said, we're trying a new system on this 3-D. Nobody's ever tried it before.

Our geophysicist, who -- this is going to strange -- no longer works for us, he went on to what he thought is better place to work, basically, he -- but he's a very good geophysicist -- he thought after serious analysis of the 3-D that putting it to make it -- was the best place to see if this technology will work, because what we have done, trying to track down this zone, we have basically drilled -- well, we have drilled two very good wells, the Georges 9 and 10.

We deepened two old Abo wells, the Powers Number 6 and the George 2Y, which are very poor wells, and the -- if you look at -- let's just use Exhibit Number 4, or Exhibit Number 5, whichever one you're looking at. I'm looking at Number 4.

You see where the proposed location is, George

Number 11. The well off to the southeast, the Cottonwood 5 -- now this was just on trying to do it subsurfacewise on data -- we struck out, we did not encounter a productive zone.

The well over in the northwest quarter of 36, the Cottonwood Ranch MK State Number 6, the same thing. We encountered the limestone, but we did not get any porosity. Struck out there.

Sacra 17 in the northeast quarter of 34, same thing: found the carbonate, not the porosity.

In Section 35, southwest quarter, the Sacra 21, same thing: found the carbonate, no porosity.

And then of course the Five Mile Draw Number 2, which is the southwest quarter of 34, found the carbonate, no porosity.

So that's we decided we needed some extra help out here instead of just drilling blind, basically. Subsurface really wasn't doing the trick. We contracted to run a 3-D, and we tried a very new -- what we have come up with, experimental process on the recommendation of our geophysicist.

And after that was all said and done and he analyzed it thoroughly, that's basically why the George 11 is going where it's going.

Q. Okay. And you can afford to run that 3-D seismic

and process it to look for these --

A. Yes, and like I said, we are basically going to drill three wells out there, and this was the best of the three, to try to see if this technology will work.

Q. Okay. The contours, do you draw those by hand, or do you have a computer that draws them?

A. They -- I initially draw them by hand, and then a lady scans them. And so they're as close as you can get to my original hand-drawn maps. They're scanned into the computer, and then that's how this is copied.

Q. I'm no expert on contouring, but they look pretty good.

This well down in -- Five Mile Draw Federal Com Number 1 --

A. Yes.

Q. -- that kick on your porosity, was that a density or neutron kick or what?

A. The -- Okay, the solid curve, that's the density. It goes out to -- It looks like about 13 percent.

Q. So that is density?

A. Yeah, it's density. And then the other one -- You can't really see it on here, but then the curve on the right side would be the dashed line, would be the neutron.

Q. So it's crossover?

A. Right, it's crossover. And these -- And most of

these wells make oil and gas.

Q. So that's a gas-effect crossover?

A. Yeah, it's a gas-effect, because you do have a gas -- Like I said, the George Number 10, which was the first deep well, you know, in modern times drilled out there, it initially made -- like I told you, the first two days it made 2 to 3 million cubic feet of gas. We had no idea it was going to make oil. Then into the third day of production the oil came up and was flowing over -- Actually, I think it flowed close to 550 barrels of oil a day.

Q. On the third day?

A. On the third day.

Q. That was relative permeability effects or what?

A. Really don't know. We're still -- We're still studying this. We have our reservoir engineer studying it, and we still have more questions than answers so far.

And we're hoping maybe by trying to utilize this 3-D technology that we're experimenting with, maybe it will help us track down exactly where the best spots and give us a handle on maybe how big or how small. We think they might be carbonate pods, maybe, in a mid-shelf geological environment.

But, you know, there's more questions than there's answers in the zone yet.

Q. Okay. And I remember the only water well you got is really unexplained --

A. Yeah, the --

Q. -- really is not -- probably not coming out of that zone?

A. Well, the -- I think, yeah, the water, I think it's George 2Y, we deepened it, we had hole problems while we were drilling it.

We actually -- When we went back in, it was caving in on us. We came back and went back into the hole and found out -- we started drilling a twin right beside the old hole, probably not that far apart, apparently got back in the old hole.

So to this day there's still an in-house argument where that water is actually coming from, it's actually coming out of the zone or it's coming from uphole or maybe down out of the basement. That's still a question mark.

EXAMINER JONES: Okay, that's all the questions I have.

Mr. Brooks?

MR. BROOKS: No questions.

EXAMINER JONES: Thank you very much for all --

THE WITNESS: Thank you.

EXAMINER JONES: -- the preparation --

MR. CARR: And that concludes our presentation in

this matter.

EXAMINER JONES: -- and for all the -- Mr. Carr, and the Yates Group for all your preparation in these cases.

And with that, Case 13,045 will be taken under advisement.

Let's call a 15-minute break and come back at 10 after 10:00.

(Thereupon, these proceedings were concluded at 9:57 a.m.)

* * *

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 _____ 19___.

_____, Examiner
Oil Conservation Division

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 August 8th, 2003.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006