

## STATE OF NEW MEXICO

## ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

## OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING )  
CALLED BY THE OIL CONSERVATION )  
DIVISION FOR THE PURPOSE OF )  
CONSIDERING: ) CASE NO. 10862

APPLICATION OF YATES PETROLEUM CORPORATION  
-----

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: David R. Catanach, Hearing Examiner  
Jim Morrow, Hearing Examiner

December 2, 1993

Santa Fe, New Mexico

This matter came on for hearing before the  
Oil Conservation Division on December 2, 1993, at  
Morgan Hall, State Land Office Building, 310 Old Santa  
Fe Trail, Santa Fe, New Mexico, before Deborah O'Bine,  
RPR, Certified Court Reporter No. 63, for the State of  
New Mexico.

**ORIGINAL**

JAN 24 1994

CUMBRE COURT REPORTING

P.O. Box 9262

Santa Fe, New Mexico 85704-9262

(505) 984-2244 FAX: 984-2092

## I N D E X

December 2, 1993  
 Examiner Hearing  
 CASE NO. 10862

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CUMBRE COURT REPORTING  
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1 FOR THE APPLICANT: CAMPBELL, CARR, BERGE &  
2 SHERIDAN, P.A.  
3 P.O. Box 2208  
4 Santa Fe, New Mexico 87504  
5 BY: WILLIAM F. CARR, ESQ.  
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1 EXAMINER CATANACH: At this time we'll call  
2 Case 10862, which is the application of Yates  
3 Petroleum Corporation for an unorthodox gas well  
4 location, Eddy County, New Mexico.

5 Are there appearances in this case?

6 MR. CARR: May it please the examiner, my  
7 name is William F. Carr with the Santa Fe law firm  
8 Campbell, Carr, Berge & Sheridan. We represent Yates  
9 Petroleum Corporation, and I have three witnesses.

10 EXAMINER CATANACH: Any additional  
11 appearances in this case?

12 Will the three witnesses please stand and  
13 be sworn in at this time?

14 (Witnesses sworn.)

15 MR. CARR: At this time we call Kathy  
16 Porter.

17 KATHY PORTER,  
18 the witness herein, after having been first duly sworn  
19 upon her oath, was examined and testified as follows:

20 EXAMINATION

21 BY MR. CARR:

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

24 A. Kathy Porter.

25 Q. Where do you reside?

1 A. Artesia, New Mexico.

2 Q. By whom are you employed and in what  
3 capacity?

4 A. I'm employed by Yates Petroleum Corporation  
5 as a petroleum landman.

6 Q. Miss Porter, have you previously testified  
7 before this division?

8 A. Yes, I have.

9 Q. At the time of that prior testimony, were  
10 your credentials as a petroleum landman accepted and  
11 made a matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the application filed  
14 in this case on behalf of Yates Petroleum Corporation?

15 A. Yes, I am.

16 Q. Are you familiar with the proposed Redbone  
17 BP Federal Well #2?

18 A. Yes, I am.

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

21 EXAMINER CATANACH: They are.

22 Q. (BY MR. CARR) Miss Porter, would you  
23 briefly state what Yates Petroleum Corporation seeks  
24 with this application?

25 A. Yates Petroleum Corporation seeks approval

1 of an unorthodox well location for our proposed  
2 Redbone BP Federal #2 to be drilled 1980 feet from the  
3 north line, 510 feet from the east line, Section 10,  
4 Township 24 South, Range 24 East, Eddy County, New  
5 Mexico, with a north half dedication.

6 Q. Have you prepared certain exhibits for  
7 presentation here today?

8 A. Yes, I have.

9 Q. Would you refer to what has been marked for  
10 identification as Yates Petroleum Corporation's  
11 Exhibit No. 1, identify this, and review it for Mr.  
12 Catanach?

13 A. Exhibit No. 1 is a plat showing the  
14 proposed well location. A standard north half spacing  
15 unit is outlined. This plat also shows offsetting  
16 owners. The Yates acreage is colored in yellow.

17 Q. The well is unorthodox because it is being  
18 moved toward the eastern boundary of the dedicated  
19 acreage; is that correct?

20 A. That's correct, Section 11.

21 Q. Who is the operator of Section 11?

22 A. Section 11 is operated entirely by  
23 Moncrief.

24 Q. That is the only tract for whom Yates is  
25 moving its well location?

1 A. That's correct.

2 Q. Is Yates Exhibit No. 2 an affidavit  
3 confirming that notice of today's hearing has been  
4 provided to Moncrief and others as required by OCD  
5 rules?

6 A. Yes, it is.

7 Q. Will Yates also call geological and  
8 engineering witnesses to explain the technical reasons  
9 for this location?

10 A. Yes, we will.

11 Q. Were Exhibits 1 and 2 either prepared by  
12 you or compiled at your direction?

13 A. That's correct.

14 MR. CARR: At this time, Mr. Catanach we  
15 move the admission of Yates Petroleum Corporation's  
16 Exhibits 1 and 2.

17 EXAMINER CATANACH: Exhibits 1 and 2 will  
18 be admitted as evidence.

19 MR. CARR: That concludes my examination of  
20 this witness.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Miss Porter, the acreage outlined in yellow  
24 on your Exhibit No. 1, that is 100 percent Yates'  
25 acreage?

1 A. That's correct.

2 Q. Section 11, does that contain Morrow  
3 producing wells within its section?

4 A. We have a technical witness that will go  
5 into the offset wells.

6 Q. As far as you know, that's all operated by  
7 Moncrief, though?

8 A. Yes, the entire Section 11 is operated by  
9 Moncrief.

10 Q. You've got two additional parties, Chevron  
11 and Pennzoil, listed on your notice. What interest do  
12 they have in this?

13 A. If you'll look on the plat, Section 9 is  
14 operated by Pennzoil. Chevron had an interest up in  
15 Section 2. When they first started this, they were  
16 attempting to notify everyone within the nine  
17 sections, although we were not encroaching against  
18 anyone except Section 11.

19 Q. This is all federal acreage in Section 10?

20 A. In Section 10, that's correct, it's one  
21 lease.

22 EXAMINER CATANACH: I think that's all we  
23 have of the witness. She may be excused.

24 MR. CARR: At this time we call Brent May.

25 BRENT MAY,



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

3 EXAMINATION

4 BY MR. CARR:

5 Q. State your name for the record, please.

6 A. Brent May.

7 Q. Where do you reside?

8 A. Artesia, New Mexico.

9 Q. By whom are you employed?

10 A. Yates Petroleum.

11 Q. And what is your current position with  
12 Yates Petroleum?

13 A. I'm a petroleum geologist.

14 Q. Have you previously testified before this  
15 division?

16 A. Yes, I have.

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

20 A. Yes, they were.

21 Q. Are you familiar with the application filed  
22 on behalf of Yates Petroleum Corporation in this case?

23 A. Yes, I am.

24 Q. Are you familiar with the proposed Redbone  
25 BP Federal Well #2?

1 A. Yes, I am.

2 Q. Have you made a geological study of the  
3 area surrounding this well?

4 A. Yes, I have.

5 MR. CARR: Are the witness's qualifications  
6 acceptable?

7 EXAMINER CATANACH: They are.

8 Q. (BY MR. CAR) To what formation is Yates  
9 proposing to drill this well?

10 A. The Morrow formation.

11 Q. In what pool in the Morrow will it be  
12 completed?

13 A. That would be within the Crooked Creek  
14 Morrow Gas Pool.

15 Q. What is your primary objective?

16 A. Our primary objective is what I loosely  
17 term the Moncrief Sand of the Morrow Clastics Section  
18 of the Morrow formation.

19 Q. Are there secondary objectives in this  
20 well?

21 A. Yes, there are. There could be other sands  
22 within the Morrow Clastics Section of the Morrow  
23 formation and also possible potential within the  
24 Strawn formation.

25 Q. Mr. May, why is Yates proposing to drill at

1 this particular location?

2 A. Because of geological and topographical  
3 reasons.

4 Q. Let's move to what has been marked Yates  
5 Petroleum Corporation Exhibit No. 3. Would you  
6 identify this and review it for the examiner?

7 A. This is a topographic map of the area  
8 showing Section 10 and the proposed location. Yates  
9 originally asked for a location 1980 feet from the  
10 north line and 660 feet from the east line, and  
11 because of the topographic reasons, the BLM suggested  
12 that we move it to the 1980 and 510 location that we  
13 are currently asking for now.

14 Q. Let's go on now to Yates Exhibit No. 4.  
15 Can you identify this exhibit?

16 A. This is a stratigraphic cross-section  
17 A-A'. It runs from west to east. There's a location  
18 plat in the lower left-hand corner. Starting on the  
19 left side of the cross-section with the C & K  
20 Petroleum Lowe State #1 in Section 16 -- I might also  
21 add that this cross-section is basically showing the  
22 Morrow Section, but the datum is the lower Morrow.

23 I also have a top picked on the Morrow  
24 Clastics, and also a pick I call, loosely termed, the  
25 base of the sand.

1           As I was explaining earlier, the well on  
2 the far left-hand side of the cross-section is the  
3 Lowe State #1 in Section 16. This well currently is  
4 producing out of the Morrow and has produced  
5 cumulatively less than a half a Bcf out of several  
6 Morrows and the Atoka sands.

7           The next well on the cross-section is the  
8 Yates Petroleum Redbone BP Federal #1 in Section 10.  
9 This well in the past has produced out of a few sands  
10 lower down in the Morrow Clastics, and within the  
11 lower Morrow here just recently, though, Yates has  
12 come uphole and recompleted into the Moncrief Sand,  
13 which is colored in yellow on this cross-section. And  
14 on initial potential, it flowed for 1.6 million cubic  
15 feet of gas.

16           I almost might note that on the Lowe State  
17 #1, the Moncrief Sand is present, but it does appear  
18 to be thinner and tighter.

19           The last well on the cross-section, the  
20 Moncrief Marathon State Com #2, in Section 11 is  
21 currently producing out of the Moncrief Sand and has  
22 cum'd almost a little over 3 Bcf out of this sand.

23           Q.   Basically the proposed location would lie  
24 between the two wells on the right-hand side of the  
25 cross-section?

1           A.     Yes, between the Redbone #1 and the  
2 Moncrief Marathon State Com #2.

3           Q.     Let's go now to Yates Exhibit No. 5. Would  
4 you identify that, please.

5           A.     This is a structure map of the area showing  
6 Section 10 in the center of the proposed location.  
7 This structure map has a datum on the top of the  
8 Morrow Clastics Section.

9                     The contour interval is 100 feet. There is  
10 a general dip, regional dip, to the east. On the far  
11 left-hand side of the map running basically north and  
12 south through Sections 4, 9, and 16 is the apex of an  
13 anticline, and Section 10 with the proposed location  
14 would be on the eastern flank of this high.

15                    I might note that the two wells that I was  
16 just discussing on the cross-section, the Yates  
17 Petroleum Redbone BP Federal #1 is shown in Section  
18 10, which is updip of the current proposed location,  
19 and the Moncrief Marathon State Com #2 is in the north  
20 half of Section 11 and would be downdip of the current  
21 proposed location.

22                    And the Moncrief well has produced over 3  
23 Bcf of gas out of the Moncrief Sand. So we should be  
24 updip of that. Structure should not be too much of a  
25 worry here.

1 Q. Mr. May, let's now go to your isopach map,  
2 which is Exhibit No. 6, and I'd ask you to review that  
3 for me.

4 A. This is an isopach map of the area. It is  
5 an isopach of the Moncrief Sand only. It is basically  
6 a density porosity of greater than 10 percent with a  
7 few exceptions. Where there was no density log  
8 available, I use a sonic log of 10 percent cutoff or  
9 higher.

10 I generally use on Morrow sands what I call  
11 an isolith, which is a clean sand map, but this  
12 Moncrief Sand shows up hot on the gamma ray because of  
13 in the samples show a lot of glauconite, and plus I  
14 can't use gamma cutoff so I used a porosity cutoff to  
15 map this particular sand in this area.

16 This is showing the limits of the sand  
17 porosity in the area. It's showing a porosity thick  
18 trending in a northeast-southwest direction through  
19 Section 10 and into Section 11. This sand is probably  
20 a bar or a beach sand that runs parallel to paleo  
21 shoreline.

22 Q. Basically this shows that the thickest  
23 portion of the sand in the north half of 10 would be  
24 under the proposed well location?

25 A. Yes, that is correct. In fact, the

1 proposed location is the best location on the north  
2 half of Section 10 to encounter the sand thick.

3 Q. Based on your geological study, would  
4 approval of this application enable Yates to most  
5 effectively produce the reserves that remain under  
6 this acreage?

7 A. Yes.

8 Q. Would approval of this application also be  
9 in the best interest of conservation, the prevention  
10 of waste, and the protection of correlative rights?

11 A. Yes, it would.

12 Q. Is there any other location in the north  
13 half of this section where you believe you could  
14 effectively drain the reserves under the acreage?

15 A. No, there is not.

16 Q. Were Exhibits 3 through 6 prepared by you?

17 A. Yes, they were.

18 MR. CARR: At this time, Mr. Catanach, we  
19 move the admission of Yates Petroleum Corporation's  
20 Exhibits 3 through 6.

21 EXAMINER CATANACH: Exhibits 3 through 6  
22 will be admitted as evidence.

23 MR. CARR: That concludes my direct  
24 examination of Mr. May.

25 EXAMINATION

1 BY EXAMINER CATANACH:

2 Q. Mr. May, the primary reason for this  
3 location is geologic; is that correct?

4 A. Yes, it is.

5 Q. What is the topographic consideration that  
6 the BLM had?

7 A. I was not out there when the BLM met with  
8 our representatives, and I'm not sure of the exact  
9 reason they had us move it from 660 to 510, but  
10 looking at the topo map, it looks like the slope may  
11 be a little bit less extreme at this location.

12 Q. The well in Section 10 is a C & K Petroleum  
13 well?

14 A. In Section 16?

15 Q. I'm sorry, in Section 16, that's correct,  
16 that has produced from the Morrow interval you're  
17 speaking about?

18 A. It appears that they have. The only  
19 information I had on the scout ticket showed a long  
20 perforation interval, and it appeared that several  
21 sands were included in that perforation interval, and  
22 I have to make the assumption that that sand is open.

23 The perforation interval, the base of it  
24 started from -- well, the perforation interval was  
25 from 9243 down to 9660. And I have to make the



1 assumption that they opened up most of the sands  
2 within that interval. They did run a DST over the  
3 Moncrief Sand interval in that well and recovered a  
4 small amount of gas, too.

5 Q. Is structure really not a consideration in  
6 this well location?

7 A. Not in this particular location. Since we  
8 have an excellent producer downdip of us, I'm not  
9 worried about structure.

10 Q. How much sand in this interval do you think  
11 you need to encounter to get a commercial well?

12 A. The well, the C & K Lowe State #1 in  
13 Section 16 had approximately 10 feet, and I would say  
14 we definitely need something above that. The two  
15 producer wells, the Redbone #1 in Section 10 and the  
16 Marathon State #2 in Section 11 both had 19 feet.

17 I would like to see something more in the  
18 range of those two wells. If we go something below  
19 that, we're, in my opinion, increasing our risk. So I  
20 would prefer to stay around 19, in that area, 19 feet.

21 The other consideration is if we went to a  
22 standard location, 1980 from the north line and 1980  
23 from the east line, that would probably give us about  
24 14 feet.

25 The other consideration, if you look on

1 Exhibit 3, the topographic map, that would put us  
2 right in the bottom of the arroyo. I don't think the  
3 BLM would allow us to build a location there and  
4 remain standard. We would have to move north and  
5 east, which would take us even further out of the sand  
6 thick.

7 EXAMINER MORROW: So even the 660 was  
8 unorthodox; is that correct?

9 THE WITNESS: Yes, sir, with the laydown,  
10 north half standard location, 1980 from the north line  
11 and 660 from the east line is an unorthodox location.

12 EXAMINER CATANACH: I don't have any other  
13 questions. The witness may be excused.

14 MR. CARR: At this time we call Pinson  
15 McWhorter.

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

19 EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name for the record,  
22 please.

23 A. My name is Pinson McWhorter.

24 Q. Where do you reside?

25 A. Artesia, New Mexico.

1 Q. By whom are you employed?

2 A. Yates Petroleum Corporation.

3 Q. What is your current position with Yates  
4 Petroleum Corporation?

5 A. I'm a petroleum engineer.

6 Q. Have you previously testified before this  
7 division?

8 A. Yes, I have.

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

12 A. Yes, they were.

13 Q. Are you familiar with the application in  
14 this case?

15 A. Yes, I am.

16 Q. Are you familiar with the proposed Redbone  
17 BP Federal Well #2?

18 A. Yes.

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

21 EXAMINER CATANACH: They are.

22 Q. (BY MR. CARR) Mr. McWhorter, have you  
23 prepared certain exhibits for presentation today?

24 A. Yes, I have.

25 Q. Would you refer to what has been marked for

1 identification as Yates Exhibit No. 7 and identify  
2 this for Mr. Catanach?

3 A. Yes. Exhibit No. 7 is an isopach that I  
4 prepared of the hydrocarbon pore volume in the  
5 Moncrief Sand. And I used this particular exhibit in  
6 the volumetric analysis of the gas in place in the  
7 Moncrief Sand. I used a set of porosity logs and  
8 resistivity logs, open hole logs, to create this  
9 exhibit.

10 Q. So this differs from the isopach that was  
11 previously presented by Mr. May?

12 A. That is correct. This is a hydrocarbon  
13 pore volume isopach.

14 Q. Let's move on to Exhibit No. 8. Could you  
15 identify and then review these calculations with the  
16 examiner?

17 A. Yes. This exhibit shows my volumetric  
18 estimate of the current reserves in the north half of  
19 Section 10 where the proposed location is. And using  
20 the hydrocarbon pore volume map, planimetered that,  
21 and used the current reservoir parameters, I  
22 calculated a current gas in place of approximately 2.3  
23 Bcf in the north half of Section 10.

24 I estimate that the recoverable reserves  
25 for this location are approximately 2 Bcf. That's

1 using 85 percent recovery factor, which is reasonable  
2 for a dry gas reservoir that's essentially a  
3 volumetric depletion type reservoir.

4 Subsequent to that, using those recoverable  
5 reserves, performed a discounted cash flow economic  
6 analysis, and for the investment of approximately  
7 \$610,000, that generates a profit of around \$1.4  
8 million. Present value is about \$916,000, and that's  
9 using a 10 percent discount rate.

10 Q. So what conclusion can you reach from your  
11 review of?

12 A. The conclusion I have is that this location  
13 will afford Yates Petroleum the opportunity of best  
14 developing the Moncrief Sand and producing the well at  
15 commercial rates and making a commercial well.

16 Q. In your opinion, will approval of this  
17 application and the drilling of this well result in  
18 the recovery of hydrocarbons that otherwise would be  
19 left in the ground?

20 A. Yes, that is my opinion.

21 Q. This would be an economic venture for Yates  
22 Petroleum Corporation?

23 A. Yes, it would be.

24 Q. Were Exhibits 7 and 8 prepared by you?

25 A. Yes, they were.

1 MR. CARR: At this time Mr. Catanach, we  
2 move the admission of Yates Petroleum Corporation's  
3 Exhibits 7 and 8.

4 EXAMINER CATANACH: Exhibits 7 and 8 will  
5 be admitted as evidence.

6 MR. CARR: That concludes my examination of  
7 Mr. McWhorter.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. Mr. McWhorter --

11 A. Yes.

12 Q. -- because of the position of the sand in  
13 this area, would you expect the proposed well would  
14 drain a substantial portion of Section 11?

15 A. Well, sir, I guess the best way of  
16 answering that is this; that the original reservoir  
17 pressure in this Moncrief Sand was 4,075 pounds back  
18 in 1980. When the well that's currently in Section 11  
19 was completed in this Moncrief Sand, the Marathon  
20 State Com #2, as of January 1st of this year, the  
21 reservoir pressure is just slightly over 2100 pounds.  
22 And that was measured at our Redbone BP #1 which had  
23 never produced from this Moncrief Sand and was only  
24 recompleted into the Moncrief Sand in January of this  
25 year, and that's when the reservoir pressure was

1 measured.

2 I also checked on the Moncrief well, and  
3 the Moncrief well had a reservoir pressure pretty  
4 similar to that. So the Moncrief well has  
5 significantly depleted reserves in this Moncrief Sand  
6 for a considerable distance.

7 So I guess to answer your question, the  
8 gist of what I'm trying to say is that I don't think  
9 that drainage by our well on the Moncrief well is  
10 going to be a significant factor.

11 Q. Do you have an opinion as to whether or  
12 not, if you do not drill the well, that drainage may  
13 be occurring from the Moncrief well, drainage within  
14 Section 10 may be occurring by that well?

15 A. I think that is a legitimate concern.

16 Q. Your opinion is that a well at that  
17 location will effectively drain the north half of  
18 Section 10?

19 A. Yes. I am of that opinion due to the  
20 location of the sand body itself and the orientation  
21 of the sand body, yes, I believe that's true.

22 Q. Do you know what the current producing rate  
23 of the Moncrief well is?

24 A. Yes, sir. That well currently produces  
25 somewhere around 400 Mcf a day.

1 Q. That well has been producing for how long,  
2 do you know?

3 A. Since 1980, since October of 1980, yes,  
4 sir.

5 EXAMINER MORROW: When did Yates acquire  
6 Section 10?

7 THE WITNESS: When did they acquire Section  
8 10?

9 EXAMINER MORROW: Yes, sir. Do you recall  
10 that?

11 THE WITNESS: That I'm not real -- I just  
12 don't know the answer to that, sir. The land  
13 department would know the answer to that. I do not  
14 know the answer to that question.

15 EXAMINER MORROW: You've been operating an  
16 existing well for a number of years; is that correct?

17 THE WITNESS: Yes, sir, that is correct.

18 EXAMINER CATANACH: I don't think I have  
19 anything else.

20 MR. CARR: We have nothing further in this  
21 case.

22 EXAMINER CATANACH: The witness may be  
23 excused, and there being nothing further, Case 10862  
24 will be taken under advisement.

25



CERTIFICATE OF REPORTER

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

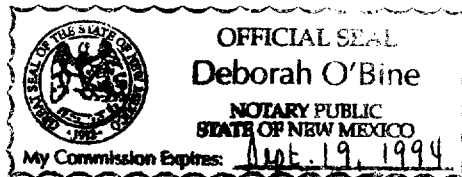
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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 9, 1993.

*Deborah O'Bine*

DEBORAH O'BINE  
 CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings of the Examiner hearing of Case No. 10862, heard by me on December 2, 1993.

*David R. Ceballos*, Examiner  
 Oil Conservation Division

CUMBRE COURT REPORTING  
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