## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINE	R HEAR	ING		
	SANTA	FE,	NEW	MEXI CO

Time: 8:15 A.M. Hearing Date OCTOBER 4, 1989 Ellow Heterollas J. W. COLLIER AMOCO PENDUCTION HOUSTON, TOKAS E.F. Goodfillow Amoco Production Co. Houston, TK TUISA, OK OXY US A. INC Rick Foppiano Moridian Dil Farmington Dx Both ALAN ALEXANDER FARMINGTON MERIDIAN DIL Ray Beck Ystes Artesia Kathy Collect yathet arteria David R Vandiver Artecia Fisk + Vaudiver 8FR thinkle haw Firm aven hop-Soute Fe Montgoming Andres Wterry Fearce DENVER CO. AMUCO PROD. CO KENT LUND 27 xx Hartman Joanne Reuter Santa Fe DEYT ENERGY CO. KICHAIDD DILLON MIBLANDIX

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	NEW MEXI	CO OIL CONSERVATION EXAMINER HEARING		Page 2
		SANTA FE ,	NEW MEXICO	
Hearing Date		-		Time:_8:15 A.M.
NAME		REPRESENTIN	G	LOCATION
Victor Lyon-		6 C.D		Santa Fe

1	STATE OF NEW MEXICO
2	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3	OIL CONSERVATION DIVISION
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7	EXAMINER HEARING
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9	IN THE MATTER OF:
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11	Application of Yates Petroleum Case 9700
12	Corporation for compulsory
13	pooling, Eddy County, New Mexico
14	
15	
16	TRANSCRIPT OF PROCEEDINGS
17	
18	BEFORE: MICHAEL E. STOGNER, EXAMINER
19	
20	STATE LAND OFFICE BUILDING
21	SANTA FE, NEW MEXICO
22	October 4, 1989
23	
24	ORIGINAL
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- 1 HEARING EXAMINER: I'll call the next case,
- 2 No. 9700.
- 3 MR. STOVALL: Application of Yates
- 4 Petroleum Corporation for compulsory pooling, Eddy
- 5 County, New Mexico.
- 6 HEARING EXAMINER: Call for appearances.
- 7 MR. VANDIVER: Mr. Examiner, I'm David
- 8 Vandiver of Fisk & Vandiver, Artesia, New Mexico,
- 9 appearing on behalf of the Applicant, and I have two
- 10 witnesses to be sworn.
- 11 HEARING EXAMINER: Are there any other
- 12 appearances in this case?
- Will the witnesses please stand and be
- 14 sworn at this time?
- 15 (Witnesses sworn.)
- MR. VANDIVER: Mr. Examiner, before I
- 17 proceed, I'd like to point out that, as originally
- 18 advertised, the location for the proposed well which
- 19 is the subject of Case 9700 has changed from 660 feet
- 20 from the north line and 1980 feet from the west line
- 21 of Section 2 in Township 20 South, Range 24 East, to
- 22 1980 feet from the north line, and 1980 feet from the
- 23 west line of said Section 2, and it will be necessary
- 24 to readvertise to reflect the change in location.
- 25 HEARING EXAMINER: Mr. Vandiver, as I

- 1 understand it, Case No. 9700 will be readvertised and
- 2 scheduled for the hearing the 18th of October --
- MR. VANDIVER: Yes.
- 4 HEARING EXAMINER: -- which the change is
- 5 1380 feet from the north line and 1980 feet from the
- 6 west line; is that correct?
- 7 MR. VANDIVER: Yes, sir.
- 8 HEARING EXAMINER: And you're ready to
- 9 present testimony today?
- MR. VANDIVER: Yes, sir.
- 11 HEARING EXAMINER: In that case, we will go
- 12 ahead and hear Case No. 9700, at which time the record
- 13 will be held open in this case until the hearing on
- 14 the 18th, at which time it will be called, and if
- 15 there's any further testimony, or if anybody should
- 16 have opposition, they should do so at that time.
- Mr. VanDiver, you may continue.
- MR. VANDIVER: Thank you, sir.
- 19 KATHY COLBERT,
- 20 the witness herein, after having been first sworn upon
- 21 her oath, was examined and testified as follows:
- 22 DIRECT EXAMINATION
- 23 BY MR. VANDIVER:
- Q. Ms. Colbert, state your name, your
- 25 occupation, and by whom you're employed, please,

- 1 ma'am.
- A. My name is Kathy Colbert. I'm employed by
- 3 Yates Petroleum Corporation, Artesia, New Mexico, as a
- 4 landman.
- 5 Q. You've previously testified on numerous
- 6 occasions before the New Mexico Oil Conservation
- 7 Division and had your qualifications as a landman
- 8 accepted, and your qualifications are a matter of
- 9 record, are they not?
- 10 A. Yes, they are.
- 11 Q. Are you familiar with Yates Petroleum
- 12 Corporation's application in Case No. 9700?
- 13 A. Yes, I am.
- Q. Are you familiar with the title to the land
- 15 within the spacing unit for the proposed well which is
- 16 the subject of Case 9700?
- 17 A. That's correct.
- MR. VANDIVER: Mr. Examiner, I tender Ms.
- 19 Colbert as an expert.
- 20 HEARING EXAMINER: Ms. Colbert is so
- 21 gralified.
- 22 Q. (BY MR. VANDIVER) Ms. Colbert, what's the
- 23 purpose of Yates Petroleum Corporation's application
- 24 in Case 9700?
- 25 A. In Case 9700, Yates Petroleum Corporation

- l is seeking an order to compulsory pool all mineral
- 2 interests from the surface to the base of the Morrow
- 3 formation underlying the north half of Section 2,
- 4 Township 20 South, Range 24 East, to form a 391.04-
- 5 acre gas spacing unit to include any and all
- 6 formations developed on a 320-acre spacing, and on the
- 7 northwest quarter of said Section 2 to form a 159.64-
- 8 acre spacing unit for all formations developed on
- 9 160-acre spacing.
- The length of our proposed well is 1980
- 11 feet from the north line, 1980 feet from the west
- 12 line.
- 13 Q. Ms. Colbert, if I could refer you to what's
- 14 been marked for identification as Applicant's Exhibit
- 15 No. 1 and ask you to orient the examiner with regard
- 16 to the proposed location.
- 17 A. Exhibit No. 1 is a land plat showing the
- 18 proposed location outlined in red of Section 2,
- 19 Township 20 South, Range 24 East, Eddy County.
- 20 Q. Does it show the location on that exhibit?
- 21 A. Yes. The location is shown as 1980 from
- 22 the north, 1980 from the west.
- Q. Now, if I could refer you to Applicant's
- 24 Echibit No. 2 and ask you to describe what's contained
- 25 in that exhibit.

- 1 A. Exhibit No. 2 are copies of various written
- 2 correspondence that we have had with the working
- 3 interest owners under this north half of 2 for the
- 4 last six months.
- 5 Q. Now, if I could ask you to briefly,
- 6 beginning with the first letter at the back of the
- 7 exhibit, to describe briefly what that correspondence
- 8 reflects.
- 9 A. Yes. The first written correspondence is
- 10 dated May 2, 1989. This is where we formally proposed
- ll the drilling of the well to the working interest
- 12 owners, furnished them with not only copies of AFE's
- 13 but also operating agreements.
- 14 Q. If you could continue, the next letter, May
- 15 15?
- 16 A. May 15 is simply a follow-up letter where
- 17 we point out that we were still ready to drill this
- 18 well. Our geologist had spoken with several of the
- 19 working interest owners, as I also had. We were
- 20 simply trying to let them know, if they needed to talk
- 21 anymore, that we were ready to discuss the well.
- Q. And then the subsequent letters of May 25,
- 23 June 13?
- A. Again, correspondence to the working
- 25 interest owners where we tried to keep them updated on

- l the well, and also letting them know if they did not
- 2 desire to spend their money and participate in the
- 3 actual drilling of the well, that we would be willing
- 4 to take a farmout.
- 5 Q. What's the basis of the farmout you
- 6 proposed?
- 7 A. We did propose that, should they decide to
- 8 farm out, we did propose that we would deliver a 75
- 9 net revenue lease. After payout of the well, they
- 10 could convert that override to a quarter working
- ll interest.
- 12 Q. Now, if you could briefly go through the
- 13 other letters.
- 14 A. The other letters follow our efforts during
- 15 the summer to try and work with the working interest
- 16 owners to either join and drill the well with us or
- 17 farm out. We had many conversations with them also
- 18 through the telephone where part of them indicated
- 19 their desire that they don't know that they want to
- 20 spend their money this year, maybe in a few years.
- 21 Because of drilling in the area, you will notice some
- 22 of these letters during the summer refer to a location
- 23 change.
- We had asked the people to agree to
- 25 changing the location from the 660 north to the 1980

- l north. Simply due to the other drilling in the area,
- 2 we felt it might have a better shot.
- While they did not have opposition to this,
- 4 I could not get them to actually agree to it in
- 5 writing.
- 6 : Q. Several of these working interest owners
- 7 have subsequently agreed to participate in a Yates
- 8 proposed well, have they not?
- 9 A. That's correct. At this point we only have
- 10 three parties who have not agreed to participate in
- 11 some form.
- Q. And who are they?
- 13 A. Those are Tom R. Cone, Kenneth Cone, and
- 14 Cathie Cone Auvenshine.
- 15 Q. This application has been pending since
- 16 June of 1989, has it not? Why have you continued it
- 17 until this day?
- 18 A. We continued it in an effort to work
- 19 something out with these parties. We are heavily
- 20 involved with them in the area. We know from past
- 21 experiences, when it actually comes down to it, we
- 22 come to the Commission and try to force pool. They
- 23 will sign papers at this point. We were trying to
- 24 avoid an unnecessary trip and work something out to
- 25 agree with all parties.

- 1 Q. If the application, or if Yate's
- 2 application in this case is granted, and an order for
- 3 forced pooling is entered, would Yates still be
- 4 willing to negotiate with the parties who have not
- 5 agreed to participate?
- 6 A. Yes, we would.
- 7 Q. And the correspondence reflected in Exhibit
- 8 2 is not only the written communication; you've had a
- 9 number of telephone conversations with the other
- 10 working interest owners; is that correct?
- 11 A. That's correct, and even some actual
- 12 meetings during this summer.
- 13 Q. Now, if I could refer you to -- first, if I
- 14 could ask you, I believe your requests to have the
- 15 working interest owners join in this case have been
- 16 reasonable?
- 17 A. Oh, yes.
- 18 Q. If I could refer you to Applicant's Exhibit
- 19 No. 3, and ask you to identify that and describe what
- 20 it is, please.
- 21 A. Exhibit No. 3 is an Operating Agreement on
- 22 the standard A.A.P.L. Form 610-1977. This agreement
- 23 designates Yates Petroleum Corporation as Operator.
- Q. If I could refer you to Exhibit A to this
- 25 Operating Agreement, does that set out the parties'

- 1 interests in this well?
- 2 A. Yes, it does.
- Q. On Exhibit A-1? And what percentage of the
- 4 parties have at this point not agreed to participate?
- 5 A. A little over 7-1/2 percent have not agreed
- 6 to participate.
- 7 Q. Those parties who have agreed to
- 8 participate have signed this operating agreement?
- 9 A. That's correct.
- 10 Q. Now, if I could refer you to Exhibit C, the
- 11 Accounting Procedure form, and on page 3 of that
- 12 exhibit, ask you what the proposed overhead rates are,
- 13 and how you arrived at those figures.
- 14 A. The proposed rates are \$5,400 for a
- 15 dilling rate, \$540 for a producing well rate. This
- 16 well is 9600 feet deep. This is within the quidelines
- 17 of COPAS, including the Ernst & Whinney study for a
- 18 well of this depth.
- 19 Q. Do you have other wells in the area in
- 20 which you have had nonoperators agree to the same
- 21 overhead rates?
- 22 A. Yes, we have.
- Q. Now, if I could refer you to -- anything
- 24 else with regard to Exhibit 3?
- 25 A. No.

- 1 Q. Now, if I could refer you to Applicant's
- 2 Exhibit 4 and ask you to describe what that is,
- 3 please.
- 4 A. Exhibit 4 is Yates Petroleum Corporation's
- 5 Aithority For Expenditure for the proposed Catclaw AGM
- 6 State Com No. 1 Well. This is the AFE that was
- 7 presented to the working interest owners.
- 8 Q. What does it indicate as predicted cost of
- 9 a dry hole and completion?
- 10 A. Estimated cost for drilling the dry hole is
- 11 \$324,600. Actual estimated completion cost, \$668,400.
- 12 Q. The nonoperators who have agreed to
- 13 participate have signed this AFE; is that correct?
- 14 A. That's correct.
- 15 Q. Have you drilled other wells in the area
- 16 with similar projected costs?
- 17 A. Yes, we have.
- 18 Q. Which wells are those?
- 19 A. The Cacti, which is located in the south
- 20 half of 2, is the nearest well. It also was a Morrow
- 21 well.
- 22 O. How do the costs reflected on this
- 23 Authority For Expenditure compare with the costs of
- 24 drilling the Cacti well?
- 25 A. They are comparable. This AFE was prepared

- l after the other Morrow wells in the area were drilled.
- Q. In your opinion, are these reasonable well
- 3 costs reflected on this AFE?
- A. They seem to be, yes, sir.
- 5 Q. Now, if I could refer you to Applicant's
- 6 Exhibits 5, 6, 7, and 8, and ask you to describe what
- 7 those are, please.
- 8 A. Exhibits 5, 6, 7, and 8 are the Affidavits
- 9 of Mailing, notifying all the working interest owners
- 10 of the proceedings in this forced pooling area.
- 11 Q. And Exhibits 6 and 8, in accordance with
- 12 the State Land Office rules, further gives notice to
- 13 the Commissioner of Public Lands?
- 14 A. That's correct, Exhibit 6.
- 15 Q. Were Exhibits 1 through 4 prepared by you
- 16 or under your direction and supervision?
- 17 A. Yes, they were.
- 18 MR. VANDIVER: Mr. Examiner, I would move
- 19 admission of Applicant's Exhibit Nos. 1 through 8 at
- 20 this time.
- 21 HEARING EXAMINER: Exhibits 1 through 8
- 22 will be admitted into evidence.
- 23 DIRECT EXAMINATION
- 24 BY HEARING EXAMINER:
- 25 Q. Ms. Colbert, I'd like to refer to the

- 1 Exhibit A-1 in Exhibit No. 3. You said 7-1/2 percent
- 2 or approximately 7-1/2 percent of the owners have not
- 3 joined yet?
- 4 A. Yes.
- 5 Q. Those being Clifford Cone?
- 6 A. No, sir. Tom Cone, Kenneth Cone, Cathie
- 7 Cone Auvenshine are the three parties that have not
- 8 signed.
- 9 Q. When I look at this exhibit, I show that
- 10 each of them have 7.985 acres apiece in the
- ll participating area?
- 12 A. Correct.
- Q. Does that same percentage of the acreage
- 14 that covers the 320-acre proration unit also reflect
- 15 on the 160-acre proration unit?
- 16 A. Only if you pool the north half first, as
- 17 this operating agreement does, to drill down through
- 18 the Morrow. It would be the same on a 160. You just
- 19 would not show that it was on 319.04 acres.
- 20 Q. So their percentage is the same --
- 21 A. Yes.
- 22 Q. -- covering both?
- 23 A. Yes.
- Q. So each of their interests is undivided in
- 25 the south half and also undivided in the north -- I'm

- 1 sorry -- the north half as in the northwest quarter;
- 2 is that correct?
- 3 A. They have an interest, if you'll look on
- 4 Exhibit 1, the land plat --
- 5 Q. Okay.
- 6 A. Their group owns that E 2781 lease, which
- 7 has 80 acres in the north half, being approximately a
- 8 guarter of the well.
- 9 When you cut it down to a 160, they have 40
- 10 in it, which still approximates to a quarter of a
- 11 well.
- 12 Q. Also, in your overhead charge request, you
- 13 requested \$5,400 drilling and \$540 producing. Have
- 14 the other parties that joined agreed to these overhead
- 15 charges?
- 16 A. Yes they have.
- 17 Q. Have these overhead charges also been
- 18 carried out on the other wells drilled to the Morrow
- 19 formation in this area?
- 20 A. Yes they have, not only in 20 24, but up in
- 21 19 24. These are our standard charges for a well of
- 22 this depth.
- Q. And these charges have also been reflected
- 24 in other compulsory pooling orders issued from these
- 25 hearings?

- 1 A. I would believe that on the Cacti, you
- 2 know, we came to you and had a hearing on the Cacti
- 3 which was cancelled because the Cones did sign after
- 4 the hearing. But I believe it was the same operating
- 5 agreement presented.
- 6 HEARING EXAMINER: Are there any other
- 7 questions of Ms. Colbert? If not, she may be
- 8 excused.
- 9 Mr. Vandiver?
- MR. VANDIVER: One other.
- 11 RAY BECK,
- 12 the witness herein, having been first duly sworn upon
- 13 his oath, was examined and testified as follows:
- 14 DIRECT EXAMINATION
- 15 BY MR. VanDIVER:
- 16 Q. Mr. Beck, you previously testified in Case
- 17 No. 9770 and had your qualifications accepted?
- 18 A. This is true.
- 19 Q. Are you familiar with Yates Petroleum
- 20 Corporation's application in Case No. 9700?
- 21 A. Yes, I am.
- Q. Have you made a study of the available
- 23 geological data with regard to this proposed well?
- 24 A. Yes, I have.
- MR. VanDIVER: Mr. Examiner, I tender Mr.

- 1 Beck as an expert petroleum geologist.
- 2 HEARING EXAMINER: Mr. Beck is so
- 3 gualified.
- Q. (BY MR. VANDIVER) Mr. Beck, do you have an
- 5 topinion as to the risk involved in drilling the
- 6 proposed Yates Petroleum Corporation Catclaw AGM No. 1
- 7 well?
- 8 A. Yes, I do.
- 9 Q. What's your opinion?
- 10 A. It's my opinion that the risk penalties
- 11 would be 200 percent; that is, all costs plus 200
- 12 percent penalty.
- Q. With regard to the risk of either drilling
- 14 a dry hole or a well that will not be economic in the
- 15 sense that it will not return the costs of drilling
- 16 the well, how do you assess the risk of that
- 17 eventuality?
- 18 A. Well, the study made, if you're drilling a
- 19 Morrow well, which this well is a Morrow well, it
- 20 would be a 1 in 4 chance or 25 percent of the wells in
- 21 the area have been historically successful in the
- 22 Morrow.
- Q. What is the basis for your opinion?
- A. Well, on Exhibit No. 9, there are -- this
- 25 is a production map of an area of 12 sections

- 1 sirrounding the location of the proposed Yates Catclaw
- 2 Well for the north half of 2 of 20 South, 24 East.
- The large, circled well spots on this
- 4 exhibit are Morrow penetrations, and where colored in
- 5 red are Morrow completions. The legend below explains
- 6 other colored well spots.
- 7 The production diagram showing cumulative
- 8 production and recent average daily production are
- 9 next to the Morrow-Atoka completions.
- The proposed Catclaw AGM State is a Morrow
- 11 test well. The 12 surrounding sections, there have
- 12 been 12 Morrow penetrations, of which only three we
- 13 believe will pay out as economic Morrow wells of
- 14 varying quality.
- 15 First is the Conoco Dee State No. 1 in
- 16 Section 36 of 19 24, which has produced over 3.83
- 17 Mcf.
- 18 Next is the Yates Oakason No. 3 in Section
- 19 34 of 19 South, 24 East, which has a long payout, but
- 20 we believe it will pay out as a Morrow well. We see
- 21 in produce almost 300 million cubic feet a day.
- 22 Last is the Yates Conoco Well in Section 11
- 23 of 20 South, 24 East, which is a very recent
- 24 completion with little history, but we believe it will
- 25 pay out as an economic Morrow well.

- The remaining nine Morrow penetrations read
- 2 as dry holes and are noneconomical in the
- 3 Morrow-Atoka.
- Then as for drilling Morrow wells, 3 of 12,
- 5 for 25 percent, have been successful, which constitutes
- 6 a high risk. There's also a high risk associated with
- 7 recently soft gas prices. Yates recently shut down
- 8 all discretionary Morrow gas production because the
- 9 price went down to \$1.00 and \$1.26 per Mcf.
- 10 Regarding uphole shallower production,
- ll there are two Wolfcamp wells which produce from
- 12 different Wolfcamp wells. One is an isolated oil well
- 13 in Section 36 of 19 South, 24 East, which made almost
- 14 47,000 barrels of oil and has not been found again in
- 15 the six surrounding wells.
- 16 Another Wolfcamp well in the northwest,
- 17 Section 1, 20 South, 24 East, is an isolated gas well
- 18 which has only produced 230 million cubic feet of
- 19 gas. Therefore, the chances of finding economic
- 20 Wolfcamp production is remote or high risk.
- 21 Other uphole shallower production is from
- 22 the Canyon Dolomite, shown as green well spots on the
- 23 exhibit. This is newer production of oil, sewer gas,
- 24 and high water production. Examples of these wells is
- 25 shown by two wells on either side of the proposed

- 1 location.
- 2 First is the Yates Cholla in the northeast
- 3 southeast of Section 3, 20 South, 24 East, which has
- 4 lately produced 25 barrels of oil per day, plus 960
- 5 Mcf of sewer gas per day, plus 238 barrels of water
- 6 per day.
- 7 On the other side is the recompleted Yates
- 8 Foster Well in the northwest northwest of Section 1,
- 9 2) South, 24 East, which has recently produced 63
- 10 barrels of oil per day, plus 471 Mcf of sewer gas per
- 11 day, plus 1,875 barrels of water per day.
- 12 Also please note the Conoco Debbie Well in
- 13 the northeast of the southeast of Section 11, 20
- 14 South, 24 East, which only produced 5,496 barrels of
- 15 oil from the Canyon Dolomite before being plugged and
- 16 abandoned. In addition, the Yates Cacti Well
- 17 offsetting the proposed location to the south is one
- 18 of the poorer looking logs in the canyon in the area.
- 19 It should also be mentioned that the Canyon
- 20 Dolomite production is very high in lease operating
- 21 expense due to high electricity cost and operating
- 22 downhole pumps, changing out pumps, and disposing of
- 23 very high volumes of produced water.
- In addition, the sewer gas has a 16 to 20
- 25 percent shrinkage in volume because of the sweetening

- l process prior to sales. Therefore, the uphole canyon
- 2 shallow production has high risk due to uncertainty of
- 3 reservoir quality and also due to very high lease
- 4 operating expense.
- 5 That's all I have to say about this
- 6 exhibit.
- 7 Q. And based upon the information that you
- 8 have reviewed, you're recommending the -- if this
- 9 application is approved, the imposition of the maximum
- 10 penalty allowed under our statute?
- 11 A. That is true.
- 12 Q. Mr. Beck, was Exhibit 9 prepared by you or
- 13 under your direction and supervision?
- 14 A. This was prepared by me.
- 15 Q. In your opinion, would the granting of
- 16 Yates' application in this case be in the interests of
- 17 conservation, the prevention of waste, and the
- 18 protection of correlative rights?
- 19 A. I believe it will.
- MR. VANDIVER: Mr. Examiner, I would move
- 21 the admission of Applicant's No. 9, and I have no
- 22 further questions of this witness.
- 23 HEARING EXAMINER: Exhibit No. 9 will be
- 24 admitted into evidence at this time.
- 25 Are there any questions of the witness? If

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not, Mr. Beck may be excused.
2
               Does anybody have anything further in Case
   No. 9700 at this time? This case will be left open
3
   pending the Examiner's Hearing scheduled for October
    13, 1989.
               If there's nothing further in this
6
    particular case, we'll carry on.
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1	CERTIFICATE OF REPORTER
2	
3	STATE OF NEW MEXICO )
4	) ss. COUNTY OF SANTA FE )
5	
6	I, Deborah O'Bine, Certified Shorthand
7	Reporter and Notary Public, HEREBY CERTIFY that the
8	foregoing transcript of proceedings before the Oil
9	Conservation Division was reported by me; that I
L 0	caused my notes to be transcribed under my personal
11	supervision; and that the foregoing is a true and
12	accurate record of the proceedings.
13	I FURTHER CERTIFY that I am not a relative
14	or employee of any of the parties or attorneys
15	involved in this matter and that I have no personal
16	interest in the final disposition of this matter.
17	WITNESS MY HAND AND SEAL November 1, 1989.
18	Jelval Bine
19	DEBORAH O'BINE CSR No. 127
20	CBR NO. 127
21	My commission expires: August 10, 1990
22	and the foregoing is
23	I do here is certain that the foregoing is a complete record of the proceedings in
24	the Examiner hearing of Case No. 1984.
25	Majorate , Examiner
	Oil Conservation Division