

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

IN THE MATTER OF THE HEARING CALLED BY) CASE NOS. 11,883
 THE OIL CONSERVATION DIVISION FOR THE) and 11,884
 PURPOSE OF CONSIDERING:) (Consolidated)
)
 APPLICATIONS OF MARATHON OIL COMPANY)
 FOR COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 4th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 4th, 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.

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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR MARALO, INC.; LOWE PARTNERS, L.P.;
MRL PARTNERS, L.P.; and L.R. FRENCH, JR.
(Case 11,884 only):

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:28 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,883, Application of Marathon Oil Company for compulsory
5 pooling, Eddy County, New Mexico. Call for appearances.

6 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
7 the Santa Fe law firm of Kellahin and Kellahin, appearing
8 on behalf of the Applicant.

9 MR. BRUCE: Tom, are you going to do these
10 separate?

11 MR. KELLAHIN: Mr. Examiner, we request that you
12 consolidate the case that you've just called with the next
13 case on the docket, which is 11,884.

14 EXAMINER CATANACH: Okay, at this time I'll call
15 Case 11,884, the Application of Marathon Oil Company for
16 compulsory pooling, Eddy County, New Mexico. I'll call for
17 additional appearances in either of these cases.

18 MR. BRUCE: Mr. Examiner, Jim Bruce representing
19 Maralo, Inc.; Lowe Partners, L.P.; MRL Partners, L.P. and
20 L.R. French, Jr.

21 EXAMINER CATANACH: I'm sorry, give the last two
22 to me again.

23 MR. BRUCE: MRL Partners, L.P., and L.R. French,
24 Jr.. And I have one witness.

25 EXAMINER CATANACH: And you're entering an

1 appearance in which case?

2 MR. BRUCE: Particularly the second one, 11,884.

3 EXAMINER CATANACH: Particularly, or only?

4 MR. BRUCE: Yes. Only.

5 EXAMINER CATANACH: Okay, any additional
6 appearances in these cases?

7 Will the witnesses please stand to be sworn in at
8 this time?

9 (Thereupon, the witnesses were sworn.)

10 MR. KELLAHIN: Mr. Examiner, my first witness is
11 Mr. Tim Robertson. Mr. Robertson is a petroleum landman
12 with Marathon.

13 You can see on Exhibit 1 in Case 11,883, which is
14 the Courtman well location, that that Application deals
15 with the north half of Section 4.

16 The second case on the docket, which is 11,884,
17 for the Mitchusson well, is for the south half of the same
18 section, and Mr. Robertson is the landman that's been
19 involved with both wells in the section.

20 For presentation purposes, we're going to start
21 with the exhibit package that is in Case 11,883, and after
22 we go through that presentation we will look at the second
23 well and show you those documents for which there is a
24 difference.

25 There is a small difference in the identity of

1 the parties in the north half versus south half, and among
2 all parties there is changes in percentages between the
3 north half and the south half.

4 Mr. Robertson will identify for you those parties
5 for which he does not have final written agreements.
6 There's a party that he's not been able to contact.
7 There's a party that has required us to go forward with
8 compulsory pooling.

9 And then there's a category of interest that we
10 have called the Maralo group, which are represented by Mr.
11 Bruce, and we will pay particular attention to what we have
12 proposed for the Maralo group as to the first and second
13 well.

14 With that introduction, then, I'd like to call
15 Mr. Robertson.

16 TIM B. ROBERTSON,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. For the record, sir, would you please state your
22 name and occupation?

23 A. Yes, my name is Tim Robertson and I'm a petroleum
24 landman for Marathon Oil Company.

25 Q. And where do you reside, sir?

1 A. I reside in Midland, Texas.

2 Q. On prior occasions have you testified before the
3 Oil Conservation Division as a petroleum landman, and in
4 that testimony have you presented evidence and opinions
5 concerning compulsory pooling matters?

6 A. Yes, I have.

7 Q. As part of your employment for Marathon, have you
8 been involved in identifying the interest owners in this
9 section that would be participating in each of these wells?

10 A. Yes, I have.

11 Q. In addition, having identified those interest
12 owners, have you attempted to obtain and negotiate with
13 those parties voluntary agreements?

14 A. Yes, I have.

15 MR. KELLAHIN: We tender Mr. Robertson as an
16 expert petroleum landman.

17 EXAMINER CATANACH: He is so qualified.

18 Q. (By Mr. Kellahin) Let's start, Mr. Robertson,
19 with Exhibit 1 in Case 11,883 and, for the record, simply
20 identify what we're seeing.

21 A. This is a map of the Section 4 in question and
22 the surrounding sections. It shows the location of the
23 Courtman and Mitchusson wells in the north half and south
24 half, respectively. It also shows Morrow wells within
25 these sections.

1 Q. Let's set the locator map aside and turn to the
2 package of stapled documents which are -- which commence
3 with a plat identified as Exhibit Number 2. Would you
4 direct your attention to that display and describe it for
5 us?

6 A. Yes, this is a display of the north half of
7 Section 4, the different tracts within that proposed
8 proration unit and the working interest owners and their
9 percentages within those tracts.

10 Q. This display arranges the interests in the north
11 half of Section 4 in accordance with the leasehold
12 configuration in the north half of the section?

13 A. That's true, within the depth limits outlined
14 between 3500 feet and 11,152.

15 Q. All right. This compulsory pooling application
16 is, then, subject to this depth limitation?

17 A. That's correct.

18 Q. And approximately what type of intervals are we
19 dealing with when we find a footage of 1300 feet?

20 A. You mean 3500 feet?

21 Q. I'm sorry, 3500 feet.

22 A. 3500 feet, I believe, is approximately the base
23 of the San Andres formation.

24 Q. And then we get down to 11,152. That's the base
25 of what formation?

1 A. That would be -- approximately be the base of the
2 Morrow formation.

3 Q. Okay. Within that gross vertical interval, there
4 is the potential for a change in the size of the spacing
5 unit, is there not?

6 A. That's correct.

7 Q. And while the primary target is a Morrow well, if
8 the well is subsequently completed in a shallower formation
9 there will be parties that you will still need to have a
10 compulsory pooling order apply to, in order to have
11 consolidated their interests?

12 A. That's correct.

13 Q. Okay. Let's turn to Exhibit Number 3 in this
14 package set and have you describe for us how you have
15 arranged the working interest ownership on this display.

16 A. Yes, the display shows the different working
17 interest owners, their addresses, the status of their
18 participation as of two days ago, and also the percentage
19 working interest that they own within the 320-acre proposed
20 proration unit.

21 Q. Let's work down the spreadsheet. When we start
22 with the status, the first entry is obviously Marathon. It
23 shows Marathon's interest insofar as the deep gas is
24 concerned. And by that I mean 320 gas spacing.

25 A. That's correct.

1 Q. Below that is a consolidation of various
2 interests which I have collectively described as the Maralo
3 group?

4 A. Yes.

5 Q. And what percentage interest will they have in
6 the north-half spacing unit?

7 A. They will have approximately 28.9 percent working
8 interest.

9 Q. Okay. And as we continue to read down, we find
10 it arranged in a similar fashion in terms of percentage and
11 identity of party?

12 A. That's correct.

13 Q. Status as to the ARCO interest?

14 A. Yes, the status of the ARCO interest is that they
15 have -- we have received a term assignment from them.

16 Q. Mesa Oil Company?

17 A. Mesa Oil Company, the record title is still in
18 the name of this corporation. We received back our notice,
19 our well proposal from them, from the postal service, and
20 it was marked "undelivered", I believe.

21 Q. All right, this is a company that you cannot now
22 locate the principals of, and this company no longer is in
23 existence?

24 A. That's correct.

25 Q. All right, we'll come back to Mesa.

1 Yates Petroleum Corporation is participating?

2 A. Yes, they have signed an AFE and the operating
3 agreement.

4 Q. Status of Enron?

5 A. Enron has not participated and has indicated that
6 they simply wish us to take them through the compulsory
7 pooling process.

8 Q. Okay. Louis Dreyfus, the status of Louis
9 Dreyfus?

10 A. Louis Dreyfus has indicated to us verbally, we
11 have a verbal agreement to trade acreage with them to
12 obtain their acreage within this proration unit. We have
13 not received the signed documents from them on this trade.

14 Q. So at this point, while you continue to work with
15 Louis Dreyfus, you would like them made subject to a
16 compulsory pooling order with the expectation that you can
17 excuse them once the final written documents are completed?

18 A. That's correct.

19 Q. Read and Stevens?

20 A. Both Read and Stevens and Roy Barton, Jr., as
21 trustee, have signed AFEs and signed our operating
22 agreement.

23 Q. Okay. Let's come back up to the Maralo group.
24 You have a status of "N", which means no written agreement
25 in writing. Would you explain to us what you mean by that?

1 A. Yes, at the time this exhibit was finalized on
2 Tuesday of this week, we had not received any written
3 agreement from Maralo or the Maralo group.

4 We did receive, late on Tuesday afternoon, a
5 signed copy of a letter agreement which I had sent to them
6 on December 1st, and this letter agreement outlines the
7 basic terms of a term assignment which we had a verbal
8 agreement to, with them on. We did receive all of the
9 Maralo group's signature pages by fax late on Tuesday
10 afternoon.

11 Q. All right. We'll come back in a moment to the
12 status of the Maralo group negotiations --

13 A. Okay.

14 Q. -- but at this point, have you been negotiating
15 with one particular individual concerning all the Maralo
16 group interests?

17 A. Yes, that's correct. Primarily one individual.
18 I began my negotiations and I initially had contacted
19 Richard Gill at their Midland office, and later in the
20 negotiations I was directed to negotiate with a Mr. Joe
21 Pulido in their Houston office, which has been my primary
22 contact since that time.

23 Q. Mr. Pulido and Mr. Gill have represented to you
24 that they have the capacity to negotiate a solution on
25 behalf of the interest owners shown under this Maralo

1 group?

2 A. Yes, they have.

3 Q. All right. Let's -- We'll come back to the
4 Maralo group in a minute.

5 Let's turn to Exhibit 4, which is the next
6 exhibit in this package set, and as we go -- It's captioned
7 "Summary of Contacts with Working Interest Owners to be
8 Pooled", and it is specifically stamped Exhibit Number 4.
9 Let's skip the Maralo summary for a moment and go down and
10 indicate the status of your contacts with Pat Tower of
11 Enron. I don't ask you to read all of these; give us the
12 final conclusion.

13 A. Yes, the final conclusion of my number of
14 contacts with Mr. Tower at Enron was that unless they were
15 the only party to be pooled under a compulsory pooling
16 order, that they would prefer that we simply take them
17 through the compulsory pooling process and that they would
18 elect under the pooling order.

19 Q. Okay. Let's go down and summarize the Dreyfus
20 situation with Mr. Rusty Waters. Yes, the Dreyfus
21 situation is that we have a verbal agreement to trade
22 acreage with Dreyfus. And again I have -- we have this
23 verbal agreement, and Mr. Waters has indicated that the
24 assignments which I have drafted and sent to them will be
25 signed in the near future and that there was no reason to

1 believe that they will not.

2 Q. If we turn that page, we have a summary of the
3 Mesa Oil Company. Let's take a moment and describe for the
4 Examiner what efforts you have made in order to identify
5 this interest.

6 A. Okay. Our initial title lease takeoff
7 information indicated that Mesa Oil Corporation owned an
8 interest in this tract. After we did not receive our
9 return receipt from our well proposal, I had a contract
10 landman do some additional work on this, and he at that
11 point, a couple weeks after we sent out the well proposal,
12 indicated to me that he believed that Mesa's interest had
13 all gone to Yates Petroleum.

14 After that point, we sent out our operating
15 agreement to all the working interest owners, at that point
16 believing that Yates Petroleum owned the interest that it
17 was at one time -- belonged to Mesa Oil Corporation.

18 After that point, we did receive back the
19 undelivered well proposal from the postal service, marked
20 "unclaimed".

21 And then after that point, approximately October
22 31st, in conversations with my title attorney who was doing
23 the title opinion on this tract for me, he indicated that
24 his opinion was -- is that Mesa Oil Corporation had
25 retained the gas rights to this tract and still owned the

1 gas rights under the tract in our proration unit.

2 Q. As a result of his efforts, were you satisfied
3 that the documentation on public file in the county clerk's
4 office showed that Mesa Oil Company still was the owner of
5 the gas within the subject area?

6 A. Yes, I was.

7 Q. Was there any indication in the public documents
8 as a way to locate Mesa Oil Company?

9 A. The only indication that we were able to locate,
10 they were still the record title owner with the State Land
11 Office, and the address that was registered with the State
12 Land Office was the address that we used for our
13 notification purposes.

14 Q. And it came back?

15 A. And it came back.

16 Q. Did you subsequently search the Corporation
17 Commission records of the State of New Mexico to determine
18 if they had more current information on this company?

19 A. Yes, we did, and we were told by the Corporation
20 Commission that the corporation's charter had expired in
21 1975.

22 Q. Was there any indication in the records of the
23 Corporation Commission that the company had been terminated
24 and the assets distributed to any other individuals or
25 companies?

1 A. There was no termination documents or
2 distribution documents in their records which would
3 indicate who the parties that would now own this interest
4 would be.

5 Q. Have you been able to find through your searches
6 the identity of any principals associated with this
7 company?

8 A. We have not to this point. We have located a --
9 The president at the time of the last documents was a Mr.
10 William Dooley, and I believe the last document was in
11 1949.

12 We have looked for a probate proceedings for Mr.
13 Dooley, and my contractor has indicated that he has located
14 recently, within this past week, located probate
15 proceedings for Mr. Dooley. And I have not received those
16 yet, but we will continue to try and locate the owners of
17 Mr. Dooley's interest if he, in fact, was one of the
18 parties that had an interest in the corporation.

19 Q. At this point, then, you're requesting the
20 Division to issue a compulsory pooling order against Mesa
21 Oil Company?

22 A. Yes, we are.

23 Q. And in your opinion, have you exhausted good-
24 faith diligent searches to find the identity of individuals
25 associated with this now-expired corporation?

1 A. Yes, we have.

2 Q. All right, let me focus your attention on the
3 Maralo group interest, and let's talk first of all about
4 the relationship of the proposal for this Courtman well,
5 and then we're going to make a transition into what you
6 have proposed to Maralo concerning the second well in this
7 section.

8 A. Okay.

9 Q. If you'll help me do so by turning through this
10 package and finding what I have marked as Exhibit Number 14
11 -- it's tabbed very near the end, and it's a letter
12 dated -- over Marathon Oil Company letterhead, signed by
13 you, dated December 1st, addressed to the Maralo group.

14 A. Yes.

15 Q. Are you with me?

16 A. That's correct.

17 Q. Okay. The suggested voluntary arrangement is one
18 that is configured based upon a letter agreement which
19 anticipates that that letter agreement will form a basis of
20 understanding where the parties will subsequently execute a
21 term assignment?

22 A. That's correct.

23 Q. Okay. Describe to us what you have proposed to
24 Maralo concerning the transaction.

25 A. Yes, we have proposed that Maralo sell to

1 Marathon a two-year term assignment for \$300 per net
2 mineral acre and deliver a 78-percent net revenue interest,
3 and that the document would contain a 180-day continuous
4 drilling provision should there be discovery of any
5 hydrocarbons at smaller -- that would be -- fall under
6 smaller proration units than 320 acres.

7 Q. Okay.

8 A. Maralo -- Mr. Pulido had indicated to me that the
9 current ownership of the interests of the Maralo group was
10 as laid out in the first page of the letter, but he
11 indicated that prior to making this assignment to Marathon
12 that they would consolidate their interests into the Lowe
13 Partners, LP, partnership and the L.R. French, Jr., with
14 the working interests set out on the second page of the
15 letter.

16 And as I mentioned before, we did receive
17 signatures -- pages to this letter from all of the parties
18 listed on the letter late on Tuesday afternoon.

19 Q. Okay. So at this point you have a written
20 concurrence concerning the letter agreement and a
21 commitment to proceed to the next level of negotiations,
22 which is the negotiation and execution of the term
23 assignment?

24 A. That's correct.

25 Q. Are there any provisions or issues in a term

1 assignment that are not already resolved or addressed in
2 the letter agreement?

3 A. Yes, there are numerous details of a term
4 assignment which are not included in the letter agreement
5 and that we assume that we can work out with the Maralo
6 group.

7 Q. Okay. Until such time as the actual term
8 assignment has been fully executed, is it your desire to
9 have the Maralo group made subject to the pooling order
10 until that takes effect?

11 A. Yes, we would like to do that.

12 Q. Let me ask you about how Maralo's election
13 options are constructed under the term assignment
14 arrangement. Will they have any opportunity to make a
15 decision on the commitment of their interest before or
16 after spudding the well?

17 A. Are you speaking of the Courtman well now?

18 Q. Yes, sir.

19 A. No, once they execute a term assignment, they
20 would only have an overriding royalty interest in the well
21 and would have no election to participate in the well at
22 that point.

23 Q. Okay. Once the term assignment is executed,
24 then, it becomes your exclusive decision about spudding the
25 Courtman well?

1 A. That's correct.

2 Q. Okay. Let's make the transition now into the
3 Mitchusson well, which is the well in the south half of the
4 section. Once you learned of Maralo group's objection at
5 this hearing -- When did you learn about that objection?

6 A. We learned of that objection on -- I believe it
7 was Tuesday -- Monday of this week, I'm sorry.

8 Q. As a result of learning of that objection, have
9 you proposed to Maralo a solution concerning the second
10 well in the section?

11 A. Yes, we have.

12 Q. Let's turn to that exhibit set for the Mitchusson
13 well package -- it's in Case 11,884 -- and let's turn to
14 the back of that set of documents and find the letter
15 that's marked Exhibit 14 in that package. It's dated
16 December 2nd.

17 Without reading the letter, would you describe
18 what you have proposed to Maralo concerning the commitment
19 of their interest on the second well?

20 A. Yes. Due to Maralo's concern, their indication
21 that their opposition was based on their concern of not
22 being able to have information on the first well before
23 they make their decision concerning participation on the
24 second well, and in order to address that concern, we made
25 this proposal on December 2nd, which would allow the Maralo

1 group to make their election concerning the second well
2 after they have received the logs from Marathon on the
3 first well.

4 Do you want me to go into more detail on the time
5 periods?

6 Q. Have you received any indication from the Maralo
7 group that they are willing to make a commitment concerning
8 your proposal of December 2nd?

9 A. No, I have not.

10 Q. All right. Describe for me more specifically,
11 then. If Maralo accepts this voluntary agreement solution,
12 describe for me how this happens.

13 A. How this would work in our proposal is that we
14 would plan to drill the Courtman well first, and at the
15 time that we run logs in the Courtman well, the first well,
16 that we would provide Maralo and the Maralo group with
17 copies of all the logs for this well.

18 And then, if we were not planning to drill the
19 Mitchusson well immediately following the Courtman well,
20 then they would have 30 days from receipt of those logs in
21 order to make their election to either participate in the
22 second well, the Mitchusson well, or to grant us a term
23 assignment similar to the one that we have negotiated for
24 the well in the north half, the Courtman well.

25 If we are planning at that point to move the rig

1 directly from the Courtman well to the Mitchusson well,
2 then we would propose that Maralo make their election
3 within 48 hours after receiving the logs from Marathon.

4 Q. In the absence of a voluntary agreement on those
5 terms and conditions for the second well, are you asking
6 the Examiner to afford the Maralo group this same type of
7 election procedure concerning the force-pooling in the
8 Mitchusson well?

9 A. Yes, we are.

10 Q. So that in the absence of an agreement, if their
11 interest is committed under the force pooling order in the
12 south half, their election period for participation in the
13 Mitchusson well would commence only after they're provided
14 with the logs on the first well?

15 A. That's correct.

16 Q. And that period of time for election would be up
17 to 30 days, however it could be shortened to 48 hours in
18 the event the drilling rig for the first well has to be
19 moved over immediately to the second well?

20 A. Yes.

21 Q. That would afford the Maralo group the
22 opportunity to have available to them the log data that you
23 would have as you make your decision to move to the second
24 well?

25 A. That's correct.

1 Q. Okay. That proposal is to be unique as to the
2 Maralo group, is it not?

3 A. Yes, that's our proposal.

4 Q. Enron has not asked for any kind of sequential
5 election opportunity, have they?

6 A. No, they have not.

7 Q. All right, let's go back now, having explained
8 that, and let's talk about some of the other items that are
9 generic, if you will, to both cases.

10 First of all, do you have a proposed overhead
11 rate to be charged for both of these wells? And I would
12 direct your attention back to Exhibit 5 in the exhibit
13 package.

14 You've summarized your operating agreement
15 overhead rates?

16 A. Yes, our proposed overhead rates would be \$540
17 for a producing well and \$5400 for a drilling well.

18 Q. And that's consistent with what you're proposing
19 in the operating agreement?

20 A. Yes, that is consistent with what we're proposing
21 in the operating agreement.

22 Q. Let's turn to Exhibit Number 6, which is the next
23 page following Exhibit Number 5, and it's a well-proposal
24 letter dated September 8th. Does this represent your first
25 proposal to the working interest owners?

1 A. Yes, this is a copy of the letter that went to
2 all the working interest owners when we proposed our well,
3 and a copy of the AFE that was sent with the letter.

4 Q. Okay. Both of these proposals, the one for the
5 Courtman well and the Mitchusson well, were done
6 simultaneously?

7 A. Yes, that's correct.

8 Q. Are the AFEs identical for each well?

9 A. They're identical except for the well names and
10 locations.

11 Q. Okay. Have you received any objection from any
12 of the parties concerning the well cost?

13 A. No, we have not.

14 Q. Have you received any objection on the overhead
15 rates?

16 A. No, we have not.

17 Q. Yates Petroleum has signed your AFE?

18 A. Yes.

19 Q. And I think you have a commitment from some of
20 the other interest owners?

21 A. Yes, two other parties. The Barton interest and
22 the Read and Stevens has also elected to participate under
23 the operating agreement.

24 Q. Okay. The balance of the exhibits contained in
25 this exhibit set represent verifications of the fact that

1 either these interest owners are committed or that you have
2 provided your correspondence concerning those interests
3 that are not committed?

4 A. Yes.

5 Q. Let's turn to the Mitchusson exhibit set and look
6 now at Exhibit Number 2 so the Examiner can see some of the
7 differences.

8 When we look at the south half of Section 4
9 there's a different lease configuration than the north
10 half?

11 A. Yes.

12 Q. When we turn past Exhibit 2 and look at Exhibit
13 3, we have differences in percentages?

14 A. That's correct.

15 Q. In addition, we have some differences in parties?

16 A. Yes, there's a slight difference in the parties
17 involved.

18 Q. For example, is the Mesa Oil Company -- Do they
19 have an interest in the south half?

20 A. No, they do not.

21 Q. Their interest is confined, then, to the north
22 half?

23 A. Correct.

24 Q. You've got a Hanagan Petroleum Corporation listed
25 in the south half?

1 A. Yes. The Hanagan Petroleum Corporation interest
2 we learned of only this week, through our -- again, through
3 our title attorney. We believed at the time that we sent
4 out the well proposals and our notices that that interest
5 belonged to Atlantic Richfield.

6 Q. Okay. And you're in contact, then, with the
7 Hanagan family on behalf of the corporation to see what
8 position they want to take in this matter?

9 A. Yes. We believe that we can probably obtain a
10 term assignment from them.

11 Q. Okay. When we get down to the Enron interest it
12 says no agreement. Is the Status of Enron's position
13 concerning the south-half well the same as they represented
14 to you for the north-half well?

15 A. Yes, their position is the same on both wells.

16 Q. And what's the status as to Louis Dreyfus?

17 A. The status of Louis Dreyfus is also identical on
18 both wells in that we have a verbal agreement, but we have
19 not received the written agreement at this time.

20 Q. Okay. What's Marathon's general plan for the
21 drilling of these wells in terms of the possible timing at
22 which they would be commenced?

23 A. We would like to drill these wells in the first
24 quarter of 1998, and we plan at this time to drill the
25 Courtman well first.

1 Q. Is it reasonable to have the Maralo interest not
2 subject to a pooling order into the south half of the
3 section at this time and pool them at some subsequent date
4 in the future?

5 A. It would -- To postpone the pooling at this point
6 would probably postpone the well beyond the first quarter
7 of 1998.

8 Q. Do you believe the sequential election that you
9 have suggested for the Maralo group's interest is one
10 that's fair and reasonable and provides them an opportunity
11 to make an informed election as to participation in that
12 second well?

13 A. Yes, I do.

14 MR. KELLAHIN: That concludes my examination of
15 Mr. Robertson.

16 We move the introduction of his Exhibits 1
17 through 14 in Case 11,883 and Exhibits 1 through 15 in Case
18 11,884.

19 EXAMINER CATANACH: Any objections?

20 MR. BRUCE: No objection.

21 EXAMINER CATANACH: Exhibits 1 through 14 in Case
22 11,883 and Exhibits 1 through 15 in Case 11,884 will be
23 admitted as evidence.

24 Mr. Bruce?

25 MR. BRUCE: I have no questions of Mr. Robertson.

EXAMINATION

BY EXAMINER CATANACH:

Q. I guess the only issue I'd like to address is the Hanagan interest in that second case.

A. Yes.

Q. I think we have, again, another notice issue and another --

MR. KELLAHIN: I'm suggesting to you, Mr. Examiner, that we cannot pool the Hanagan interest. They're not properly in the case yet.

EXAMINER CATANACH: Okay, what do you suggest?

MR. KELLAHIN: We're just going to have to either carry them or pool them after the fact or work out an agreement.

EXAMINER CATANACH: You're not suggesting that we continue the case to give you guys time to negotiate with them?

MR. KELLAHIN: No, sir, I think we'll take the risk of trying to reach a voluntary agreement. If that doesn't work, then I think the interest is small enough that we'll just work with the problem.

And that may give them an advantages, because it would be an after-the-fact pooling if we can't reach an agreement.

Q. (By Examiner Catanach) What are your feelings on

1 negotiating with these folks?

2 A. We have purchased term assignments from a whole
3 group of parties which I call the Hanagan group, which
4 includes the principals of the Hanagan Petroleum
5 Corporation on both of these wells, and we believe that --
6 because -- for that reason we believe that we can obtain a
7 term assignment from the corporation.

8 And I have spoke with Mr. Bob Hanagan concerning
9 this, and he has indicated that he would be willing to --
10 He was surprised that this interest showed up, and he, in
11 fact, did not remember that they had this interest, or he
12 indicated he would have leased -- or sold us a term
13 assignment at the time we obtained the other term
14 assignments from them.

15 Q. So you've got a pretty good feeling that you can
16 get a voluntary agreement?

17 A. Yes, we feel comfortable with that.

18 Q. Okay, so you seek to drop them from the second
19 pooling case?

20 MR. KELLAHIN: Yes, sir.

21 THE WITNESS: Yes.

22 Q. (By Examiner Catanach) Okay. If both these
23 orders are issued at the same time, you're going to be
24 required to spud the wells within 90 days of the orders.
25 Is that feasible?

1 A. Yes, we have rigs -- a rig lined up to drill
2 these wells in the first quarter of next year.

3 EXAMINER CATANACH: Okay, I have nothing further.

4 MR. KELLAHIN: Mr. Examiner, my next witness is
5 Marathon's petroleum geologist, Bill DeMis.

6 Mr. DeMis is sponsoring two exhibits. They will
7 be a Morrow production map. He's going to come back and
8 talk about the Exhibit 1.

9 The second exhibit is a Morrow net pay map.
10 Those two second exhibits will be identical in both exhibit
11 packages. And so not to confuse you, I am going to
12 describe his exhibits as exhibits in Case 11,883.

13 WILLIAM D. DEMIS,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. DeMis, for the record, sir, would you please
19 state your name and occupation?

20 A. My name is William D. DeMis. I'm a petroleum
21 geologist. I'm employed by Marathon Oil Company in
22 Midland, Texas.

23 Q. On prior occasions have you testified before the
24 Division as a petroleum geologist?

25 A. Yes, I have.

1 Q. And you have done so in compulsory pooling cases?

2 A. Yes, I have.

3 Q. Pursuant to your employment, have you made an
4 assessment of the geologic risk concerning these two wells
5 that are before Examiner Catanach this morning?

6 A. Yes, I have.

7 MR. KELLAHIN: We tender Mr. DeMis as an expert
8 petroleum geologist.

9 EXAMINER CATANACH: He is so qualified.

10 Q. (By Mr. Kellahin) Let me turn back to Exhibit
11 Number 1. Do you have a copy of that before you?

12 A. Yes, I do.

13 Q. Let's talk about the status of the well in the
14 north half of 4 that's already there.

15 A. Yes.

16 Q. What does that mean to you?

17 A. This well was drilled -- According to the records
18 by Petroleum Information, this well was drilled in 1972 and
19 completed in the earliest part of 1973. It was completed
20 in the lower Morrow for a calculated absolute open flow of
21 6.4 million a day.

22 There was a DST on that well in late 1973 that
23 produced over 2 million a day -- had gas to surface of over
24 2 million a day -- pardon me, excuse me -- over 2 million a
25 day in ten minutes. It was a good show.

1 The well has cumulatively produced about an
2 eighth of a BCF of gas, and it is currently inactive.

3 It has subsequently been recompleted to the
4 Grayburg formation, which is why it appears as an oil well
5 on this map.

6 Q. You have integrated the log data from this well
7 into your subsequent display that shows an interpretation
8 of this lower Morrow sand channel, have you not?

9 A. Yes, this is my interpretation of the lower
10 Morrow sand channels in this area.

11 Q. We'll come back to that in a minute. Let's first
12 of all talk about Exhibit 15, which is this Morrow
13 production map, and what I'm interested in is, focusing on
14 Section 4, where you have the open blue circles for each of
15 these two wells, and have you describe generally what you
16 see in terms of the risk involved in trying to explore for
17 the deep gas in this section in relation to other
18 exploration activities northeast and southwest of the
19 section.

20 A. Yes. What this map shows is that the area we're
21 drilling in is primarily between two Morrow accumulations.
22 But more importantly, by looking at the map what you see is
23 that there are quite a few good wells that are offset by
24 bad wells.

25 The point I want to make from this display is

1 that a successful effort at one well does not guarantee
2 that a subsequent offset will be a successful well. Given
3 the depth of the Morrow out here of almost 11,000 feet, we
4 need about a BCF or a bit more, in order to break even, for
5 our break-even economics.

6 What we can see here is, we're drilling
7 Section -- we're proposing wells in Section 4. If we look
8 just to the southwest, in Section 8, there are two wells
9 there. The well in the north half is a good well; it
10 produced 1.5 BCF. The well just to the south of it is a
11 bad well that was drilled subsequent to the good well. And
12 what this shows is that you can easily be tricked by the
13 Morrow.

14 Similarly, if we look to the wells just to the
15 east of us, the well in Section 3 had a good flow rate, but
16 it is currently inactive after producing about an eighth of
17 a BCF of gas.

18 In addition, the well in Section 34 had a good
19 rate of nearly 2 million a day when it was completed, but I
20 spoke with the operator, and that well now has dropped down
21 to about 400,000 cubic feet of gas per day, and that's in
22 six months. So that will probably not be an economic
23 effort either.

24 I think that concludes the major points I want to
25 make on this map at this time.

1 Q. Based upon your geologic study, Mr. DeMis, do you
2 have an opinion as to what should be the appropriate risk-
3 factor penalty in a pooling order for the first of these
4 two wells that's to be drilled?

5 A. Yes, the risk penalty should be 200 percent, plus
6 recovery of the original costs.

7 Q. Do you have an opinion as to what should be the
8 appropriate level of risk factor penalty concerning the
9 second well to be drilled?

10 A. Yes, it should be the same.

11 Q. Can you explain to us why the second well should
12 have the maximum penalty as well?

13 A. Yes, there are two reasons there. One is that,
14 as I've just pointed out, a successful effort on one Morrow
15 well in a section doesn't necessarily guarantee you a
16 successful effort in the subsequent offset well.

17 And the second reason is, we're asking for 200
18 percent because I believe that's the most we can ask for,
19 is it not?

20 Q. Yes, sir, it is.

21 A. I would be more comfortable asking for a higher
22 risk penalty on the first well and go down to a 200 percent
23 on the second one, but we're not allowed to do that. These
24 are very risky wells.

25 Q. Let's talk about the option for Marathon to drill

1 the Courtman well --

2 A. Yes, sir.

3 Q. -- and at some point in time make a decision on
4 commencing the Mitchusson well.

5 A. Yes, sir.

6 Q. That's one possible option, right?

7 A. Yes, that is.

8 Q. Describe for us how that plan might be executed.

9 A. The execution of this plan would be that we would
10 prudently drill and test any Morrow shows in the Courtman
11 well, log it, and then subsequent we would review our --
12 any test information we may have gathered and our logs.

13 And on the basis of that, then, we would want to
14 then -- If we had good enough indications that we're moving
15 into the main portion of the channel trend, which we think
16 might trend through the west half of Section 4, we would
17 then want to drill the Mitchusson well.

18 Q. What would be the possible timing of that
19 sequence?

20 A. Well, it could be as quick as if there's a -- If
21 we are emboldened by the results of our Courtman well, it
22 could be that we will want to move that rig immediately to
23 the Mitchusson well. Or it could be that there may be some
24 delay, just because of our own -- We're a big company and
25 we drill a lot of wells, and sometimes we have to shut a

1 rig off to a different field to take care of lease
2 considerations there and then come back.

3 Q. All right. Let's assume the option is that you
4 have the log data --

5 A. Yes, sir,

6 Q. -- and/or some drill stem test information --

7 A. Yes, sir.

8 Q. -- and upon that data make the decision to move
9 the rig immediately to the Mitchusson well. Are you going
10 to provide the data upon which you make that decision to
11 the Maralo group so that they'll have the same opportunity
12 you will?

13 A. Yes, we will. And we'll provide that to them, if
14 you'll pardon the expression, in real time. We'll give it
15 to them as quickly as we get it ourselves. And if we -- On
16 the basis of a term assignment, I'm sure they'll want
17 access to all the information such as drill stem test, mud
18 logs and electric logs, plus any other sidewall cores or
19 cuttings or anything else they want, just the same
20 information that we would have to make our decision.

21 Q. In the event Mr. Robertson's not able to
22 negotiate a term assignment on the second well, Marathon is
23 still going to give them the data on the first well so that
24 it can make their independent decision on participation in
25 the second well?

1 A. Yes, we will.

2 Q. Okay. Let's look, now, at your Morrow map.

3 A. Okay.

4 Q. Give us a general interpretation of what you're
5 seeing here, and then let me ask you some specifics.

6 A. What we're looking at here is what I call a net
7 sand map for the lower Morrow section out here. The lower
8 Morrow are river channels or -- They're river channel
9 sands, sandstone bodies that I interpret to be oriented
10 slightly west of north. So west-northwest-to-south-
11 southeast-trending river sands through here.

12 And what we think is, there may be channel axis
13 or a thick portion of the sand that trends through the
14 western portion of Section 4. We base this opinion on the
15 results of the well in Section 4 that did have a DST and
16 some sand in it.

17 Q. All right, let's look at this. You've got an
18 opportunity to infer a channel running through Section 4,
19 the orientation of which is northwest to southeast.

20 A. Uh-huh.

21 Q. The data points that control your interpretation
22 of thickness is a data point in the northeast quarter of
23 Section 4 --

24 A. Yes.

25 Q. -- and a data point down in the southwest quarter

1 of Section 9?

2 A. Yes.

3 Q. Do you have any more data points to control the
4 thickness of that channel?

5 A. Not per the records that I can find from
6 Petroleum Information.

7 Q. Okay. Utilizing those data points, describe for
8 me why you've chosen to locate the Courtman well at a
9 portion in this potential channel that is not the thickest
10 portion as interpreted to be in existence in the north half
11 of this section.

12 A. Yes, sir. The reason for this is that the
13 channel that I've shown through here is highly speculative.
14 It's based on very widely spaced well control. And as I've
15 already pointed out, that even when you make a Morrow
16 discovery, it may be hard to offset it within one section.

17 So now what I'm proposing is that there may be a
18 channel running through here, and the thickest portion may
19 be over here in the southwest quarter of Section 4. But in
20 order to get there -- We don't know that that is the
21 orientation of the channel, and we don't know that there's
22 50 feet of sand there.

23 So what we want to do is, we want to offset the
24 well in the northeast quarter of Section 4, which did have
25 a good DST in it and which recovered no water. And we feel

1 that by doing this, we may well be able to come into a
2 thicker portion of the channel and that will help -- By
3 drilling this well, we feel that it would be a lower-risk
4 well that would help confirm our interpretation.

5 In addition, that well that was drilled in 1973,
6 they -- We feel that we have a better understanding of how
7 to stimulate the Morrow, and so we want to stay close to
8 that well, drill what we feel may be a lower risk well, and
9 try to prove up the Morrow in that section.

10 Q. In summary, then, your conclusion is, a maximum
11 penalty is appropriate for both spacing units, and that
12 penalty should not be less than the maximum, regardless of
13 the sequence in which these wells are drilled?

14 A. Yes, that is my opinion. Irregardless of the
15 shows or of the maps we've made, these are still very high
16 risk wells, and we require the maximum penalty -- we
17 request the maximum penalty, sorry.

18 MR. KELLAHIN: That concludes my examination of
19 Mr. DeMis.

20 We move what we have discussed to be the Courtman
21 Exhibits; they're Exhibits 15 and 16. And in addition, in
22 the Mitchusson case, they will be Exhibits 16 and 17.

23 EXAMINER CATANACH: Exhibits 15 and 16 in the
24 first case and Exhibits 16 and 17 in Case 11,884 will be
25 admitted as evidence.

1 Mr. Bruce?

2 MR. BRUCE: I don't have any questions, Mr.
3 Examiner.

4 EXAMINER CATANACH: I don't have any questions
5 either of this witness. He may be excused.

6 MR. KELLAHIN: Mr. Examiner, the last detail I
7 have is the submittal to you of our notices for hearing. I
8 will submit to you Exhibit 18 in Case 11,884, and the I
9 have two certificates in Case 11,883, and they will be
10 Exhibits 17 and 18.

11 EXAMINER CATANACH: What number in 11,884?

12 MR. KELLAHIN: Exhibit 18.

13 EXAMINER CATANACH: 18. Exhibits 17 and 18 in
14 Case 11,883 and Exhibit Number 18 in Case 11,884 will be
15 admitted as evidence.

16 Mr. Bruce?

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

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Gill, would you please state your full name
23 and city of residence?

24 A. My name is Richard Gill. I live in Midland,
25 Texas.

1 Q. And who do you work for and in what capacity?

2 A. I work for Maralo, Incorporated, as a division
3 engineer.

4 Q. Have you previously testified before the Division
5 as a petroleum engineer?

6 A. Yes, I have.

7 Q. And were your credentials as an expert engineer
8 accepted as a matter of record?

9 A. Yes, they were.

10 Q. And are you familiar with engineering matters
11 related to these applications?

12 A. Yes.

13 Q. And are you familiar with Maralo's position in
14 Case 11,884?

15 A. Yes, I am.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Gill as an
17 expert petroleum engineer.

18 EXAMINER CATANACH: He is so qualified.

19 Q. (By Mr. Bruce) Mr. Gill, briefly, you're here
20 representing the Maralo interest; is that correct?

21 A. That's correct.

22 Q. And also you are appearing on behalf of Mr.
23 French, I believe?

24 A. That's correct.

25 Q. And is Exhibit 1 merely a letter of support from

1 Mr. French?

2 A. Yes.

3 Q. Okay. Very briefly, what is Maralo's position in
4 Case 11,844 -- 11,884, excuse me?

5 A. Maralo's position is that we feel that it's
6 imprudent to make a decision on the -- our participation or
7 not in the south half of Section 4 until the well in the
8 north half is drilled and completed and produced for a
9 period of time.

10 Q. Now, in the north half of Section 4 Maralo has
11 signed a letter agreement regarding a term assignment; is
12 that correct?

13 A. That's correct.

14 Q. Are you confident that an assignment will be
15 fully executed?

16 A. Yes, yes.

17 Q. Now, what is your hesitation regarding the well
18 in the south half of Section 4, and perhaps refer to your
19 Exhibit 2 and discuss production from the Morrow in this
20 area.

21 A. Our hesitation, and the reason we decided to give
22 them a term assignment -- Typically, we like to
23 participate, but we operated the well in Section 3, in the
24 west half of Section 3, and Exhibit 2 is a decline curve,
25 first, on our well, and the second decline curve is the

1 Hanagan well in Section 4 that Marathon is intending to
2 offset. You can see in both cases these wells started off
3 great and dropped like a rock, both being uneconomic wells.

4 Our concern is that the well that Marathon drills
5 will perform the same way. And thus we decided not to
6 participate in the first one, give them a term assignment.

7 Our geologist, I believe, talked with the
8 geologist at Marathon, and their comment was they thought
9 the Hanagan well had screwed up the completion and that
10 they could, in fact, make a better completion. Our thought
11 is, we'd like to see that.

12 Q. You would like to see that?

13 A. And if they, in fact, can, then I think the risk
14 in drilling in the south half of Section 4 is tremendously
15 reduced, and we would probably participate.

16 Q. Do you think 30 days is enough production to
17 gauge what's happening on these --

18 A. I don't think 30 days from logs -- It will take
19 them some time to get pipe around and get this completion
20 started. You know, it appears on our well and on the
21 Hanagan well, you know, six months may be enough time.

22 Q. Regarding the south-half well, is it Maralo's
23 intention either to join in the well or otherwise commit
24 its interest?

25 A. Yes, we would.

1 Q. You will not force --

2 A. No, we don't --

3 Q. -- Marathon --

4 A. -- we don't care to be force-pooled. We would
5 either participate or we would probably do a -- term
6 assignments, basically the same we did in the north half.

7 Q. Okay, so you don't think it's necessary to pool
8 Maralo?

9 A. No.

10 Q. Were Exhibits 1 and 2 prepared by you or compiled
11 from company records?

12 A. Yes, they were.

13 Q. And in your opinion is the granting of Maralo's
14 requests in the interests of conservation and the
15 prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the admission
18 of Maralo Exhibits 1 and 2.

19 EXAMINER CATANACH: Exhibits 1 and 2 will be
20 admitted as evidence.

21 MR. BRUCE: That's all I have of this witness.

22 EXAMINER CATANACH: Mr. Kellahin?

23 CROSS-EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Gill, let me see if I can understand your

1 position. In Section 4, Maralo was not willing to sign an
2 operating agreement where Section 4 would be the area
3 controlled by that operating agreement?

4 A. I guess that's correct.

5 Q. Yeah, it was too risky --

6 A. The whole --

7 Q. -- it was too risky, right?

8 A. We considered the well in the north half of
9 Section 4 too risky for us.

10 Q. Okay. And so you've decided to minimize your
11 risk and let Marathon assume that risk in the north half of
12 Section 4?

13 A. That's correct.

14 Q. And you would retain the -- your interest subject
15 to this term assignment agreement?

16 A. That's correct.

17 Q. Marathon's afforded you the same term assignment
18 agreement for the south half of 4, and you're not willing
19 to do that pursuant to their December 2nd offer?

20 A. That's correct.

21 Q. All right. You say that you will agree with them
22 to participate in the future, but you want to wait until
23 there is production data on the first well?

24 A. That's correct.

25 Q. And you're not interested in taking the risk

1 concerning the drilling of the second well until you have
2 more information?

3 A. That's correct.

4 Q. Okay. Does it afford you an opportunity to make
5 a decision on participation in the second well if you
6 receive the log data for the first well?

7 A. Not as far as the Morrow goes. I think the risk
8 of finding Morrow sand is pretty minimal. I think they'll
9 find the sand. The question becomes, how productive is it?

10 Q. Under the term assignment, you're entitled to
11 receiving that log information?

12 A. That's correct.

13 Q. Okay. And if Marathon elects to take the risk of
14 drilling the second well based upon that log data and early
15 information, you're unwilling to make an election to take
16 the same level of risk?

17 A. That's correct.

18 MR. KELLAHIN: Okay. I don't have any further
19 questions.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Well, I guess you're requesting that Maralo not
23 be pooled in the --

24 A. In the south half --

25 Q. -- south half?

1 A. -- that's correct.

2 Q. But there is no agreement in place for that? I
3 mean, you have not agreed --

4 A. We have not agreed to do anything with Marathon
5 in the south half at this point. We will. I mean, given
6 that they give us time to watch the production in the
7 Morrow.

8 I don't think it was mentioned -- I think they
9 did mention there's some uphole potential, possibly, which,
10 you know, if that occurs then that changes the risk as
11 well. If the first well were to encounter some uphole
12 possibilities, the risk in the well in the south half would
13 be reduced tremendously, in my opinion.

14 EXAMINER CATANACH: I guess that's all I have of
15 this witness.

16 You may be excused.

17 Anything further?

18 MR. KELLAHIN: No, sir.

19 EXAMINER CATANACH: All right, there being
20 nothing further in these cases, Case 11,883 and 11,884 will
21 be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 11:29 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11883/11884
heard by me on 12/4/1997

24 * * *
25 *David R. Catanach*, 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 December 9th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998