

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 EOG RESOURCES, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 12,611

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 8th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 8th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

OIL CONSERVATION DIV
01 MAR 22 AM 8:05

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I N D E X

March 8th, 2001
Examiner Hearing
CASE NO. 12,611

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>LARRY D. CUNNINGHAM</u> (Landman)	
Direct Examination by Mr. Carr	4
Examination by Examiner Stogner	12
<u>RANDALL S. CATE</u> (Engineer)	
Direct Examination by Mr. Carr	15
Examination by Examiner Stogner	22
REPORTER'S CERTIFICATE	24

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	11
Exhibit 2	6	11
Exhibit 3	7	11
Exhibit 4	8	11
Exhibit 5	10	11
Exhibit 6	11	11
Exhibit 7	17	22
Exhibit 8	18	22
Exhibit 9	20	22

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A P P E A R A N C E S

FOR THE DIVISION:

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 By: WILLIAM F. CARR

* * *

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

1 WHEREUPON, the following proceedings were had at
2 9:15 a.m.:

3 EXAMINER STOGNER: Call this hearing to order,
4 and at this time I'll call Case Number 12,611, which is the
5 Application of EOG Resources for compulsory pooling, Lea
6 County.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the law firm Holland and Hart, L.L.P.
10 We represent EOG Resources, and I have two witnesses.

11 EXAMINER STOGNER: Any other appearances?
12 Will the witnesses please stand to be sworn?

13 (Thereupon, the witnesses were sworn.)

14 MR. CARR: At this time we call Larry Cunningham.

15 LARRY D. CUNNINGHAM,
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. CARR:

20 Q. Would you state your full name and place of
21 residence?

22 A. Larry D. Cunningham, I'm located in Midland,
23 Texas.

24 Q. For whom do you work?

25 A. EOG Resources, Inc.

1 Q. What is your job with EOG?

2 A. Project landman.

3 Q. Mr. Cunningham, have you previously testified
4 before the Oil Conservation Division?

5 A. Yes.

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 record?

9 A. Yes.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes.

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

15 A. Yes.

16 MR. CARR: Are Mr. Cunningham's qualifications
17 acceptable?

18 EXAMINER STOGNER: They are.

19 Q. (By Mr. Carr) Mr. Cunningham, would you
20 initially summarize for Mr. Stogner what it is that EOG
21 seeks with this Application?

22 A. Mr. Examiner, we are seeking the order pooling
23 all minerals from the surface to the top 100 feet of the
24 Mississippian formation under the west half of Section 7,
25 Township 24 South, Range 34 East, Lea County, New Mexico.

1 This unit is to be dedicated to our Bell Lake Unit Well
2 Number 8, to be drilled at a standard location of 1980 feet
3 from the north line and 660 feet from the west line in Unit
4 E of Section 7.

5 Q. And you're only seeking the pooling of formations
6 developed on 320 acres?

7 A. Yes, sir, that's correct.

8 Q. Let's go to what has been marked as EOG Exhibit
9 Number 1. Would you identify and review this, please?

10 A. Yes, sir, that's a land map. The outline of the
11 proration unit for this well is outlined in red. The
12 location for the well is located with a red dot, and it
13 shows the ownership of the lands in the proration unit and
14 the surrounding area.

15 Q. And what is the primary objective in this well?

16 A. The South Bell Lake-Morrow Gas Pool.

17 Q. Let's go to Exhibit Number 2, would you identify
18 and review this?

19 A. Exhibit Number 2 is a summary of the working
20 interest ownership in the proration unit for this well. It
21 shows EOG Resources, Inc., with 30.997793 percent;
22 ExxonMobil Corporation with 4.350210 percent; Brady Lowe,
23 Trustee of the Brady Lowe Family Trust with 1.259214
24 percent; the Bass family entities comprising 7.326338
25 percent; and Kaiser-Francis Oil Company with 56.066455

1 percent.

2 Q. And what is the status of the acreage commitment
3 at this time?

4 A. We have committed EOG's 30.997793 percent. We
5 have agreement with ExxonMobil Corporation whereby they
6 will grant EOG a term assignment, and we are currently
7 waiting on paperwork to be completed for that.

8 The interest of Bass, we have an indication that
9 they would like to participate, and we're waiting on
10 paperwork from them so we can dismiss them from this case.

11 And Kaiser-Francis Oil has indicated they do not
12 want to participate, and we have received no written
13 verification, only verbal.

14 Q. Brady Lowe, what is the status of that interest?

15 A. Brady Lowe, the initial indication on one of the
16 returns of our initial letters was that they desired not to
17 participate. They did not offer any opportunity for a
18 farmout or term assignment and, as of this point, have not
19 come up with anything they would like to do other than be
20 force pooled.

21 Q. Now, Mr. Cunningham, let's go to EOG Exhibit
22 Number 3, the correspondence, and I would ask you to refer
23 to this material and review your efforts to reach voluntary
24 agreements for the development of this 320-acre spacing
25 unit.

1 A. The first proposal for this well was mailed out
2 November 29th of 2000. Prior to that we had had numerous
3 telephone conversations with the parties, trying to either
4 acquire farmouts or term assignments. Again, on November
5 29th, 2000, we proposed the well along with an AFE and a
6 joint operating agreement for the well.

7 Subsequent to that, in numerous other telephone
8 conversations, we amended the well location to become an
9 orthodox location at the 1980 footage mark.

10 We sent out another letter on January 12th of
11 2001 where the location was amended, and again requested
12 participation or farmout term assignments.

13 Then again on February 27th, 2001, we again sent
14 out a letter requesting participation or some form of trade
15 to get this well moving along.

16 Q. At this time, the working interest committed to
17 the well is just the EOG 30.99 percent?

18 A. That is correct.

19 Q. You previously indicated the status of the Bass
20 and the other -- and the Exxon interest that you believe
21 will ultimately be committed to the well?

22 A. That is correct.

23 Q. Let's go to what has been marked as EOG Exhibit
24 Number 4, the AFE. Would you identify and review that?

25 A. Yes, sir, that's an AFE that has the well

1 location, the depth to be drilled to 14,500 feet. The
2 estimated cost for drilling to total depth is \$1,419,625.
3 Cost for completion is estimated at \$557,500, for a total
4 completed well cost of \$1,977,125.

5 Q. EOG has drilled other Morrow wells in the area?

6 A. Yes, sir, we have, and we --

7 Q. Are these costs consistent with what is charged
8 for other Morrow wells in this area?

9 A. Yes, sir.

10 Q. The date on the AFE is March the 2nd, 2001. This
11 is obviously not the AFE previously submitted to the
12 working interest owners; is that right?

13 A. That is correct.

14 Q. And how does this compare to the earlier AFE?

15 A. It is a little bit lower. There was a change in
16 the estimated amount of days required to perform the
17 drilling.

18 Q. And these numbers are, in fact, accurate and
19 would be the numbers upon which you would ask
20 nonparticipating interest owners to commit to the well?

21 A. That is correct.

22 Q. Have you made an estimate of the overhead and
23 administrative costs to be incurred while drilling the well
24 and also while producing it if, in fact, it is successful?

25 A. Yes, sir, we have an estimated cost during

1 drilling of \$5800 a month and during production of \$580 a
2 month.

3 Q. Now, how do these figures compare with what is
4 being charged for similar wells in this area?

5 A. These are actually a little bit lower. If you go
6 by the new Ernst & Young numbers which just recently came
7 out, there is an average for a well of this depth in New
8 Mexico, would be \$6750 a month for the drilling and \$718 a
9 month on average for the production.

10 Q. And these costs are up because of what?
11 Increased rig costs?

12 A. That's basically it, and other costs.

13 Q. Do you recommend that these figures be
14 incorporated into the order which results from today's
15 hearing?

16 A. Yes, sir.

17 Q. Is EOG Exhibit Number 5 a copy of the joint
18 operating agreement for this well?

19 A. Yes.

20 Q. Does this agreement provide for adjustment of
21 overhead and administrative costs pursuant to an attached
22 COPAS accounting procedure for joint operations?

23 A. Yes.

24 Q. Do you request that the overhead and
25 administrative costs set by the order which will result

1 from this hearing also provide for the overhead and
2 administrative costs to be adjusted in accordance with
3 these COPAS procedures?

4 A. Yes, sir.

5 Q. Is Exhibit Number 6 an affidavit confirming that
6 notice of this hearing has been provided in accordance with
7 Oil Conservation Division rules and regulations?

8 A. Yes.

9 Q. Were Exhibits 1 through 6 either prepared by you
10 or compiled under your direction and supervision?

11 A. Yes.

12 MR. CARR: Mr. Stogner, at this time we would
13 move the admission into evidence of EOG Resources, Inc.,
14 Exhibits 1 through 6.

15 EXAMINER STOGNER: Exhibits 1 through 6 will be
16 admitted into evidence.

17 MR. CARR: And that concludes my direct
18 examination of Mr. Cunningham.

19 EXAMINER STOGNER: Mr. Carr --

20 MR. CARR: Yes.

21 EXAMINER STOGNER: -- I have an item here from
22 Mr. Kellahin --

23 MR. CARR: Correct.

24 EXAMINER STOGNER: -- to be made part of the
25 record. Do you see that a copy of this letter was sent to

1 you?

2 MR. CARR: Yes, it was sent to us, and I've
3 discussed it with Mr. Kellahin.

4 EXAMINER STOGNER: Okay. Just for the record, a
5 letter from Mr. Kellahin who represents Kaiser-Francis,
6 dated March 6th, that was faxed to the Oil Conservation
7 Division on that day. He identified Kaiser-Francis as an
8 adversely affected interest owner to enter an appearance in
9 this matter.

10 Also they go on, on page 2, Comes Kaiser-Francis
11 Oil Company by its attorney Kellahin and Kellahin and
12 enters its appearance in this case as an interest party in
13 opposition.

14 MR. CARR: Right.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Okay, so I'll ask you, Mr. Cunningham, what do
18 you believe your -- EOG Resources' relationship now with
19 Kaiser-Francis to be in this instance?

20 A. I believe that Kaiser-Francis is still in a
21 position that they do not want to participate in this
22 location, in a well drilled at this location, and simply
23 are seeking to preserve the option to participate in a
24 second well that might be drilled on the proration unit at
25 a later date.

1 Q. Okay. Now, referring to Exhibit Number 1, I show
2 -- or it's pretty clear to me that the north half is
3 federal acreage, but I'm not sure about what the royalty
4 interest is in the south half.

5 A. The south half is comprised of fee leases.

6 Q. Now, in looking at that, is Kaiser Francis's
7 interest only in the north half?

8 A. No, sir, they also have some interest under HBP
9 leases in the southwest quarter of Section 7.

10 Q. Okay, how many fee leases in the south half are
11 there?

12 A. There are approximately 14.

13 Q. Now, the name of this well is the Bell Lake Unit.
14 What's the relationship of that property or this proration
15 unit in that Conoco Bell Lake Unit?

16 A. The north half of Section 7 is still located
17 within the confines of the Bell Lake Unit. The south half
18 of Section 7 was deleted from the unit several years ago.
19 And so since the location is on a tract located within the
20 Bell Lake Unit, we were required to name it a Bell Lake
21 Unit well.

22 Q. Do you know where the nearest participating area
23 for the Morrow production or any deep gas production is in
24 that Bell Lake area?

25 A. Mr. Examiner, I'm not exactly sure. I know the

1 participating area is somewhere north of this location.

2 I'm not exactly sure of the outline of that participating
3 area.

4 Q. Well, I guess I'm a little confused. Why are the
5 proceeds going to the lease, as opposed to the unit, in
6 that north half?

7 A. I'm sorry, I don't follow your question.

8 Q. Okay, if this is a unitized area, and you said
9 the north half is still a part of that unit, correct?

10 A. Yes, sir.

11 Q. Why aren't the proceeds for that northern portion
12 of this proposed proration unit going to the unit, as
13 opposed to the lease? It looks like you've just got the
14 lessees' interest shown on here. In that --

15 A. Well, I'm assuming that the participat- -- Yeah,
16 the parties within the unit are the only participants
17 within what is left in the north half of Section 7 also.
18 It's the same parties. It's all federal acreage, so the
19 royalty interest will be to the federal government.

20 Q. But don't the proceeds to a unit go to parties
21 that have joined that unit agreement over an area?

22 A. Yes, sir.

23 Q. Okay.

24 A. And it's my understanding of this is that it's
25 the same people which we have named or which were within

1 the northwest quarter of Section 7, are the same people,
2 ownershipwise, throughout the entire unit.

3 Q. Where does Conoco fit in?

4 A. Conoco was the previous operator of this unit.

5 Q. Okay, so who is the unit operator?

6 A. Kaiser-Francis.

7 Q. Okay, that's --

8 A. Sorry, I should have been able to see that, and I
9 did not understand, I apologize.

10 Q. Okay. Do you know when Kaiser-Francis took over?

11 A. No, sir, I do not.

12 Q. Well, I was talking apples, and you were talking
13 oranges.

14 A. I apologize.

15 EXAMINER STOGNER: I have no further questions of
16 Mr. Cunningham. You may be excused. Thank you, sir.

17 THE WITNESS: Thank you.

18 MR. CARR: Mr. Stogner, at this time we call
19 Randy Cate.

20 RANDALL S. CATE,

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

23 DIRECT EXAMINATION

24 BY MR. CARR:

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

1 A. Randall Cate, C-a-t-e.

2 Q. Where do reside?

3 A. I reside in Midland, Texas.

4 Q. By whom are you employed?

5 A. EOG Resources.

6 Q. And what is your position with EOG Resources?

7 A. I'm project reservoir engineer.

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

10 A. Yes, I have.

11 Q. At the time of that testimony were your
12 credentials accepted and made a matter of record?

13 A. Yes, they were.

14 Q. And you were qualified as a petroleum or
15 reservoir engineer at that time?

16 A. Yes, sir.

17 Q. Are you familiar with the Application filed in
18 this case?

19 A. Yes, I am.

20 Q. You're the engineer on the project?

21 A. Yes.

22 Q. And you have worked with the geologist and
23 prepared a technical study of the area which is involved in
24 this Application?

25 A. Yes, I have.

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

3 A. Yes.

4 Q. Basically, Mr. Cate, what were you asked to
5 attempt to do in your technical review?

6 A. To assess the risk associated with the drilling
7 and completion of the proposed well.

8 MR. CARR: We tender Mr. Cate as an expert
9 witness in petroleum engineering.

10 EXAMINER STOGNER: Mr. Cate is so qualified.

11 Q. (By Mr. Carr) Let's go to what has been marked
12 as EOG Exhibit Number 7. I'd ask you to identify that and
13 review it for Mr. Stogner.

14 A. Okay, this is a structure map. They put it on
15 top of -- we hung it on top -- or the data is on top of the
16 Morrow C zone. Our primary interval will be the Morrow.
17 I'll show you that it will actually be the Morrow D sands,
18 is what we believe have the most chance of being productive
19 in this spacing unit.

20 But the Morrow C marker is one that we use
21 throughout this area. Pitchfork Ranch field is a big
22 Morrow C field. It's about ten miles to the south and
23 southeast. The Antelope Ridge area is just due north and
24 east of this Bell Lake area in Lea County.

25 It's highly faulted. The feature north of our

1 proration unit is approximately 500 to almost 1000 feet
2 upthrown, faulted up from our proposed location.

3 The sands -- There are some prolific Morrow D
4 production sands up in Section 5 to the north and east of
5 our proposed location, the Bell Lake Unit 8, and we map
6 that those sands might possibly come into this downthrown,
7 faulted feature, and that's what we're looking for.

8 Q. Do you see the sands on the downthrown side of
9 this feature elsewhere in this immediate area?

10 A. Yes, we do. If you go down to the Sims well
11 which is -- on this display, it's in the lower left-hand
12 corner, Section 13 -- that well actually produced 640
13 million cubic feet out of the D sands. So we do have
14 evidence that the sands do produce in this lower fault
15 block.

16 Q. All right, Mr. Cate, let's go to Exhibit Number
17 8, the isopach map. This is on the Morrow D sand?

18 A. Yes, it's what we've designated as the Morrow
19 D-2, and I'll specify that on the cross-section in the next
20 exhibit. But the sands in this area trend from the
21 northeast to the southwest.

22 Again, the production that I had referred to
23 earlier up in Section 5, the Bell Lake Unit 14 and Madera
24 Number 1 together have produced 37 BCF of gas from this
25 Morrow D-2 interval. And so we are simply taking the sands

1 from that area in Section 5 and hoping that they continue
2 through the proposed location and tie down to the Sims
3 well, down in Section 13.

4 The net pays that are shown here in footages in
5 blue represent 8-percent density with crossover. We
6 believe that's the kind of cutoff it will take to make
7 production.

8 The risks associated with this, though, as you
9 can see, 640 million out of that Sims well, that would not
10 be commercial. So we know we've got some possibilities of
11 extra faults in here that could either cause limited
12 reservoirs -- The wells up in Section 5 also produced in
13 excess, I think, of 200,000 barrels of water. So we know
14 we have water in these sands in the upthrown blocks.

15 And the Bell Lake well that we'll talk about on
16 the cross-section, the Bell Lake well directly north and
17 east, the Bell Lake Unit 16 of our location, it actually
18 tested the D sands as wet.

19 So along with the stratigraphic nature of the
20 sands and the potential to be faulted or limited, we do
21 also have potential for water problems.

22 Q. There's a trace on this exhibit for the cross-
23 section; is that correct?

24 A. That's correct.

25 Q. All right, let's go to that cross-section,

1 Exhibit Number 9, and I'd ask you now to review that for
2 Mr. Stogner.

3 A. The cross-sectional trace starts in the Sims well
4 in the southwest or the lower left-hand portion of the
5 previous exhibits. As can be seen, it encountered only
6 five feet of net sand and produced 654 million cubic feet.

7 The next well on the cross-section from the left
8 is the Enron Oil and Gas, or now EOG Resources, Bell Lake 7
9 Unit Well that we drilled approximately three years ago and
10 -- basically on the same premises and did not encounter
11 commercial sands. That well is in the east half of Section
12 7.

13 But as can be seen in the yellow markings on the
14 gamma-ray log, we do believe we possibly are close on the
15 edge of the sands coming through, the D sands coming
16 through this location that we've now chosen for the Bell
17 Lake Unit 8.

18 The next well is the Conoco -- well, now the
19 Kaiser-Francis Bell Lake Unit Number 16, which I referred
20 to earlier. It's in the northwest -- or, excuse me, the
21 northeast corner of Section 7, and they did test these
22 lower D sands, designated in yellow and red, as wet.

23 They did manage to go up the hole to perforations
24 at 13,802 to -830, which is Morrow C sand, and they made a
25 noncommercial Morrow C well that produced 492 million cubic

1 feet and also 8400 barrels of water. That well is upthrown
2 or faulted up from our proposed location.

3 And then I show you the well up in Section 5, the
4 Bell Lake Unit 14 on the far right of our cross-section,
5 and that is one of the excellent wells in the area that did
6 produce over 33 BCF of gas from the D-2 pay interval.

7 Q. Are you prepared to make a recommendation to the
8 Examiner as to the risk penalty that should be imposed on
9 those interest owners who do not voluntarily participate in
10 the well?

11 A. Yes, I am.

12 Q. And what is that?

13 A. That would be for 200 percent.

14 Q. And just briefly summarize the reasons for that.

15 A. Okay. Again I alluded to them earlier, but the
16 stratigraphic nature of these D-2 sands. We just drilled a
17 well 2000 feet from this one a few years ago that missed
18 all the sands, and that one was actually dry and abandoned.
19 The faulted nature of this area can cause limited
20 reservoirs and cause noncommercial production even if
21 encountered. And then being a downthrown fault block,
22 there can be water problems associated with the production.

23 Q. Does EOG Resources, Inc., seek to be designated
24 operator of the proposed well?

25 A. Yes, we do.

1 Q. Were Exhibits 7, 8 and 9 prepared by you or
2 compiled under your direction and with your input?

3 A. Yes, they were.

4 MR. CARR: Mr. Stogner, we would move the
5 admission of EOG Exhibits 7, 8 and 9.

6 EXAMINER STOGNER: Exhibits 7, 8 and 9 will be
7 admitted into evidence at this time.

8 MR. CARR: That concludes my direct of Mr. Cate.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. Cate, the well that you alluded to that EOG
12 had drilled, or that you had drilled, responsible for
13 drilling a few years ago --

14 A. Yes.

15 Q. -- was that the one, the Bell Lake 7 Unit Number
16 1?

17 A. Yes, sir, it is.

18 Q. Okay. What depth did you go on that one?

19 A. We actually went down to the Devonian once we
20 found out that the Morrow sands were not going to be
21 productive, we took it to the Morrow, but -- I mean to the
22 Devonian. I don't remember the exact TD. Probably 15,900
23 or 16,000 feet. But again it tested noncommercial in the
24 Devonian also and was later plugged.

25 Q. And what depth are you taking this well?

1 A. This one would be 14,500 feet.

2 Q. Has EOG gone through the permitting process with
3 the BLM at this time on this well?

4 A. I believe we have, yes.

5 Q. Okay. So the location is established and been
6 approved?

7 A. Yes, permitted, yes.

8 Q. What time frame are you looking at on drilling
9 this well?

10 A. I think we have a rig that can be there within 30
11 days; is that right, Larry?

12 MR. CUNNINGHAM: (Nods)

13 THE WITNESS: Yes, I think it's very soon on our
14 rig schedule.

15 EXAMINER STOGNER: I have no other questions of
16 this witness. You may be excused.

17 THE WITNESS: Thank you.

18 MR. CARR: That concludes our presentation in
19 this case.

20 EXAMINER STOGNER: If nobody else has anything
21 further in Case 12,611, then this matter will be taken
22 under advisement, and this hearing as adjourned.

23 (Thereupon, these proceedings were concluded at
24 9:43 a.m.)

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12611
* * * heard by me on 8 March 2000

STEVEN T. BREWER, Examiner
(505) 989-9317 Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 13th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002

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