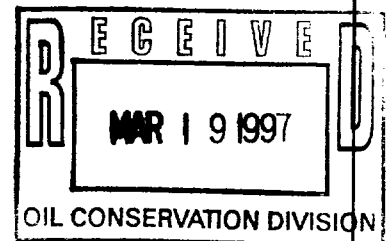


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 11,727

APPLICATION OF ARCO PERMIAN, A DIVISION)
OF ATLANTIC RICHFIELD COMPANY, FOR AN)
UNORTHODOX BOTTOMHOLE LOCATION AND)
DIRECTIONAL DRILLING, EDDY COUNTY,)
NEW MEXICO)



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 6th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 6th, 1997, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 6th, 1997
 Examiner Hearing
 CASE NO. 11,727

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* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 11:19 a.m.:

3 EXAMINER STOGNER: At this time we're going to
4 vary from the order here and call Case Number 11,727, which
5 is on top of page 4.

6 MR. CARROLL: Application of ARCO Permian, a
7 division of Atlantic Richfield Company, for an unorthodox
8 bottomhole location and directional drilling, Eddy County,
9 New Mexico.

10 EXAMINER STOGNER: At this time I'll call for
11 appearances.

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe law firm Campbell, Carr,
14 Berge and Sheridan.

15 We represent ARCO Permian in this matter, and I
16 have two witnesses.

17 MR. GALLEGOS: Mr. Examiner, I'm Gene Gallegos,
18 Santa Fe, New Mexico, representing Doyle Hartman, offset
19 operator in Section 25. We will not have a witness nor
20 present exhibits.

21 EXAMINER STOGNER: Thank you, Mr. Gallegos.

22 Any other appearances?

23 Will the witnesses please stand to be sworn?

24 (Thereupon, the witnesses were sworn.)

25 MR. BRUCE: Mr. Examiner, someone was talking to

1 me. I forgot to enter an appearance on behalf of Mewbourne
2 Oil Company.

3 EXAMINER STOGNER: Mr. Gallegos, Mr. Carr, do you
4 all have any objections to Mr. Jim Bruce entering a late
5 appearance in this matter?

6 MR. CARR: As long as we can clarify he's not
7 with his former firm, that will be all right.

8 MR. GALLEGOS: No objection.

9 EXAMINER STOGNER: Mr. Bruce, would you like to
10 enter into an appearance at this time?

11 MR. BRUCE: Yes, sir.

12 EXAMINER STOGNER: Well, you may do so.

13 MR. BRUCE: Jim Bruce of Santa Fe, and I'm
14 entering an appearance on behalf of Mewbourne Oil Company.

15 EXAMINER STOGNER: Do you have any witnesses,
16 sir?

17 MR. BRUCE: No, sir.

18 LEE M. SCARBOROUGH,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Lee Scarborough.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed?

3 A. ARCO Permian.

4 Q. What is your current position with Arco Permian?

5 A. Landman.

6 Q. Have you previously testified before the Oil
7 Conservation Division?

8 A. Yes, sir.

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

12 A. Yes, sir.

13 Q. Are you familiar with the Application filed in
14 this case on behalf of ARCO?

15 A. Yes, sir.

16 Q. And are you familiar with the status of the lands
17 in the subject area?

18 A. Yes, sir.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER STOGNER: Any objection?

22 MR. GALLEGOS: No objection.

23 EXAMINER STOGNER: So qualified.

24 Q. (By Mr. Carr) Mr. Scarborough, could you briefly
25 summarize what ARCO seeks in this case?

1 A. Yes, sir, authorization to directionally drill
2 the Evelyn 35 State Com Well Number 1 to the base of the
3 upper Mississippian formation from a surface location 1730
4 feet from the north line, 660 feet from the east line, to
5 an unorthodox bottomhole location within 100 feet of a
6 point in the Morrow formation, South Empire-Morrow Gas
7 Pool, 1253 feet from the north line and 508 feet from the
8 east line of Section 35, Township 17 South, Range 28 East.

9 Q. And the north half of Section 35 will be
10 dedicated to the well?

11 A. Yes, sir.

12 Q. Let's go to what has been marked for
13 identification as ARCO Exhibit Number 1. Would you
14 identify and review that, please?

15 A. Yes, sir, that is a plat that shows the drilling
16 unit outlined in red.

17 It shows the proposed surface and bottomhole
18 locations for the well, and it shows other wells that have
19 penetrated the Morrow in the area.

20 Q. Are the offset operators identified on this
21 exhibit?

22 A. Yes, they are.

23 Q. Let's go now to Exhibit Number 2. Would you
24 identify and review this?

25 A. Exhibit Number 2 is the Form C-102, Oil

1 Conservation Division Well Location and Acreage Dedication
2 Plat.

3 Q. And this again shows the surveyed surface
4 location?

5 A. Yes, sir.

6 Q. Projected bottomhole location?

7 A. Yes, sir.

8 Q. Let's move now to Exhibit Number 3. What is
9 this?

10 A. Exhibit Number 3 shows a listing of the offset
11 operators by well name, and also a listing of the working
12 interest owners.

13 Q. Now, the working interest owners are all
14 voluntarily in and committed to the well under an operating
15 agreement, are they not?

16 A. Yes, sir.

17 Q. As to the offsetting operators, have you been in
18 contact with both Mewbourne and Mr. Hartman?

19 A. Yes, sir.

20 Q. And will Mr. Percy, the next witness, be able to
21 review the status of the negotiations with Mr. Hartman?

22 A. Yes, sir.

23 Q. Is Exhibit Number 4 a notice affidavit confirming
24 that notice of this Application has been provided to
25 affected owners as required by Oil Conservation Division

1 rules?

2 A. Yes, sir, it is.

3 Q. And you have notified all offsetting operators?

4 A. Yes, sir.

5 Q. Will ARCO call an engineering witness to review
6 the technical portion of this Application?

7 A. Yes, sir.

8 Q. Were Exhibits 1 through 4 either prepared by you
9 or compiled at your direction?

10 A. Yes, they were.

11 MR. CARR: At this time, Mr. Stogner, I would
12 move the admission into evidence of ARCO Exhibits 1 through
13 4.

14 EXAMINER STOGNER: Any objection?

15 MR. GALLEGOS: No objection.

16 EXAMINER STOGNER: Exhibits 1 through 4 will be
17 admitted into evidence.

18 MR. CARR: And that concludes my examination of
19 this witness.

20 EXAMINER STOGNER: Thank you, Mr. Carr.

21 Mr. Gallegos?

22 MR. GALLEGOS: No questions, thank you.

23 EXAMINER STOGNER: Mr. Bruce has left the
24 building.

25 MR. CARR: He's looking for some files.

EXAMINATION

BY EXAMINER STOGNER:

Q. Exhibit Number 3, when I look at that, you talk about operator and well name. Am I to assume that those wells are producing from your proposed Mississippian completion or Morrow?

A. Morrow.

Q. Morrow. Now, when I look at Exhibit Number -- Is this Exhibit 1?

MR. CARR: This is Exhibit 1, I'm sorry.

Q. (By Examiner Stogner) When I look at Exhibit Number 1, especially over there toward the east and to the north in Section 25, 26 and 36, there are two hachmarks that separate those sections. Does that also correspond with the proration units in the Morrow? Are you aware?

A. I'm not aware, sir.

EXAMINER STOGNER: Okay. I have no further questions of this witness.

MR. CARR: At this time we'd call Mr. Pearcy.

DAVID B. PEARCY,

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

DIRECT EXAMINATION

BY MR. CARR:

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

1 A. David Percy.

2 Q. Where do you reside?

3 A. Midland, Texas.

4 Q. By whom are you employed?

5 A. ARCO Permian.

6 Q. Mr. Percy, what is your current position with
7 ARCO?

8 A. Senior geologist.

9 Q. Have you previously testified before this
10 Division?

11 A. Yes, I have.

12 Q. At the time of that testimony, were your
13 credentials as an expert in petroleum geology accepted and
14 made a matter of record?

15 A. Yes.

16 Q. Are you familiar with the Application filed on
17 behalf of ARCO in this matter?

18 A. Yes, I am.

19 Q. Have you made a geological study of the area
20 which is involved in this Application?

21 A. I have.

22 Q. Are you prepared to share the results of that
23 study with the Examiner?

24 A. Yes, I am.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER STOGNER: Any objections?

3 MR. GALLEGOS: No objection.

4 EXAMINER STOGNER: So qualified.

5 Q. (By Mr. Carr) Initially, Mr. Percy, let's go to
6 Exhibit Number 1. If you'll note in Sections 25, 26 and
7 36, the hached lines, do those show the existing proration
8 units in the Morrow in each of those sections?

9 A. Yes, they do, in the Morrow or the Atoka in some
10 cases.

11 Q. And it shows that the offsetting operators to the
12 north and the east are either ARCO or Mr. Hartman; is that
13 right?

14 A. That's right.

15 Q. Is Mr. Hartman also the operator of the south
16 half of Section 35?

17 A. Yes, he is.

18 Q. Have you been in discussions with Mr. Hartman or
19 his representatives concerning this Application?

20 A. Yes, I have been in discussion with them for
21 several weeks in order to try and make sure that they have
22 all the information that they would need in order to not be
23 in a position to object.

24 Q. And what basically is the agreement that you have
25 now reached with Mr. Hartman?

1 A. Mr. Hartman has agreed over the phone yesterday
2 afternoon to not object to our unorthodox bottomhole
3 location if we will not object to any similar unorthodox
4 location that he might drill in the south half of Section
5 25.

6 Q. How close to the eastern boundary of Section 35
7 will this well be located?

8 A. The target for the Morrow formation is to be 508
9 feet from the east line of Section 35.

10 Q. And ARCO has no objection to Mr. Hartman drilling
11 a well that would be completed that close to the east line
12 of Section 35?

13 A. We have no objection.

14 Q. All right. Could you explain to the Examiner the
15 reason ARCO is proposing to directionally drill this well?

16 A. If I could refer to my Exhibit Number --

17 Q. -- 5.

18 A. -- 5, we're showing that the --

19 Q. Is this the isopach on the lower Morrow?

20 A. Yes, this is the isopach of the lower Morrow net
21 pay sand.

22 You'll notice the current Evelyn well, API Number
23 29133. That was drilled in the northeast quarter of
24 Section 35, found zero sand. We believe that this well is
25 right on the fringe of a possible lower Morrow channel that

1 we're showing running approximately north-south, that we
2 could target at the proposed bottomhole location, which is
3 shown with the X on the map.

4 Q. The purpose is basically to bottom the well in
5 what you believe is the producing channel; is that right?

6 A. That's right. We were very close but,
7 unfortunately, missed it and had no pay in the current
8 wellbore.

9 Q. Let's go to Exhibit Number 6, the production map.
10 Can you review that for the Examiner?

11 A. Exhibit 6 shows that there are several excellent
12 Morrow producers in Section 25 to the northeast of our
13 proposed location.

14 It also indicates in Section 36, in the southwest
15 quarter, we have a relatively new Morrow completion; it's
16 our Dorothy well that we drilled in 1995.

17 It's also showing that there are some other poor
18 Atoka wells in the area, and as indicating by the number of
19 dry holes and low cums in here, that we still expect to
20 have substantial risk in perhaps not finding this Morrow
21 zone or any Atoka zones at all.

22 Q. Let's go to ARCO Exhibits 7 and 8, schematics of
23 the proposed well, and in referring to these could you just
24 explain to Mr. Stogner how it is you propose to actually go
25 about the directional drilling?

1 A. The current Evelyn well is cased with 5-1/2-inch
2 down to 10,805 feet. We plan to kick off a window at about
3 9760 feet and drill with a 4-3/4-inch bit. We plan to
4 drill approximately 500 feet generally north of the current
5 bottomhole location in order to intersect the Morrow at a
6 place where we hope it will be productive. We will then
7 cement 2-7/8-inch tubing through the window and the open
8 hole that we've cut and tie that back with 2-7/8-inch
9 tubing to surface.

10 Q. Will you run a directional survey on the well?

11 A. Yes, we will.

12 Q. And will you provide a copy of that survey to the
13 Division?

14 A. Yes.

15 Q. Would you identify what has been marked as
16 Exhibit Number 9?

17 A. Exhibit 9 shows the directional map for the well.
18 As you can see again, we'll kick off near 9760.

19 Q. Exhibit Number 9, I believe, is a --

20 A. Oh, excuse me.

21 Q. -- copy of an Oil Conservation Division form --

22 A. Okay, forgive me, I was going to Exhibit Number
23 8.

24 Yeah, Exhibit Number 9 is a C-101, which shows
25 our proposed casing program and our proposed bottomhole

1 location, as well as the current surface location.

2 Q. Have you been in contact or has the Oil
3 Conservation Division's District Office been in contact
4 with ARCO concerning how you propose to case the well?

5 A. Yes, they have, and they have indicated that they
6 want the Commission here to approve the 2-7/8-inch to be
7 run as casing through the sidetrack hole.

8 Q. How soon does ARCO propose to actually commence
9 the drilling of this well?

10 A. ARCO currently has a coiled-tubing unit that's in
11 Fort Worth on standby. We're waiting for the approval from
12 the Commission and would like to move that unit in as soon
13 as we possibly can, because there's a window of opportunity
14 here for us to use this new coiled-tubing technology. If
15 approval is delayed for the order of a month or so, that
16 unit will be shipped overseas and will not be available to
17 us.

18 Q. In your opinion, will approval of this
19 Application and the re-entry and directional drilling of
20 this well be in the best interest of conservation, the
21 prevention of waste, and the protection of correlative
22 rights?

23 A. Yes, it would.

24 Q. Were Exhibits 5 through 9 either prepared by you
25 or compiled under your direction?

1 A. Yes.

2 MR. CARR: At this time Mr. Stogner, we would
3 move the admission into evidence of ARCO Exhibits 5 through
4 9.

5 EXAMINER STOGNER: Any objection?

6 MR. GALLEGOS: No objection.

7 EXAMINER STOGNER: Exhibits 5 through 9 will be
8 admitted into evidence.

9 MR. CARR: That concludes my direct examination
10 of Mr. Percy.

11 EXAMINER STOGNER: Mr. Gallegos, your witness.

12 MR. GALLEGOS: I have no questions, thank you.

13 EXAMINER STOGNER: Mr. Bruce, your witness.

14 MR. BRUCE: No questions, Mr. Examiner.

15 EXAMINER STOGNER: Thank you.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. What's the present status of the Evelyn 35 State
19 Number 1? Is it producing or plugged and abandoned?

20 A. It is shut in, currently.

21 Q. Shut in from what interval?

22 A. There's a cast iron bridge plug which has been
23 set above some perforations that were attempted in the
24 Morrow.

25 Q. Was it ever completed as a producing well?

1 A. No, sir. That cast iron bridge plug is at 10,520
2 feet and has 35 feet of cement on top.

3 Q. Was the original intended completion to the
4 Morrow or somewhere else?

5 A. Yes, the original zone was to be the Morrow.

6 Q. Was to be the Morrow. What was the proration
7 unit for that particular well?

8 A. It was the same 320 that we've lined out here,
9 the north half.

10 Q. Do you know when it was drilled?

11 A. 1996. It was approved as an unorthodox location
12 last year.

13 Q. Can you reference that order?

14 MR. CARR: I can provide you with that order
15 immediately after the hearing.

16 Q. (By Examiner Stogner) So it was unorthodox when
17 you drilled it --

18 A. Yes.

19 Q. -- pursuant to the old rules; but to the new
20 rules as they stand today, that would have been a standard
21 location, would it not?

22 A. Not for a north-half, sir.

23 MR. CARR: We'd be too near the --

24 Q. (By Examiner Stogner) Oh, yeah, that's right.
25 Okay, 660. Okay.

1 Now, there's a well that is a plugged and
2 abandoned well back over in the northwest corner of Section
3 35?

4 A. That's right.

5 Q. Was that a Morrow test also?

6 A. It was a Morrow test and had zero sand and never
7 produced from the Morrow.

8 Q. Did it produce from any other interval?

9 A. Not to my knowledge, sir.

10 Q. Now, the proposed completion, milling a window at
11 9756, and you propose to complete it with 2-7/8-inch tubing
12 as your casing string; is that correct?

13 A. That is correct.

14 Q. All right. Will that be tied on -- Is that going
15 to be 2-7/8-inch all the way back to the surface, or are
16 you going to have a different size of string inside the
17 vertical portion?

18 A. From what our engineers have told me, it will
19 still be 2-7/8 all the way to surface, although there will
20 be some other hardware in there in order to give us some
21 options of additional work on the well.

22 Q. And the 2-7/8 will be cemented only in the
23 directional drilling portion of it?

24 A. Yes, and through the window. If you'll give me a
25 few moments, sir, I'll see how high above the window, if

1 you would like to know.

2 Q. Yes. If you look on Exhibit Number 9, does that
3 indicate where it will be at?

4 A. No, Exhibit Number 9, if I'm -- Okay, I guess
5 that's right. Top of surface about 9000, that's correct.
6 So we should have somewhere on the order of 500 feet of
7 cement there in the old open hole.

8 Q. Is there to be a packer or anything in the
9 current 5-1/2 to separate the 2-7/8-inch tubing before the
10 window or anything such as that?

11 A. No, sir, we're -- to the best of my knowledge, we
12 just plan to have the top of cement somewhere around 9000,
13 and again there will be some other hardware in there in
14 order for us to --

15 Q. But no packer assembly of any kind?

16 A. My drilling program does not indicate a plan for
17 any packer.

18 Q. Referring back to Exhibit Number 5, this area
19 shows to have had extensive survey, surface survey work.
20 Was any of that information utilized in mapping out the
21 channel on the Morrow?

22 A. Yes, it was. We have done 3-D in the area, and
23 we are hoping that that will indicate to us -- It's giving
24 us encouragement to do the sidetrack, whereas without it we
25 may not have that hole.

1 Q. Your Application indicates that you're going to
2 drill this well to the base of the upper Mississippian
3 formation. What's the purpose on that?

4 A. We have found shows in the Mississippian before.
5 It has been a practice of ours to drill down to the top of
6 the Chester limestone in order to get the other seismic
7 reflectors on our logs, and in the process we have seen
8 some shows that we would be encouraged to perforate.

9 However, in cases such as this, when we find
10 ourselves just force-pooling the Morrow, then that pretty
11 much shuts down that option. So we want to be able to
12 complete in anything that would be down to the
13 Mississippian.

14 Q. You said something about force pooling.

15 A. In this case, correct. We have a JOA already in
16 place.

17 Q. Okay, but that wasn't under a force-pooling
18 provision?

19 A. No.

20 Q. That was all voluntary?

21 MR. SCARBOROUGH: (Nods)

22 MR. CARR: Yes.

23 Q. (By Examiner Stogner) Did the vertical wellbore
24 go down into the Mississippian?

25 A. The vertical wellbore that was drilled here

1 barely topped some of the Barnett shale, and we could not
2 really see the Mississippian marker that we wanted to.

3 I'd again like to point out again, Mr. Examiner,
4 that because we're working with some new technology on this
5 coiled tubing unit, that we are requesting a 100-foot
6 radius for penetration for the Morrow target that we have
7 that's 508 feet from the east line.

8 Q. Is a 100-foot target area usually the norm for
9 directional drilling at this depth?

10 A. Given that we are going to have to drill out of
11 the 5-1/2-inch casing with a smaller than usual assembly,
12 we just felt that there was, perhaps, a lot more risk in
13 this case of not being able to get things adjusted right
14 and control things downhole.

15 Q. It's my understanding you're asking for an
16 exception to Rule 107 at this point too. This is for
17 tubingless completion; is that correct?

18 A. I guess that's what it amounts to, Mr. Examiner.
19 I know the Artesia office was reluctant to approve our
20 casing program, so I believe that's what they had in mind.

21 Q. Do you know why they were reluctant to? Did you
22 talk with them or --

23 A. No, sir. Tim Gum had talked to our permitting
24 man there in Midland, and I was not given any of the
25 details on that.

1 EXAMINER STOGNER: Forgive me while I look
2 through here. I haven't done a 107 tubingless completion
3 in -- I guess I've only done about three or four of them in
4 my career here.

5 MR. CARR: You're four ahead of me.

6 EXAMINER STOGNER: Just for the record, I do not
7 show that there's a necessity for offset notification,
8 but -- for this type of completion. And I'm referring now
9 to Rule 107 K, which I believe falls into this particular
10 matter.

11 THE WITNESS: As I understood it, it may have
12 just been administrative requests they wanted you to rule
13 on.

14 EXAMINER STOGNER: Well, you're taking it one
15 step further by asking me to consider it in this Order
16 today.

17 What was provided the offset operators, Mr. Carr?

18 MR. CARR: Basically, we gave them the
19 application for this well. It did not go into the details
20 of the casing program. All offsets are present in the room
21 today.

22 EXAMINER STOGNER: So noted, Mr. Carr. I'll take
23 your consideration for tubingless completions under
24 advisement also.

25 I do not have any further questions of this

1 witness. You may be excused, unless Mr. Gallegos or Mr.
2 Bruce has a question.

3 MR. GALLEGOS: I have no questions, thank you.

4 EXAMINER STOGNER: Okay, you may be excused.

5 MR. CARR: Mr. Stogner, the subject well was
6 drilled in the second half of 1996 by Amoco Production
7 Company. The order approving the unorthodox well location
8 was NSL-3700.

9 EXAMINER STOGNER: I'll take administrative
10 notice of that particular file and that matter.

11 MR. CARR: That concludes our presentation in
12 this case.

13 MR. GALLEGOS: And Mr. Examiner, based on the
14 understanding between ARCO Permian and Hartman as
15 articulated by Mr. Percy, let the record show we have no
16 objection to the Application.

17 EXAMINER STOGNER: Thank you, Mr. Gallegos.

18 Anything further in this matter?

19 This case will be taken under advisement.

20 (Thereupon, these proceedings were concluded at

21 11:46 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11721,
heard by me on 6 March 1997.


_____, Examiner
Oil Conservation Division

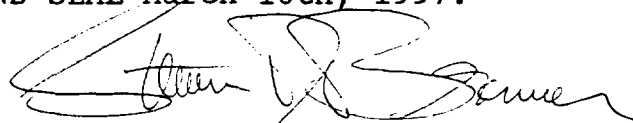
CERTIFICATE OF REPORTER

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 March 10th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998