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NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER	HEARING	
	SANTA FE,	NEW MEXICO

Hearing Date SEPTEMBER 19, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
LOUIS J. MATEULLO	Newburg Rod - Cer-	Midland.
PAUL D MOLLO	GAS COLM	ALB
ALAN W BOHLING	CHEVRON USA	MIOLAND
Scott Evanson	CHEURON USP	MIDLAND
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Dan Braits	OCD	HOBBS
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Michael E. Caba	Amoro Preduction Co.	Denucy
K. Glenn Carta	Texaco	Hobbs
Shari Hamildon	Vater Energy Carp	ROBURCO
	HATED ENERGY CORP	Roswell
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1	STATE OF NEW MEXICO
2	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3	OIL CONSERVATION DIVISION
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6	EXAMINER HEARING
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8	IN THE MATTER OF:
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10	Application of Yates Energy
11	Corporation for compulsory pooling, Case 10090
12	Eddy County, New Mexico.
13	
14	
15	TRANSCRIPT OF PROCEEDINGS
16	
17	BEFORE: DAVID R. CATANACH, EXAMINER
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20	STATE LAND OFFICE BUILDING
21	SANTA FE, NEW MEXICO
22	September 19, 1990
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CUMBRE COURT REPORTING (505)984-2244

1	А	P P	E A R A N C E S
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4			Attorney at Law Legal Counsel to the Division
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8	OCD CHIEF ENGINEER:		JIM MORROW Chief Engineer to the Division
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12	FOR THE APPLICANT:		ERNEST L. PADILLA, ESQ.
13	FOR THE AFFILCANT.		PADILLA & SNYDER Post Office Box 2523
14			Santa Fe, New Mexico 87504-2523
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17	FOR EXPLORERS PETROLET and SPIRAL, INC.:		WILLIAM F. CARR, ESQ. CAMPBELL & BLACK, P.A.
18	and British, the		Post Office Box 2208 Santa Fe, New Mexico 87504-2208
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- 1 PROCEEDINGS
- 2 HEARING EXAMINER: We'll call the hearing to order
- 3 this morning for Docket No. 26-90. And before we start I'll
- 4 call the continuances and dismissals.
- 5 (Off the record)
- 6 HEARING EXAMINER: And at this time we'll call Case
- 7 No. 10090.
- 8 MR. PADILLA: Mr. Examiner, Ernest L. Padilla, Santa
- 9 Fe, New Mexico, for the applicant in this case. I have two
- 10 witnesses.
- 11 MR. STOVALL: Hold on just a second, Ernie.
- 12 HEARING EXAMINER: Go back off the record again.
- 13 (Off the record)
- 14 HEARING EXAMINER: Okay. At this time we'll call
- 15 Case 10090.
- 16 MR. STOVALL: Application of Yates Energy
- 17 Corporation for compulsory pooling, Eddy County, New Mexico.
- 18 HEARING EXAMINER: Are there appearances in this
- 19 case?
- MR. PADILLA: Yes, sir, Mr. Examiner. Ernest L.
- 21 Padilla, Santa Fe, New Mexico, for the applicant. I have two
- 22 witnesses.
- 23 MR. CARR: May it please the Examiner, my name is
- 24 William F. Carr. I represent Explorers Petroleum Corporation
- 25 and Spiral, Inc. I do not intend to call a witness.

- 1 HEARING EXAMINER: Any other appearances?
- 2 Please swear in the witnesses, Mr. Stovall.
- 3 MR. STOVALL: I'll be glad to.
- 4 SHARON R. HAMILTON,
- 5 the witness herein, after having been first duly sworn upon her
- 6 oath, was examined and testified as follows:
- 7 MR. PADILLA: At this time we'll call Shari
- 8 Hamilton.
- 9 Mr. Examiner, I'd like to take Exhibits 5 through 8
- 10 out of -- 4 through 8 out of order. This is our land exhibits.
- 11 HEARING EXAMINER: Okay.
- 12 EXAMINATION
- 13 BY MR. PADILLA:
- 14 Q. Ms. Hamilton, for the record please state your name.
- 15 A. My name is Sharon R. Hamilton.
- 16 Q. Who do you work for?
- 17 A. I work for Yates Energy Corporation as a landman.
- 18 Q. Have you previously testified before the Oil
- 19 Conservation Division as a petroleum landman and had your
- 20 credentials accepted as a matter of record?
- 21 A. Yes, I have.
- Q. Are you familiar with the title of the proration
- 23 unit under consideration here today?
- 24 A. Yes, I am.
- Q. Ms. Hamilton -- Mr. Examiner, we tender Ms. Hamilton

- 1 as a petroleum landman.
- 2 HEARING EXAMINER: She is so qualified.
- 3 Q. (BY MR. PADILLA) Ms. Hamilton, would you first
- 4 please tell the Examiner what this hearing is about, in a
- 5 general way.
- 6 A. We're proposing to drill a Bone Springs test in the
- 7 Southwest Quarter Southwest Quarter of Section 1, 18 South, 31
- 8 East, Eddy County, New Mexico.
- 9 Q. Let's turn now to your Exhibit No. 1 and have you
- 10 identify that for the record, please.
- 11 A. I believe it's a land plat of the acreage, the
- 12 40-acre tract involved in this drilling proposal. It's colored
- in yellow.
- Q. What offset acreage does Yates Energy own in the
- 15 area?
- 16 A. We own an interest in the remaining acreage in
- 17 Section 1.
- 18 Q. Ms. Hamilton, do you have an exhibit which shows the
- 19 ownership of the tract under consideration here today?
- 20 A. Yes, sir. There is an ownership summary that would
- 21 be Exhibit No. 5.
- 22 (Thereupon, Exhibits 4 and 5 were
- 23 marked for identification.)
- Q. I believe I called that Exhibit No. 1 originally.
- 25 That should be Exhibit No. 4, the land plat.

- 1 Let me show you now what we have marked as Exhibit
- 2 No. 5 and have you identify that, please.
- 3 A. It's an ownership listing of the owners involved in
- 4 this 40-acre tract.
- 5 Q. Who are the owners of the proration unit?
- 6 A. Yates Energy Corporation, HEYCO Development
- 7 Corporation, HEYCO Employees, Ltd., Explorers Petroleum
- 8 Corporation, Spiral, Inc., W. T. Wynn, and Chevron, U.S.A.,
- 9 Inc.
- 10 Q. Ms. Hamilton, can you go through the right-hand
- 11 column. You have certain notations on the right-hand column
- 12 attributable to those various interest owners and explain to
- 13 the Examiner what your notations are.
- 14 A. This indicates that Yates Energy is willing to
- 15 participate in the drilling of the well. That HEYCO
- 16 Development Corporation, HEYCO Employees, Ltd. and W. T. Wynn
- 17 are under a current operating agreement. And that the
- 18 remaining three owners are requested for forced pooling. We've
- 19 had no response to the well participation.
- Q. Who are those three owners?
- 21 A. Explorers Petroleum Corporation, Spiral, Inc., and
- 22 Chevron U.S.A., Inc.
- 23 Q. Have you sent any correspondence to these three
- 24 interest owners, and have you had any results from that
- 25 correspondence or communications with them?

- 1 A. We have sent the well proposal with the AFE and
- 2 operating agreement. We've also sent a farm-out request. But
- 3 we've had no response.
- 4 Q. Let me hand what you we have marked as Exhibit 6 and
- 5 7. Please identify those and tell the Examiner what they are
- 6 and what they contain.
- 7 (Thereupon, Exhibits 6 and 7
- 8 were marked for identification.)
- 9 A. No. 6 is just a summary of correspondence and
- 10 telephone calls made to those three entities. And Exhibit
- 11 No. 7 are copies of the correspondence that's been sent.
- 12 Q. Let's go to Exhibit No. 6 and please identify with a
- 13 little bit more specificity what communications you have had
- 14 with the entities described in that exhibit.
- 15 A. With Chevron U.S.A., Inc. on August 3rd we submitted
- 16 a letter proposing the well with the AFE and the operating
- 17 agreement. On the 6th of August we spoke with their production
- 18 office that was processing the AFE. Then on the 12th we sent a
- 19 farm-out proposal. And on the 17th we have a telephone call
- 20 where I was discussing the proposal with them.
- 21 Q. You have received no -- what result, what's the
- 22 ultimate result of your communications with Chevron?
- 23 A. They were just not in -- they had not made a
- 24 decision regarding their participation at all.
- 25 Q. Has Chevron participated in any wells that you have

- 1 drilled in the area?
- 2 A. No, sir. We force pooled them twice before.
- 3 Q. How about the second grouping?
- 4 A. Spiral, Inc. and Explorers Petroleum we have sent
- 5 the letter with the well proposal. We also sent a letter on
- 6 the 12th with a farm-out proposal. And we've had no response
- 7 from them.
- 8 Q. Ms. Hamilton, let me hand you what is marked as
- 9 Exhibit No. 8 and have you identify that, please.
- 10 (Thereupon, Exhibit 8 was
- 11 marked for identification.)
- 12 A. It's the copy of the AFE that was submitted with our
- 13 well proposal.
- 14 O. To your knowledge and information is that well, the
- 15 AFE a reasonable AFE for the area for the projected well?
- 16 A. Yes, sir, I believe it is.
- 17 Q. Have you received any adverse comments regarding
- 18 that AFE from any one of the working interest owners?
- 19 A. No, sir, we've had no comment at all.
- 20 O. Ms. Hamilton, should the Oil Conservation Division
- 21 be inclined to approve your application does Yates Energy
- desire to be named the operator of the well?
- A. Yes, we do.
- Q. What type of overhead charges do you -- does Yates
- 25 Energy recommend to the division for drilling and producing

- 1 well rates?
- 2 A. We request 5,500 drilling rate and 550 monthly
- 3 producing rate.
- 4 Q. Where did you obtain these figures?
- 5 A. Those are the figures stated in our operating
- 6 agreement covering all of Section 1 dated September 1 of 1989.
- 7 Q. And are those figures reasonable, in your opinion?
- 8 A. Yes, sir.
- 9 MR. PADILLA: Mr. Examiner, we tender Exhibits 5
- 10 through -- correction, 4 through 8, and we pass the witness for
- 11 cross-examination.
- HEARING EXAMINER: Exhibits 4 through 8 will be
- 13 admitted as evidence.
- Any questions, Mr. Carr?
- MR. CARR: No questions.
- 16 EXAMINATION
- 17 BY THE HEARING EXAMINER:
- 18 Q. Ms. Hamilton, you are not pooling HEYCO Development
- 19 Corporation, HEYCO Employess, Ltd. or W. T. Wynn; is that
- 20 correct?
- 21 A. Yes, sir, that's correct. They are under an
- 22 operating agreement.
- 23 Q. They are subject to --
- 24 A. The nonconsent provisions of an operating agreement.
- 25 Q. And you've had no response from Chevron?

- 1 A. Just to visit with them over the telephone when I
- 2 called them. But they gave no indication one way or the other.
- 3 Q. And what was the response from Explorers Petroleum
- 4 and Spiral?
- 5 A. I haven't been able to contact them and have any
- 6 direct discussion with them.
- 7 HEARING EXAMINER: That's all the questions I have.
- 8 The witness may be excused.
- 9 MR. PADILLA: Mr. Examiner, at this time we'll call
- 10 Bill Baker.
- 11 BILL BAKER,
- 12 the witness herein, after having been first duly sworn upon his
- 13 oath, was examined and testified as follows:
- 14 EXAMINATION
- 15 BY MR. PADILLA:
- 16 Q. Mr. Baker, please state your name, please.
- 17 A. Bill Baker.
- 18 Q. You work for Yates Energy Corporation?
- 19 A. Yes, sir, I do.
- 20 Q. In what capacity?
- 21 A. I am his chief geologist.
- 22 Q. Do you have other duties besides being the
- 23 geologist?
- A. Well, I basically handle all exploration efforts and
- 25 completion efforts for Yates Energy.

- 1 Q. Have you testified before the Oil Conservation
- 2 Division as a geologist?
- 3 A. Yes, sir, I have.
- 4 Q. And are you familiar with the geology of the Bone
- 5 Springs formation in the area?
- 6 A. Yes, sir, I am.
- 7 Q. And how about other shallower formations?
- 8 A. Yes, sir. I've made numerous studies on shallow
- 9 formations in this area.
- 10 Q. Have you testified before the Oil Conservation
- 11 Division in hearings regarding this same area?
- 12 A. Yes, sir, I have.
- MR. PADILLA: Mr. Examiner, we tender Mr. Baker as
- 14 an expert in geology.
- 15 HEARING EXAMINER: He is so qualified.
- 16 Q. (BY MR. PADILLA) Mr. Baker, first of all I'd like
- 17 for you to give us a brief description of the geology in the --
- 18 for the Bone Springs in this area of the proposed well.
- 19 A. Well, the Bone Springs in this particular area is
- 20 located just on the floor reef side of the Abo reef complex in
- 21 Eddy County from Eddy/Lea County line.
- In this particular area there is a complex series of
- 23 sands and carbonates that are extremely productive from the
- 24 Bone Springs formation in here. They are all stratigraphic in
- 25 nature and are basically formed by stratigraphic pinchouts of

- 1 porosity loads within both the sand and carbonate facies.
- Q. Mr. Baker, would you now turn to Exhibit No. 1 and
- 3 identify that for the Examiner, please.
- 4 (Thereupon, Exhibit 1 was
- 5 marked for identification.)
- 6 A. Yes, sir. Exhibit No. 1 is a structure map on the
- 7 top of the second Bone Springs carbonate. This is a very good
- 8 structural marker mapping datum for the area in here.
- 9 This particular map shows our proposed location with
- 10 relationship to the other Bone Springs producers in the
- 11 immediate area, namely HEYCO's wells in Section 2 and Section
- 12 11. It also shows a cross-section, which is Exhibit 3 that
- 13 I'll get to in a little bit on here, which is structured
- 14 cross-section A to A prime.
- 15 Q. Does that show the land controlled by Yates Energy?
- 16 A. Yes, sir. It also shows the acreage that's
- 17 controlled by Yates Energy. All of Section 1 is outlined in
- 18 yellow.
- 19 Q. Is that all you have concerning Exhibit No. 1?
- 20 A. Yes, sir.
- 21 Q. Let's go on to what we have marked as Exhibit No. 2
- 22 and have you identify that for the Examiner.
- 23 (Thereupon, Exhibit 2 was
- 24 marked for identification.
- 25 A. Exhibit No. 2 is a net interval isopach of the

- 1 second Bone Springs what I call lower bench sand. This is the
- 2 primary objective of Thornbush Federal No. 2. And basically
- 3 this particular isopach here shows that the proposed location
- 4 should be encountered approximately 50 feet of net Bone Springs
- 5 lower bench sand greater than ten percent porosity.
- I've also indicated in red, where the red dots are,
- 7 the second Bone Springs lower bench producers there in Section
- 8 2.
- 9 Q. Mr. Baker, tell us about the well which is directly
- 10 east of the proposed well.
- 11 A. The well directly east of this proposed location is
- 12 our Thornbush Federal No. 1. It was also a Bone Springs test,
- 13 but it was later recompleted in San Andres formation. This
- 14 particular well here encountered the second Bone Springs lower
- 15 bench sand, but had porosity in the neighborhood of five to six
- 16 percent porosity and was basically tight and nonproductive.
- 17 Q. How about the well offsetting the proposed location
- 18 to the south?
- 19 A. Okay. This is HEYCO's Taylor 12 five well. It was
- 20 also a Bone Springs well. It encountered the second Bone
- 21 Springs lower bench sand as well. But it only had one foot of
- 22 porosity greater than ten percent, and it was made
- 23 non-commercial producer, so therefore it was a dry hole.
- 24 Q. Okay. Is that all you have concerning Exhibit
- 25 No. 2?

- 1 A. Yes, sir.
- 2 Q. Let's go on to Exhibit No. 3, please.
- 3 (Thereupon, Exhibit 3 was
- 4 marked for identification.)
- 5 Q. Please tell the Examiner what that is and what it
- 6 shows.
- 7 A. Exhibit No. 3 is a stratigraphic cross-section A to
- 8 A prime. And this basically goes through two of the producers,
- 9 two of HEYCO's producers located in Section 2 there on the far
- 10 left-hand side of the cross-section. As you move from left to
- 11 right you go through our proposed location down to Harvey E.
- 12 Yates Taylor 12 five that I just talked about. Then on the far
- 13 right-hand side of the cross-section is the Yates Energy
- 14 Thornbush Federal No. 1.
- What I have done here is I have labeled the top with
- 16 some of the primary zones in here, the first Bone Springs
- 17 sands, what is called the main pay interval. This is
- 18 terminology that Harvey E. Yates Company uses. Top of the Bone
- 19 Springs sands, the top of the second Bone Springs upper bench,
- 20 and the top of the second Bone Springs lower bench.
- 21 And then on here I've indicated in the lower bench
- 22 sand the productive interval, productive amount of sand greater
- 23 than ten percent porosity.
- 24 Q. Now what well are you showing that?
- 25 A. Okay. There are two wells on the far left-hand side

- 1 of the cross-section, HEYCO Mesquite 2 State No. 1, which was
- 2 produced from the lower bench sand as well as what I call the
- 3 upper bench sand. This particular well tested three zones in
- 4 here, each one of them were stimulated separately. It IPF'd at
- 5 102 barrels of oil per day, made 75,000 barrels of oil,
- 6 currently producing 19,000 barrels of oil per day. It had
- 7 approximately 36 feet of lower bench sand right on the ten
- 8 percent line. This is indicated where I've colored the lower
- 9 bench sand in red, the lower part.
- 10 Q. That's the deeper color red?
- 11 A. Yes, sir, it's the deeper color red.
- 12 As you move to the right the next well is Harvey E.
- 13 Yates Mesquite 2 State No. 2. This is strictly a second Bone
- 14 Springs lower bench sands producer. This particular well had
- 15 approximately 70 feet of sand with greater than ten percent
- 16 porosity in it. It was also frac'd and stimulated and it had
- 17 an IPF of 227 barrels of oil per day. It is currently cum'd
- 18 approximately 64 MBO and is producing at a rate of 22 barrels
- 19 of oil per day.
- Next you move on the right it shows the Yates Energy
- 21 Thornbush Federal No. 2. We expect to have approximately 50
- 22 feet of second Bone Springs lower bench sand with porosity
- 23 greater than ten percent in here.
- As you move on from there you go to the Taylor 12
- 25 Federal 5 well. As you can see here it had the entire second

- 1 Bone Springs lower bench complex, but no sand or basically one
- 2 foot of sand greater than ten percent porosity and was
- 3 therefore tight and nonproductive.
- As you move to the far right-hand side you see the
- 5 Yates Energy Thornbush Federal No. 1. Again we have the entire
- 6 lower bench sand complex, but no porosity greater than ten
- 7 percent, and it was a dry hole in the Bone Springs.
- 8 Q. Mr. Baker, as a result of your study what
- 9 recommendation do you have to the division for respective
- 10 penalty?
- 11 A. The maximum.
- 12 Q. Which is what?
- 13 A. What the well cost, plus 200 percent.
- 14 Q. Is that all you have concerning Exhibit No. 3?
- 15 A. Yes, sir, it is.
- 16 O. Mr. Baker, how about the shallower formations in
- 17 this area?
- 18 A. There is also potential for the San Andres dolomite
- in here which was productive in our Yates Energy Thornbush
- 20 Federal No. 1 located due east of us. This is a dolomite
- 21 formation, it is extremely stratigraphic in nature. We just
- 22 most recently offset it to the south one location and it was a
- 23 dry hole in the San Andres. So it has substantial risk as
- 24 well. But it is a potential pay horizon.
- 25 Q. You would recommend the same amount of penalties?

- 1 A. Yes, sir, I do, stratigraphic risk is extremely
- 2 risky here.
- 3 Q. Mr. Baker, would approval of this application be in
- 4 the best interest of conservation of oil and gas and production
- 5 of correlative rights?
- 6 A. Yes, sir.
- 7 Q. In your opinion?
- 8 A. Yes, sir, it would.
- 9 MR. PADILLA: Mr. Examiner, I have nothing else of
- 10 this witness. I offer Exhibits 1 through 3.
- 11 HEARING EXAMINER: Exhibits 1 through 3 will be
- 12 admitted as evidence.
- 13 EXAMINATION
- 14 BY THE HEARING EXAMINER:
- 15 Q. Mr. Baker, the primary target is the Bone Springs?
- 16 A. Yes, sir, it is.
- 17 Q. Where is the San Andres production located in this
- 18 area?
- A. Approximately 4,600 feet.
- Q. I am saying where in relation to your proposed well
- 21 location is there San Andres production?
- 22 A. There is two wells, if you look at the very top,
- 23 look on Exhibit No. 1. Right above Section 2 and Section 1
- 24 you'll see two little oil wells up there. Those two wells up
- 25 there are San Andres producers. They were completed back in

- 1 the early '60's if I am not mistaken. Then if you will look at
- 2 the Thornbush Federal well, which is on the far right-hand
- 3 cross-section of the well due east of our proposed location, is
- 4 our San Andres discovered well.
- 5 Q. And in terms of the San Andres completion can you
- 6 give a little more detail as to the risk in that type of
- 7 completion?
- 8 A. Well, basically it's just a matter of finding the
- 9 carbonate facies with greater than 12 percent porosity in here.
- 10 It's an extremely highly risky stratigraphic play out here. We
- 11 just recently drilled, like I said, the Prickly Pear No. 1
- 12 which is drilled in Section 12. It's not on my map because of
- 13 how recent it was. It was just 700 feet due south of the
- 14 Thornbush Federal well. It had the carbonate facies, but not
- 15 any porosity in it at all. It was just extremely tight.
- 16 This is a relatively new pay zone that no one has
- 17 really attempted to chase out in this area. And for the,
- 18 basically for the reasons of how risky it is out in here.
- 19 We're still a little undetermined as far as how economic the
- 20 pay zone will be, which adds some more risk to it since it
- 21 hasn't been pursued in this area.
- 22 Q. And the risk in the Bone Springs is that you step
- 23 out too far from the porosity?
- 24 A. Yes, sir. And that was basically pretty well seen
- 25 in HEYCO's Taylor 12 five well. That particular well there

- 1 shows how quickly the porosity can go. And it's basically if
- 2 you don't have greater than ten percent porosity in any of
- 3 these Bone Springs sands you will not make a commercial
- 4 producer.
- 5 Q. Are there any potential for any other zones of
- 6 interest?
- 7 A. Well, there is always the potential for the Queen
- 8 and Grayburg here. Our Prickly Pear 1 well that was dry in the
- 9 San Andres dolomite looks like we're going to make a little
- 10 Queen well out of it. The studies that I have done indicate
- 11 that the Queen will probably be tight at our proposed location.
- 12 But there is always that potential for a Queen or Grayburg to
- 13 stumble in here.
- 14 HEARING EXAMINER: I have no further questions.
- 15 Anymore questions of the witness?
- 16 You may be excused.
- 17 Anything further in this case?
- 18 MR. PADILLA: Mr. Examiner, I have what I have
- 19 marked as Exhibit No. 9, which is the correspondence out of our
- 20 office.
- 21 (Thereupon, Exhibit 9 was
- 22 marked for identification.)
- 23 HEARING EXAMINER: Exhibit No. 9 will be admitted as
- 24 evidence.
- 25 MR. PADILLA: I have nothing further.

1		(Off the record)	
2		HEARING EXAMINER: There being nothing further in	1
3	this case,	, Case 10090 will be taken under advisement.	
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12		Compression of Section Compression	
13		the Exemples and Grant Mo. 10080,	
L 4		heard by me on September 9 1980.	
15		Oil Conservation Division	
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1	CERTIFICATE OF REPORTER
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3	STATE OF NEW MEXICO)
4	COUNTY OF SANTA FE)
5	
6	I, Diane M. Winter, Certified Shorthand Reporter and
7	Notary Public, HEREBY CERTIFY that the foregoing transcript of
8	proceedings before the Oil Conservation Division was reported
9	by me; that I caused my notes to be transcribed under my
10	personal supervision; and that the foregoing is a true and
11	accurate record of the proceedings.
12	I FURTHER CERTIFY that I am not a relative or
13	employee of any of the parties or attorneys involved in this
14	matter and that I have no personal interest in the final
15	disposition of this matter.
16	WITNESS MY HAND AND SEAL September 28, 1990.
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18	Muler Wuler
19	DIANE M. WINTER CSR No. 414
20	
21	My commission expires: December 21, 1993
22	OFFICIAL SEAL
23	II SEAL
24	DIANE M. WINTER
25	NOTARY PUBLIC — STATE OF NEW MERICO
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