

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 )  
GAS WELL LOCATION, LEA COUNTY, )  
NEW MEXICO )

CASE NO. 12,291

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 16th, 1999

Santa Fe, New Mexico

00 JAN - 6 PM 9:49

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 16th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing  
 CASE NO. 12,291

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## A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL  
 Attorney at Law  
 Legal Counsel to the Division  
 2040 South Pacheco  
 Santa Fe, New Mexico 87505

FOR THE APPLICANT and  
 DAVID PETROLEUM CORPORATION:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
 Suite 1 - 110 N. Guadalupe  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 10:47 a.m.:

3           EXAMINER CATANACH: All right, at this time we'll  
4 call Case 12,291.

5           MR. CARROLL: Application of Yates Petroleum  
6 Corporation for an unorthodox gas well location, Lea  
7 County, New Mexico.

8           EXAMINER CATANACH: Appearances in this case?

9           MR. CARR: May it please the Examiner, my name is  
10 William F. Carr with the Santa Fe law firm Campbell, Carr,  
11 Berge and Sheridan. We represent Yates Petroleum  
12 Corporation and David Petroleum Corporation in this matter,  
13 and I have two witnesses.

14           EXAMINER CATANACH: Any other appearances?

15           Will the witnesses please stand to be sworn in?

16           (Thereupon, the witnesses were sworn.)

17           MR. CARR: Mr. Examiner, this case was originally  
18 filed as an administrative application by Yates Petroleum  
19 Corporation.

20           The testimony today will, however, be presented  
21 by representatives of David Petroleum Corporation. The  
22 David Petroleum Group is the largest group of working  
23 interest owners in the well. The well will, however, be  
24 operated by Yates Petroleum.

25           Our first witness is Bill Owen.



1 in the subject area?

2 A. Yes, sir.

3 MR. CARR: Are the witness's qualifications  
4 acceptable?

5 EXAMINER CATANACH: They are.

6 Q. (By Mr. Carr) Mr. Owen, would you briefly state  
7 what Yates and David Petroleum Corporation seek with this  
8 Application?

9 A. An order approving an unorthodox gas well  
10 location for our proposed R.L. Burns Corporation Number 1  
11 well, which is to be re-entered and deepened to test the  
12 Mississippian and Morrow formations at an unorthodox gas  
13 well location 330 feet from the south and east lines, Unit  
14 P of Section 11, Township 16 South, Range 35 East, Lea  
15 County, New Mexico.

16 Q. Would you identify for the record what has been  
17 marked as David Petroleum Exhibit Number 1?

18 A. This is our administrative application, which was  
19 originally filed September 30th, 1999. It was set for the  
20 hearing by the Division after there was an objection  
21 received from Chesapeake Operating.

22 Q. And this exhibit contains a list identifying the  
23 offset operators who will be affected by the Application;  
24 is that right?

25 A. That's correct.

1 Q. What is the status of the Chesapeake objection?

2 A. We have a letter from Chesapeake waiving  
3 objection to this location.

4 Q. Let's go to what has been marked David Petroleum  
5 Exhibit Number 2, and I'd ask you to identify this and  
6 explain to the Examiner what it shows.

7 A. It's an orientation plat that shows the well  
8 location with the red dot, it shows the dedicated spacing  
9 unit that we intend, which is the east half of Section 11,  
10 and it shows the offset operators, which to the south is  
11 Arrington, to the southwest is Ocean, and to the east is  
12 Merit and Chesapeake.

13 Q. Have all the working interest owners in the  
14 subject spacing unit voluntarily committed their interests  
15 to the well?

16 A. Yes.

17 Q. Will you go to what has been marked as David  
18 Exhibit Number 3 and review this, please?

19 A. This is a group of the waiver letters that we've  
20 received from four different entities.

21 Number A is from Merit Energy, B is David H.  
22 Arrington Oil and Gas, C is from Chesapeake Operating, and  
23 D is from Global Natural Resources Corporation of Nevada, a  
24 subsidiary of Ocean.

25 Q. Has a waiver been obtained from each of the

1 Division-designated operators who offset this well, toward  
2 whom the well is being moved?

3 A. Yes.

4 Q. Will David Petroleum call a geological witness to  
5 review the technical portions of this case?

6 A. Yes.

7 Q. Were Exhibits 1 through 3 either prepared by you  
8 or compiled under your direction?

9 A. Yes.

10 MR. CARR: At this time, Mr. Catanach, we would  
11 move the admission into evidence of David Petroleum  
12 Corporation Exhibits 1 through 3.

13 EXAMINER CATANACH: Exhibits 1 through 3 will be  
14 admitted as evidence.

15 MR. CARR: That concludes my direct examination  
16 of Mr. Owen.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Owen, can you tell me again -- You said to  
20 the south of this location that acreage is operated by  
21 Arrington?

22 A. Yes.

23 Q. Is that in Section 14?

24 A. Yes.

25 Q. And is there a well on that acreage that produces

1 from the 320-acre proration unit, or do you know?

2 A. There is a well on that proration unit -- or on  
3 that tract, but I'm not positive -- I'm sure our geologist,  
4 during the next testimony, would be able to specifically  
5 answer you in terms of what formation, of what the  
6 proration unit is.

7 Q. Okay. Merit and Chesapeake own the acreage  
8 where? In Section 13?

9 A. They own some in Section 13, and they also own it  
10 in Section 12, in the west half.

11 Q. West half of Section 12.

12 So it shows on the map Chesapeake and Yates in  
13 the west half of Section 12?

14 A. That's correct. We, along with Yates, own some  
15 interest in the southwest quarter of Section 12, and  
16 Chesapeake owns also an additional interest in there, as  
17 well as up in the northwest quarter of Section 12.

18 Q. So in Section 12 would Chesapeake be the only  
19 affected interest owner that you would provide notice to?

20 A. Yes.

21 Q. Okay. And again in Section 13, the only affected  
22 interest owners would be Merit?

23 A. That's correct.

24 Q. And Yates owns the -- It looks like the northeast  
25 quarter?

1 A. Yes, sir.

2 Q. Okay. Chesapeake originally objected to this  
3 Application?

4 A. Yes, sir.

5 Q. And has since waived objection?

6 A. That's correct.

7 Q. Okay. In your Exhibit Number 3 I show a letter  
8 from David Arrington, who waives objection to this  
9 location, but there's a condition of that waiver about a  
10 production penalty?

11 A. That's correct.

12 Q. And would that penalty apply to the targeted  
13 Mississippian formation?

14 A. I believe that it would.

15 I would also possibly defer that to our geologist  
16 to ensure that the penalty that we're talking about here is  
17 for the Morrow formation as well as the Mississippian.

18 Q. Okay, so your geologist will address this  
19 penalty?

20 A. Yes, sir.

21 EXAMINER CATANACH: Okay. I have no further  
22 questions.

23 This witness may be excused.

24 MR. CARR: At this time we call Keith McKamey,  
25 M-c-K-a-m-e-y.

1                                    KEITH MCKAMEY,

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

4                                    DIRECT EXAMINATION

5        BY MR. CARR:

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

7            A.     Good morning.    Keith McKamey.

8            Q.     And where do you reside?

9            A.     Artesia, New Mexico.

10          Q.     By whom are you employed?

11          A.     David Petroleum.

12          Q.     And what is your current position with David  
13        Petroleum Corporation?

14          A.     Senior Geologist.

15          Q.     Mr. McKamey, have you previously testified before  
16        this Division?

17          A.     Yes.

18          Q.     At the time of that testimony, were your  
19        credentials as a petroleum geologist accepted and made a  
20        matter of record?

21          A.     Yes, they were.

22          Q.     Would you briefly summarize your educational  
23        background for the Examiner?

24          A.     I'm a graduate of the University of Texas,  
25        Permian Basin, there in Odessa.    I graduated in May of 1979

1 with a BS in earth science.

2 Q. And since graduation, for whom have you worked?

3 A. I have 20 years of experience as a geologist, two  
4 years with a major -- it was Gulf Oil Corporation -- 12  
5 years as a consultant and on term contract, and six years  
6 employed by private individuals like Reed and Stevens,  
7 Crystal River Oil and Gas, and now David Petroleum.

8 Q. Were you also for a time employed as a geologist  
9 by the Oil Conservation Division?

10 A. That's correct.

11 Q. Are you familiar with the Application filed in  
12 this case on behalf of David Petroleum and Yates Petroleum  
13 Corporation?

14 A. Yes, I am.

15 Q. Have you made a geological study of the area  
16 surrounding the proposed well?

17 A. I have made a geological study.

18 Q. And are you prepared to share the results of your  
19 work with Mr. Catanach?

20 A. I am prepared.

21 MR. CARR: We tender Mr. McKamey as an expert in  
22 petroleum geology.

23 EXAMINER CATANACH: Mr. McKamey is so qualified.

24 Q. (By Mr. Carr) Initially, Mr. McKamey, is it your  
25 understanding that the penalty that is being recommended

1 for this well be applicable to any formation developed  
2 under rules which would provide for standard setbacks of  
3 660 feet from the outer boundary?

4 A. Yes, 320-acre proration units.

5 Q. What is the primary objective in this well?

6 A. The primary objective is the lower Morrow, Morrow  
7 formation. We will test the Mississippian, just to make  
8 sure that we're through the entire Morrow interval.

9 Q. And what pool would this Morrow well be in?

10 A. The pool is the Morrow -- Undesignated Townsend-  
11 Morrow Gas Pool.

12 Q. And is that operated under statewide rules?

13 A. Yes, it is.

14 Q. Are there secondary objectives in the well?

15 A. Yes, there are, a Cisco formation which would be  
16 in the Undesignated Townsend-Permo-Upper Pennsylvanian  
17 Pool.

18 Q. And is this pool also operated under statewide  
19 rules?

20 A. Yes, it is.

21 Q. Let's go to what has been marked for  
22 identification as David Petroleum Corporation Exhibit  
23 Number 4, and I'd ask you to first identify that and then  
24 review the information on this Exhibit for Mr. Catanach.

25 A. Mr. Catanach, I have three geological/geophysical

1 exhibits, the first of which is Exhibit Number 4. It's a  
2 Mississippian structure map. It illustrates four producing  
3 wells that are colored blue that have completely tested the  
4 lower Morrow formation.

5           You'll notice that there are three northerly  
6 wells in Section 2 and 3 that are similar and analogous to  
7 our prospect. They're located in a Mississippian low,  
8 which is adjacent to steep dip. That is one of the  
9 analogous situations we are expecting to find in our Burns  
10 re-entry location, which is in the southeast of 11. We're  
11 looking for a Mississippian low, structurally, and we'll  
12 also address the isopach as another part of the analogy.

13           Q. Do you have reserve estimates for the four wells  
14 that are shaded blue on this exhibit?

15           A. The three wells to the north are 1.5 BCF per  
16 well. Those are channel-like deposits. The well in the  
17 southwest of 10 is an anomalous well, it's an erosional  
18 well, and I have not done reserves for that well.

19           Q. Let's go to Exhibit Number 5, the isopach map,  
20 Morrow isopach. Would you review that, please?

21           A. Mr. Catanach, all of these wells that appear on  
22 both maps are just wells deeper than 11,300 foot, which is  
23 the Strawn formation. There are only four wells that are  
24 producing out of the lower Morrow.

25           This is a Morrow isopach map, which illustrates

1 the thicknesses, oriented north-south through this area of  
2 interest. The three wells in Section 2 and 3 there are the  
3 analogy that we're looking for and the target that we're  
4 looking for in the lower Morrow formation. We expect a  
5 look-alike through the east half of 11 and the west half of  
6 12 there, that we will test with our well in the southeast  
7 of Section 11.

8 Q. Now, you're able to locate wells in the area with  
9 3-D seismic, are you not?

10 A. That's correct.

11 Q. And is Exhibit Number 6 an exhibit that contains  
12 3-D seismic information on the subject area?

13 A. Exhibit Number 6 is a 3-D slice of the  
14 Mississippian time map. It's the one located at the bottom  
15 of your exhibit there. It's -- That picture there is just  
16 the southwest quarter of 11. The black lines are the  
17 section lines. The re-entry location is a little white dot  
18 in the right-hand corner of the green, time map there.

19 There are also two seismic profiles on the top  
20 part of your map through the re-entry location. The one on  
21 the left is a south-to-north seismic line. The one on the  
22 right is a west-to-east. The one on the left, which is the  
23 south-to-north, shows you the quick dip, quick, steep dip,  
24 which we feel enhances porosity and permeability and is  
25 certainly an analogous part to our prospect.

1           The other thing that's analogous is the thick  
2 channel-like deposits which you can see in the east-west  
3 seismic trace as well. And both the seismic time map -- It  
4 confirms both the structure map on the Mississippian that  
5 I've made as well as the isopach map on the lower Morrow.

6           Q.    Now, this seismic method has been tested in other  
7 wells in the area, has it not?

8           A.    It has. It has been tested in three wells there  
9 in Section 2 and 3, with some success. There are 18 wells  
10 total on the map that you see that have drilled to the  
11 Mississippian, of which four of those are producing that I  
12 have colored. One is still completing. So that's  
13 approximately a 28-percent success rate for the Morrow,  
14 just in the outlined area on the map.

15          Q.    How much geological risk is actually associated  
16 with this re-entry?

17          A.    This is extremely high geological risk for the  
18 Morrow, the 28 percent, just doing the numbers for all the  
19 dry holes versus the producers, and it's mainly based on  
20 two sands that are located in these channels that are about  
21 six to eight foot thick.

22          Q.    There also are risks related to the costs  
23 associated with this effort, are there not?

24          A.    That's correct, as well as risk -- engineering  
25 risk in re-entering a well.

1 Q. Before we look at the cost, are there other  
2 standard locations available from which you could test the  
3 Morrow and Mississippian formations under this proration  
4 unit?

5 A. No, geologically it's necessary to be adjacent to  
6 steep dip to enhance porosity and permeability, as well as  
7 to have a thick Morrow section, and economically a newly  
8 drilled well would not meet the criteria for return on  
9 investment.

10 Q. Now, Yates and David have attempted other re-  
11 entries in this area, have they not?

12 A. In this immediate area shown on the map, we've  
13 attempted four, with two being successful, so we have a 50-  
14 percent success rate.

15 Q. Let's go to what has been marked for  
16 identification as David Petroleum Exhibit Number 7. First,  
17 I'd like you to identify the exhibit, and then go to the  
18 exhibit and explain to the Examiner what it shows.

19 A. Exhibit 7 is an economic spreadsheet, created to  
20 track costs and justify the drilling of exploration  
21 prospects. I want you to notice the highlighted middle  
22 portion of the spreadsheet, which compares the re-entry  
23 cost and the return on investment.

24 David Petroleum will prevent waste by re-entering  
25 the Burns Number 1 well with an AFE cost of \$774,500. A

1 new-drill well at the same depth would cost \$1.2 million.  
2 So there would be a savings of about half a million dollars  
3 for drilling and completing a new well.

4 The return-on-investment column is calculated  
5 using 1.5 BCF per well, 150,000 barrels per well, an a very  
6 low risk factor, which I think is very conservative.

7 The re-entry return on investment would be 4.30.  
8 A new-drilled well return on investment would be 2.78,  
9 using average prices of \$20 oil and \$1.90 gas.

10 Q. Based on this 2.78-to-1 return on investment for  
11 a newly drilled well, could David Petroleum Corporation of  
12 Yates drill a new well at this location to test the Morrow  
13 formation?

14 A. David Petroleum would not, nor would most oil and  
15 gas companies, mainly because they're competing for funds,  
16 and we're looking for 3- to 4-to-1 return on investments.

17 Q. And if no well is drilled, or if the Morrow is  
18 not tested and, if producible, produced at this location,  
19 would reserves be left in the ground that otherwise could  
20 be produced?

21 A. That's correct.

22 Q. Would it be economically feasible to  
23 directionally drill this well back to a standard location?

24 A. No, it would not. It would cost more than a new-  
25 drilled well.

1 Q. And if you directionally drilled back to a  
2 standard location, you would be at an inferior location in  
3 the Morrow, would you not?

4 A. That's correct, we'd be away from the steep dip,  
5 which enhances porosity and permeability. As a matter of  
6 fact, we've already tried that in two locations:

7 The Number 3 Runnels, which is in the northeast  
8 of 11. That is a dry hole.

9 And in the southeast of 12, that's also a dry  
10 hole, in the lower Morrow.

11 Q. Let's go to David Petroleum Corporation Exhibit  
12 Number 8, and using this exhibit, I'd ask you to briefly  
13 review the history of the Burns well, and I would ask you  
14 to explain to the Examiner how you will confirm the  
15 integrity of the wellbore.

16 A. Exhibit Number 8 contains four stapled pages. It  
17 includes a plan for re-entering the well, as a cover sheet,  
18 and then there are three wellbore diagrams, the first of  
19 which is a complete wellbore diagram. The third, third  
20 page, is a "before" wellbore diagram, constructed by Yates  
21 Pet. And the fourth is an "after" picture of what the  
22 wellbore diagram is expected to look like.

23 The Burns Number 1 Witt was originally spud in  
24 November of 1973. It was P-and-A'd and approved January of  
25 1974. It was re-entered at that time, and they pulled 1438

1 feet of 8 5/8 casing. Then it was replugged and abandoned  
2 on June 28th of 1974.

3 Our intent is to re-enter this well, splice onto  
4 the 8-5/8-inch casing, drill out the remaining plugs, and  
5 increase the depth to 12,700 foot using standard 9.3 brine  
6 mud.

7 Q. In the course of this re-entry, will you be able  
8 to establish the integrity of the wellbore?

9 A. Yes, we will.

10 Q. And if you encounter problems, what will be your  
11 option at that time?

12 A. Abandon the location.

13 Q. Re-plug the well?

14 A. Or re-plug the well, that's correct.

15 Q. What conclusions have you reached from your  
16 study?

17 A. We are basing this 330 from the south and east  
18 location on geology, where it's necessary to be within the  
19 Morrow isopach thicks that trend north south, as well as  
20 being close to steep dip, which enhances porosity and  
21 permeability.

22 And economic factors are certainly foremost in  
23 this re-entry location because otherwise, a newly drilled  
24 well, it would not be profitable, considering the risk, to  
25 test it.

1 Q. Does David Petroleum recommend that a penalty be  
2 imposed on the well in accordance with the agreement with  
3 the Arrington?

4 A. That's correct.

5 Q. Who will actually operate the well?

6 A. Yates Pet.

7 Q. In your opinion, will approval of this  
8 Application and the re-entry of the Burns well be in the  
9 best interests of conservation, the prevention of waste and  
10 the protection of correlative rights?

11 A. That's correct.

12 Q. Were David Petroleum Corporation Exhibits 4  
13 through 8 prepared by you or compiled under your direction?

14 A. Yes, they were.

15 MR. CARR: May it please the Examiner, at this  
16 time we would move the admission into evidence of David  
17 Petroleum Corporation Exhibits 4 through 8.

18 EXAMINER CATANACH: Exhibits 4 through 8 will be  
19 admitted as evidence.

20 MR. CARR: And that concludes my direct  
21 examination of this witness.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. McKamey, your interpretation of the penalty  
25 provision in Arrington's order, or Arrington's letter, do

1 you interpret that to be a 50-percent penalty?

2 A. I believe that's correct.

3 Q. Okay. I've got a question with regards to --  
4 Within that letter, the statement actually reads the well's  
5 bottomhole location. And do we know what the bottomhole  
6 location of that well is? Have there been any directional  
7 surveys run on that well?

8 A. No, there has not, just the standard deviation  
9 surveys.

10 EXAMINER CATANACH: Okay. I think we need a  
11 clarification on that penalty provision. If they do  
12 actually want it based on the bottomhole location, then we  
13 do need to conduct a directional survey on the well.

14 MR. CARR: I'll be glad to follow up on that and  
15 confirm that to you in writing within the next two or three  
16 days, if that's all right with you.

17 EXAMINER CATANACH: Okay.

18 MR. CARR: Mr. Catanach, I can tell you that in  
19 conversations between Arrington and Yates I believe they do  
20 want it based on the bottomhole location, but I will  
21 confirm that, and we understand if that is the provision, a  
22 survey will be required.

23 Q. (By Examiner Catanach) Okay. Mr. McKamey, on  
24 your Exhibit Number 4, you were saying something about 1.5-  
25 BCF recoveries?

1 A. Per well, correct.

2 Q. Per well. And this is from the Mississippian?

3 A. No, it's from the Morrow.

4 Q. This is from the Morrow. And the wells on this  
5 map that have been drilled to the Morrow are identified in  
6 what manner?

7 A. All of the wells that have penetrated the top of  
8 the Mississippian, which have completely drilled through  
9 the Morrow, they have black subsea numbers as well as red  
10 isopach values for the Morrow formation. There are a total  
11 of 18 of those.

12 A. Eighteen wells. And your testimony was that only  
13 four of these 18 wells have been completed as producers in  
14 the Morrow?

15 A. Are currently producing, correct.

16 Q. The rest were essentially dry holes?

17 A. That's correct, with one exception. There's one  
18 well being completed, and I don't know the status of the  
19 well in the northwest northwest of 14. That well did test  
20 the Morrow formation, and it's my understanding they are  
21 completing that well as we speak.

22 Q. Okay, and this Morrow would be the primary target  
23 of the well?

24 A. Correct.

25 Q. But you will drill to test the Mississippian; is

1 that right?

2 A. That's correct.

3 Q. Is there any Mississippian production in this  
4 area?

5 A. No, sir, the Mississippian is more of a log type  
6 and a good type for seismic reflections, and it's a sign  
7 that you're completely through the Morrow interval.

8 Q. And you believe that the reason that the wells in  
9 Section 2 and 3 were productive Morrow wells was because  
10 they encountered that steep dip?

11 A. That's correct, as well as the thick sections.  
12 You'll notice that all three of those have 489 feet of  
13 Morrow section or better.

14 Q. And that's the total Morrow section?

15 A. Yes.

16 Q. How much do you think you'll encounter at this  
17 location?

18 A. We anticipate encountering approximately 500 feet.

19 Q. You would not recommend drilling a Morrow well at  
20 a standard location in the southeast of Section 11?

21 A. That's correct, it's not adjacent to steep dip.  
22 It would be an orthodox location, 660 south and east would  
23 be analogous to the Runnels 3, which is a dry hole in the  
24 Morrow formation.

25 Q. So this location gives you the best chance to

1 encounter Morrow production in that quarter section?

2 A. That's correct.

3 EXAMINER CATANACH: Okay, I have no further  
4 questions.

5 MR. CARR: That concludes our presentation.

6 EXAMINER CATANACH: Okay, if you'll provide me  
7 with that clarification, Mr. Carr, within the next two or  
8 three days.

9 MR. CARR: I will.

10 EXAMINER CATANACH: And with that, Case 12,291  
11 will be taken under advisement.

12 (Thereupon, these proceedings were concluded at  
13 11:17 a.m.)

14 \* \* \*

15  
16  
17 I do hereby certify that the foregoing is  
18 a complete record of the proceedings of  
19 the Examiner hearing of Case No. 12291  
20 heard by me on December 16 1999  
21 David P. Catanach, Examiner  
22 Off Conservation Division  
23  
24  
25

