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Oil Conservation Division

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 HARVEY E. YATES COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 12,486

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 7th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner on Thursday, September 7th, 2000, 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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September 7th, 2000
Examiner Hearing
CASE NO. 12,486

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A P P E A R A N C E S

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 By: MICHAEL FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 11:24 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,486, which is the Application of Harvey E. Yates Company
5 for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: Mr. Examiner, I'm Mr. Michael
8 Feldewert with the law firm of Campbell, Carr, Berge and
9 Sheridan, and I'm appearing on behalf of the Applicant,
10 Harvey E. Yates Company, and we have two witnesses today.

11 EXAMINER CATANACH: Any additional appearances?
12 Okay, will the two witnesses please stand to be
13 sworn in?

14 (Thereupon, the witnesses were sworn.)

15 VERNON D. DYER,
16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. FELDEWERT:

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

21 A. Vernon Duane Dyer.

22 Q. Mr. Dyer, where do you reside?

23 A. Roswell, New Mexico.

24 Q. And by whom are you employed?

25 A. Harvey E. Yates Company.

1 Q. What is your current position with Heyco?

2 A. I'm the land manager.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your
7 credentials as an expert in petroleum land matters accepted
8 and made a matter of public record?

9 A. Yes, they were.

10 Q. And are you familiar with the Application that's
11 been filed by Heyco in this case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes, I am.

16 MR. FELDEWERT: At this time I would tender Mr.
17 Dyer as an expert witness in petroleum land matters.

18 EXAMINER CATANACH: He is so qualified.

19 Q. (By Mr. Feldewert) Mr. Dyer, would you briefly
20 state what Heyco seeks with this Application?

21 A. To order the pooling of all minerals from the
22 surface to the base of the Morrow in the west half of
23 Section 8 of Township 18 South, Range 29 East, in the
24 following manner: the west half of all formations or pools
25 developed on 320-acre spacing, the southwest quarter of all

1 formations or pools developed on 160 spacing, the south
2 half of the southwest quarter on all formations or pools
3 developed on 80-acre spacing, and the southeast of the
4 southwest quarter of all formations or pools developed on a
5 40-acre spacing, the above to be dedicated to the Poco Loco
6 8 Federal Com Number 1, to be drilled at a standard
7 location in the southeast of the southwest of Section 8.

8 Q. Would you then turn to Heyco Exhibit Number 1,
9 identify that for the Examiner and review it, please?

10 A. Exhibit Number 1 is the land map showing the 320
11 spacing and the 160 spacing. It's showing the proposed
12 well location being down in the southeast of the southwest,
13 and it shows the ownership of the lands being all federal
14 lands.

15 Q. How many leases are in the west half?

16 A. There's four leases in the west half.

17 Q. Okay, and you said this was all federal acreage?

18 A. All federal acreage, yes.

19 Q. What is the primary objective of the Heyco Poco
20 Loco Well Number 1?

21 A. It would be a Morrow wildcat.

22 Q. Would you identify and review for the Examiner,
23 then, Heyco Exhibit Number 2?

24 A. Exhibit Number 2 is a list of the 41 working
25 interest owners and their percentage in the well, as

1 calculated by their interest in the acreage.

2 Q. Is this ownership list for the west half?

3 A. Yes, it is.

4 Q. And is it up to date?

5 A. Yes, it is.

6 Q. What percentage of the working interest ownership
7 on here is voluntarily committed to the well?

8 A. 79 percent.

9 Q. And Heyco's interest is what?

10 A. 30 percent.

11 Q. So you're the majority interest owner?

12 A. That is correct.

13 Q. Are there interest owners on here that you have
14 been unable to locate?

15 A. Yes, there are three.

16 Q. Would you identify them, please?

17 A. It's Number 28, Ralph Randel, Number 35, the
18 Charles W. Hicks Estate -- I'm sorry, 36, the Roland McLean
19 Estate, and 41, the Charles C. Harlan, Jr., Estate.

20 Q. Now, Charles C. Harlan, Jr., is listed as an
21 individual on here, but that is now an estate; is that
22 right?

23 A. Yes, that is correct.

24 Q. Okay. What efforts have you made to locate these
25 individuals or the heirs of the estate?

1 A. Letters and telephone calls.

2 Q. Have you done an Internet search?

3 A. Yes.

4 Q. Besides these three interest owners that you've
5 been unable to locate, how many other interest owners are
6 subject to this pooling Application?

7 A. It would be three more, besides the three unable
8 to locate.

9 Q. And who were they?

10 A. They would be Jalapeno Corporation, Marathon Oil
11 Company, and Clayton Williams Energy, Inc. That would be
12 Number 5, 7 and 11.

13 Q. Okay, why don't you summarize your efforts to
14 obtain voluntary joinder of these three working interest
15 owners in your proposed spacing unit?

16 A. Okay, actually, Number 5 and 7, Jalapeno and
17 Marathon, we are in negotiations at this time, trying to
18 come to a solution to this. Clayton Williams I have
19 contacted, but there has been no response.

20 Q. Okay, and when did you first contact these
21 individuals?

22 A. First contact was on March 30th with a letter,
23 and then followed up on April 27th with another letter.

24 Q. Did that contain an AFE?

25 A. Yes, it did.

1 Q. Okay. Would you then identify Heyco Exhibit
2 Number 3?

3 A. That is the second letter, dated April 21st -- or
4 27th, with an AFE, and it refers also to the March 30th
5 letter that was sent in the first paragraph.

6 And the list of owners, working interest owners,
7 is behind it as the exhibit.

8 Q. What is the status of your efforts with Clayton
9 Williams?

10 A. It's kind of at a standstill now.

11 Q. Okay. In your opinion, have you made a good-
12 faith effort to locate all individuals and obtain their
13 voluntary joinder?

14 A. Yes, I think we have.

15 Q. Would you identify for the Examiner Heyco Exhibit
16 Number 4?

17 A. The AFE? This is an AFE for the well that was
18 sent to all parties, giving the dryhole cost and the
19 completion cost.

20 Q. Did this accompany the letter that's been marked
21 as Exhibit Number 3?

22 A. Yes, it did.

23 Q. Okay. What are the totals set forth on this
24 Exhibit Number 4?

25 A. The dryhole cost is \$576,545, the total

1 completion cost would be \$935,383.

2 Q. Now, I think you said the closed target for this
3 well is a wildcat well in the Morrow formation; is that
4 right?

5 A. Yes.

6 Q. Has Heyco drilled other Morrow wells in the
7 immediate area of this proposed well?

8 A. Yes, we have.

9 Q. And are the costs reflected on Exhibit Number 4
10 in line with what has been charged by Heyco and other
11 operators in the area for similar wells?

12 A. Yes, it is.

13 Q. Is Heyco Exhibit Number 5 an affidavit with
14 attached letters giving notice of this hearing?

15 A. Yes, it is.

16 Q. There are two individuals on this exhibit that
17 did not -- These are certified letters, correct?

18 A. Yes, this is correct.

19 Q. There's two individuals on here who did not
20 return their certified letters. One of them is Mr. Roland
21 McLean?

22 A. Yes, that is correct.

23 Q. Now, is that one of the interest owners whose
24 interest is now part of an estate?

25 A. Yes, it is.

1 Q. Okay, and the second on here is a Mr. Ralph
2 Randel?

3 A. That is correct.

4 Q. Is Mr. Ralph Randel someone who we've been unable
5 to locate?

6 A. The letters we sent have not come back. We have
7 a phone number, we finally determined a phone number. We
8 called him on the phone. We got a recording machine that
9 did not say his name, it just gave the phone number, and we
10 left messages on that for him.

11 Q. Okay.

12 A. So we have not actually talked to him in any way,
13 though.

14 Q. Have you made an estimate of the overhead and
15 administrative costs while drilling this well and also
16 while producing this well if it is successful?

17 A. Yes, we have. The drilling well estimate, our
18 drilling well, is \$6500, and the producing rate is \$650 a
19 month.

20 Q. Is that consistent with the Ernst and Young
21 survey?

22 A. Yes, the 1999-2000.

23 Q. Are these overhead and administrative costs in
24 line with what is being charged by other operators in the
25 area?

1 A. Yes, the other wells that we operate, the ones
2 that we are in, it's in line with them.

3 Q. You have how many offset wells --

4 A. Eleven offset wells to this.

5 Q. Okay. Do you recommend that these figures be
6 incorporated into any order that results from this hearing?

7 A. Yes, we do.

8 Q. Do you have a joint operating agreement for this
9 property?

10 A. Yes, we have.

11 Q. Has that joint operating agreement been executed
12 by any of the interest owners shown on Exhibit Number 2?

13 A. Yes, all 79 percent have signed the operating
14 agreement.

15 Q. Are there COPAS guidelines attached to that joint
16 operating agreement?

17 A. Yes, there is.

18 Q. Does Heyco request that the overhead figures
19 approved by the Division be subject to adjustment in
20 accordance with the COPAS guidelines applicable to other
21 interest owners in the well?

22 A. Yes, we do.

23 Q. Does Harvey E. Yates Company seek to be
24 designated operator of the proposed well?

25 A. Yes, we do.

1 Q. Mr. Dyer, were Exhibits 1 through 5 prepared by
2 you or compiled under your direction and supervision?

3 A. Yes, they were.

4 MR. FELDEWERT: Mr. Examiner, at this time I
5 would move the admission into evidence of Heyco Exhibits 1
6 through 5.

7 EXAMINER CATANACH: Exhibits 1 through 5 will be
8 admitted as evidence.

9 MR. FELDEWERT: And that concludes my examination
10 of this witness.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Dyer, so the parties you are seeking to pool
14 at this point are Jalapeno Corporation, Marathon Oil
15 Company, Clayton Williams Energy, and are there some
16 additional parties?

17 A. Yes, the -- Number 28, Ralph Randel.

18 Q. Okay.

19 A. Number 36, the Roland McLean Estate.

20 Q. Okay.

21 A. And 41, Charles C. Harlan, Jr.

22 Q. Okay. Those are the unlocatable ones?

23 A. Those are the unlocatable ones, those three are.

24 Q. Now, as far as the interests that you couldn't
25 locate, did you examine any county records?

1 A. Yes, actually we did, because on two of the
2 states we have talked to people that know them, but the
3 estate hasn't been dissolved yet -- or probated yet or
4 anything. It's -- I don't know the legal term there, I'm
5 going blank here. No, the heirs haven't been determined
6 yet, under the wills.

7 Q. And those are -- okay, those are the two --
8 That's the McLean Estate and which other one?

9 A. And the Charles C. Harlan, Jr., that's also an
10 estate.

11 Q. Okay.

12 A. He's a recent deceased.

13 Q. And the other one, Ralph Randel, you said you
14 couldn't locate?

15 A. We just couldn't locate him. Now, his last known
16 address was in Texas, and we have not been down to that
17 courthouse, but we have searched the Internet there and
18 searched the cities around the Internet -- or around his --
19 in that county that he is in, looking for his address. And
20 the address shows up the same, and the phone number we have
21 is there, but we just can't get any response from it. We
22 have not traveled down there to that part of Texas to see
23 if we could actually knock on his door.

24 Q. Do you anticipate Jalapeno and Marathon joining
25 in the well?

1 A. I anticipate us making a deal with them, yes.

2 Q. Okay. The well location you had, is that the
3 correct well location, 860 from the south and 1980 from the
4 west?

5 A. Yes, that is correct.

6 Q. Okay.

7 A. And in your letter you'll see why we had to move
8 there. The first paragraph explains that.

9 MR. FELDEWERT: That would be Exhibit 3.

10 EXAMINER CATANACH: Okay, I have nothing further.

11 MR. FELDEWERT: At this time we would call Mr.
12 Ramon Reyes.

13 RAMON G. REYES,

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. FELDEWERT:

18 Q. Mr. Reyes, would you please state your name for
19 the record and your place of residence?

20 A. My name is Ramon G. Reyes. I live in Roswell,
21 New Mexico.

22 Q. And by whom are you employed and in what
23 capacity?

24 A. I'm employed by Harvey E. Yates Company, I'm a
25 geologist.

1 Q. And have you previously testified before this
2 Division or one of its Examiners as a petroleum geologist?

3 A. Yes, I have.

4 Q. Have your credentials as a petroleum geologist
5 been accepted and made a matter of public record?

6 A. Yes, they have.

7 Q. And are you familiar with the Application filed
8 by Heyco in this case?

9 A. Yes.

10 Q. Have you made a technical study of the area which
11 is the subject of this Application?

12 A. Yes, I have.

13 Q. And are you prepared to share the results of your
14 work with the Examiner?

15 A. Yes.

16 MR. FELDEWERT: Are the witness's qualifications
17 acceptable?

18 EXAMINER CATANACH: They are.

19 Q. (By Mr. Feldewert) Has Harvey E. Yates Company
20 drilled other Morrow wells in or around the area that is
21 the subject of this Application?

22 A. Yes, we have.

23 Q. And have you prepared Exhibits for the
24 presentation in this case?

25 A. Yes, I have.

1 Q. Okay, I want you to turn, then, to Heyco Exhibit
2 Number 6 and identify that and explain it to the Examiner,
3 please.

4 A. Exhibit 6 is a production map. All you're seeing
5 there is identifying all deep wells that penetrate the
6 Morrow sands. It also identifies the operator and the name
7 of the well where it's located. It also has cumulative
8 production, each individual well, and a little bit of
9 chronology as far as the zone that it's producing, whether
10 it's a middle sand or a lower sand, and whether it's active
11 or inactive, IA meaning inactive, and when it's active it
12 tells you what it's currently producing.

13 Q. The area subject to the Application is outlined
14 in red; is that right?

15 A. Yes, it is. That includes the west half of
16 Section 8.

17 Q. Okay, and then the Morrow wells you've identified
18 on here in red as well; is that correct?

19 A. Yes, that's correct.

20 Q. The production figures on here, is that --
21 through what month?

22 A. Till June of this year.

23 Q. Are there any dry holes shown on this map?

24 A. Yes, there are, and unfortunately some of them
25 are ours. There's a couple of dry holes in Section 9, the

1 Loco Hills Welch Deep Number 1, the Loco Hills Welch Number
2 3 in 9. One of our most recent ones is down in Section 18.
3 It's called the Cheetah 18 Federal Number 1. That's about
4 it as far as just the little, small area that we're showing
5 today.

6 Q. Is there anything significant about the dry hole
7 in Section 18?

8 A. Yes, it's significant in the way that it shows
9 how thin these Morrow channel sands are, and hopefully by
10 drilling these -- with these downsizing of the proration
11 for the Morrow wells we're able to map them a little closer
12 and have a better idea of where these sands are meandering.

13 Q. You show in here the Welch Federal well in
14 Section 8, just outside the spacing unit area?

15 A. Yes.

16 Q. What is the history of that well?

17 A. The Federal Number 1, I believe, was drilled back
18 in the late 1970s. They were drilling it for a Morrow
19 well. It went down to 11,160 feet. They encountered 66
20 feet of middle Morrow sand and about three feet in the
21 lower sand. What's significant about the sand -- We'll
22 talk about it in the cross-section, you'll be able to see
23 it and identify it -- they find a real thick middle Morrow
24 sand, but it was -- going by logs, the sands were wet, they
25 were not commercial.

1 Q. Why don't you turn, then, to Heyco Exhibit Number
2 7 and identify and review that for the Examiner, please?

3 A. Okay, Exhibit Number 7, all this is a structure
4 map, and it was done on top of what we call a lower Morrow
5 show marker. It's a benchmark that we use. It comes down
6 in the Morrow section, and we just kind of use that in our
7 own shop to identify the sands. There's multiple sands in
8 the Morrow. A lot of companies call them A, B, C and D, 1,
9 2, 3, whatever. For this purpose we're just calling them
10 lower sands and middle Morrow sands.

11 And this map here, it just shows dip direction as
12 far as going from a northwest-to-southeast direction.

13 Q. You mentioned the lower Morrow sands and the
14 middle Morrow sands. Are those the primary targets for
15 your well?

16 A. Yes, they are.

17 Q. Okay. You show on here A-A' and B-B'. Do you
18 have cross-sections for those?

19 A. Yes, I do. That would be Exhibits 8 and 9.

20 Q. Okay, why don't you turn to Exhibit Number 8?
21 Identify and explain that to the Examiner, please.

22 A. Exhibit 8 is a stratigraphic cross-section hung
23 on that lower Morrow show marker. It's one of those bench
24 markers that we can -- most of the time we can identify on
25 the e-logs.

1 What we're trying to show here is how the sands
2 thicken and thin out throughout this area, and we'll talk
3 about this more on these isopach maps that I brought.

4 The A-A' is a north-to-south cross-section. It's
5 a cross-section that's kind of on strike on the lower
6 Morrow sands that we're primarily chasing, just to show you
7 the thickness of the sands that correlate with the maps
8 that we're going to be showing here later on.

9 The B-B' cross-section, that would be Exhibit
10 10 -- or, I mean --

11 Q. Exhibit Number 9?

12 A. Nine, yes. Cross-section B-B' is a west-to-east
13 cross-section, and that was made for the purpose of showing
14 how thin these channels run and how you can be in them and
15 be out of them rather quickly.

16 The well, the first well on the B-B' cross-
17 section, the Travis Basset-Birney Number 1, you can see
18 they encountered a thin lowermost sand.

19 And as you go down to the second well, the Empire
20 South Deep Number 15 well, the sands tend to thicken and
21 have a better-looking source rock.

22 And then as you go down to the east, to the Loco
23 Hills Welch Number 3, which we drilled back in 1998, the
24 sands have thinned out and are almost gone. I did manage
25 to pick up some middle Morrow sands in that well to the

1 east, and that will be illustrated by the following
2 exhibits.

3 Q. Okay, you have isopach maps for these areas,
4 then?

5 A. Yes, I do, I have two.

6 Q. Okay, why don't you turn to Heyco Exhibit Number
7 10 --

8 A. Okay.

9 Q. -- and explain what that one is.

10 A. Yeah, Exhibit Number 10 is a net sand isopach map
11 built on the middle Morrow sands. We used parameters of an
12 8-percent porosity cutoff, and just showing -- the darker
13 yellow is the thick part of the sand channels that are
14 going through here, and just illustrating the direction
15 that they're going in.

16 Exhibit 11, the lower net sand isopach map, the
17 lower sand, which is really our primary objective of the
18 two, you can see the sand channels going north to south,
19 and we tried to make this cross-section -- kind of dissect
20 it and show how it's trending and how we're trying to stay
21 within the channel, and that's why we're picking the
22 location that we're at.

23 Q. Exhibit Number 10 shows that WCH-1 well. Is that
24 the one we were talking about earlier, that watered out?

25 A. Right, exactly. You'll see that there's a real

1 thick -- We have it mapped as 66 feet of net sand there.
2 Again, reviewing that, they did encounter thick sand, but
3 it was wet. These middle Morrow sands in this area have
4 the tendency to be wet, when you tend to get it right in
5 the middle of the channel. The optimal, or the best
6 reservoir rock is to try to hit it on the edge of the
7 channel, and that's one of the reasons why it's located the
8 way it is. We're hoping to encounter roughly 40 feet or
9 so, rather than the 66 and just have a better quality rock,
10 reservoir rock.

11 Q. Are you prepared to make a recommendation to the
12 Examiner as to the risk penalty that should be assessed
13 against the nonconsenting interest owners?

14 A. Yes.

15 Q. And what would that penalty be?

16 A. 200 percent.

17 Q. And upon what do you base your 200-percent
18 recommendation?

19 A. Just the risk factor involved in drilling this
20 well, by having the exhibits here showing that there's
21 wells -- If you go back to the production map, there have
22 been some wells that have made significant amounts of oil
23 and gas. There's a chance that we could be depleted if we
24 get into that same channel.

25 We could also be missing the sand itself. We've

1 proved that a couple of times already by drilling these
2 wells to the offset.

3 And also encountering the sands to be wet and not
4 commercial or not being able to produce them.

5 Q. So do you believe there's a chance that you could
6 drill a well at your proposed location that would not be a
7 commercial success?

8 A. Yes.

9 Q. In your opinion, will granting this Application
10 be in the best interests of conservation, the prevention of
11 waste and the protection of correlative rights?

12 A. Yes.

13 Q. How soon does Harvey E. Yates Company plan to
14 spud this well?

15 A. Right now, we currently have it under our
16 drilling schedule for October the 20th.

17 Q. Mr. Reyes, were Exhibits 6 through 11 prepared
18 and compiled under your supervision and direction?

19 A. Yes.

20 MR. FELDEWERT: At this time, Mr. Examiner, I
21 would move the admission into evidence of Heyco Exhibits
22 Number 6 through 11.

23 EXAMINER CATANACH: Exhibits 6 through 11 will be
24 admitted as evidence.

25 MR. FELDEWERT: And Mr. Examiner, that concludes

1 my examination of this witness.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Reyes, the well in the northwest of Section
5 8, that was previously a Morrow producer?

6 A. Yes, sir, that would be the Empire South Deep
7 Unit Number 15. It was produced in the lower Morrow sand,
8 and it's illustrated on both cross-sections. It became
9 inactive in May of 1993. It was attempted to be produced
10 out of the Atoka. There's an Atoka sand in cross-section
11 B-B' on the top. They were not successful. They moved up
12 to the Wolfcamp, and they're currently producing out of the
13 Wolfcamp.

14 Q. In the proposed well, you'll attempt to test that
15 lower Morrow section as well?

16 A. Yes, sir.

17 Q. Would you consider that to be the primary
18 objective, or is it about equal, or --

19 A. The lower sand is what we're really after.
20 That's something that we feel we have a better shot, only
21 because of the well in Section 8, the Welch Number 1 well,
22 you know, was wet in the middle Morrow sands. There's a
23 chance that -- you know, we're going to be a little bit
24 structurally high, not a whole lot. We may encounter the
25 same thick sand and it could be wet, but hopefully we'll be

1 on the edge of it in that channel, we'll get better -- have
2 a better chance of seeing some better rock, reservoir rock.

3 EXAMINER CATANACH: Okay, I have nothing further.

4 MR. FELDEWERT: That concludes our presentation,
5 Mr. Examiner.

6 EXAMINER CATANACH: Okay, there being nothing
7 further in this case, Case 12,486 will be taken under
8 advisement.

9 (Thereupon, these proceedings were concluded at
10 11:50 a.m.)

11 * * *

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16
17 I hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 12486,
heard by me on September 7 192000.
20 David R. Catanach, Examiner
21 Of Conservation Division
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