

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

2 December, 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production Cor- CASE
poration for compulsory pooling, Rio 9252
Arriba County, New Mexico.

BEFORE: Michael R. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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I N D E X

RICHARD CORCORAN

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MR. STOGNER: We'll call next
Case Number 9252.

MR. TAYLOR: The application of
Dugan Production Corporation for compulsory pooling, Rio Ar
riba County, New Mexico.

MR. STOGNER: This case was
heard on November 4th, 1987, and was continued at that time
to this hearing.

We'll call for appearances.

MR. STOVALL: Robert G. Sto-
vall, Farmington, New Mexico, on behalf of the applicant,
Dugan Production Corp.

MR. STOGNER: Any additional
appearances?

MR. PEARCE: Mr. Examiner, I am
W. Perry Pearce again appearing representing Amoco Produc-
tion Company.

Our appearance in this matter
was entered in the previous hearing and we'd like the record
to continue to reflect our appearance.

MR. STOGNER: The record will
so show.

MR. PEARCE: Thank you, Mr.
Examiner.

1 MR. STOGNER: Mr. Stovall?

2 MR. STOVALL: I have one wit-
3 ness and as this is a continued hearing, he is still under
4 oath, I believe, with respect to swearing him in last time
5 and he's still qualified, I assume.

6 MR. STOGNER: For the record,
7 please identify your witness.

8 MR. STOVALL: The witness is
9 Mr. Rich or Richard Corcoran.

10 MR. STOGNER: Let the record
11 show that Mr. Corcoran was sworn in at the November 4th,
12 1987 hearing.

13 Please continue, Mr. Stovall.

14

15 RICHARD CORCORAN,

16

17 being recalled as a witness and being duly sworn upon his
18 oath, and remaining under oath, testified as follows, to-
19 wit:

20

21 DIRECT EXAMINATION

22 BY MR. STOVALL:

23 Q Mr. Corcoran, at the November 4th hearing
24 you presented certain evidence with respect to land owner-
25 ship and parties who have an interest in the 640-acre spac-

1 ing unit sought to be pooled by Dugan Production Corp., is
2 that correct?

3 A That's correct.

4 Q And at that hearing certain information
5 became known to you which you did not previously know, which
6 indicated that certain parties who would be entitled to
7 notice and should be offered the opportunity to join, had
8 not been so notified, is that correct?

9 A That's correct.

10 Q And who were those parties who were --
11 who you have subsequently as a result of that hearing, or
12 subsequent to that date, identified as parties entitled to
13 notice of the forced pooling application?

14 A They are Peter C. Neumann, Venada Nation-
15 al, Johansen Energy Partnership, Amoco Production, and A. G.
16 Hill.

17 Q All right, and do you know from whom
18 Johansen Energy, Peter Neumann, and Venada National derived
19 their interest?

20 A Yes, they derived their interest from
21 Mesa Grande Resources, Incorporated.

22 Q And was Mesa Grande Resources advised of
23 this hearing and given notice prior to the November 4th
24 hearing?

25 A Yes, they were.

1 Q And what is -- do you know where Amoco
2 Production's interest is derived or what type of interest
3 they have?

4 A Yes, theirs is derived from a lease from
5 a Mr. Rucklehaus that they are the -- that was assigned to
6 Amoco.

7 Q So they are a lessee or working interest
8 owner in the --

9 A Yes, they are.

10 Q -- pool, is that correct?

11 A That's correct.

12 Q And have you given them notice of this
13 hearing?

14 A We have.

15 Q And what is the interest -- you've iden-
16 tified A. C. Hill as having an interest. What -- what is
17 the nature of their interest?

18 A Their interest was a mineral interest
19 which they owned outright and they have subsequently leasedd
20 that interest to Sun Exploration & Production; however, that
21 -- that lease is not of record yet.

22 Q Now all of the -- all of the parties whom
23 you've identified as being additional parties who are entit-
24 led to notice, you've given them all notice of the --

25 A Yes.

1 Q -- hearing?

2 A Yes, we have.

3 Q And I'd ask you now to turn to Exhibit
4 Number Seven, and identify it, please.

5 A Exhibit Number Seven is a copy of the
6 letters that sent to each of the parties who were noticed,
7 along with a copy of the return receipt signifying that they
8 received the letters.

9 Q Okay, so in each of these cases you sent
10 them a letter advising them of your intent to drill a well,
11 offering them the opportunity to join and enclosing a copy
12 of the application and thereby notifying them of the forced
13 pooling application, is that correct?

14 A Yes, that's correct.

15 Q I'd ask you now to turn to Exhibit Number
16 Eight and identify it, please.

17 A Exhibit Number Eight is a -- it's a re-
18 vised working interest tabulation including those parties
19 who were not included in our original request.

20 Q And it was a revision of the tabulation
21 previously offered as an exhibit in this case, is that cor-
22 rect?

23 A That's right, yes, and it also sets out
24 the parties who have executed the operating agreement or the
25 AFE, or both.

1 Q Now is this tabulation based upon addi-
2 tional research which you have done or caused to be done --

3 A Yes, it is.

4 Q -- with respect to this (not clearly un-
5 derstood)? And what does that, what does that research in-
6 clude?

7 A The additional research includes updating
8 our title opinion that we had covering the southeast quarter
9 of this section, which covers that interest that was in
10 question as to Amoco's and what shows here as Sun, which was
11 A. G. Hill's.

12 Further, it -- we -- in addition to that,
13 we -- I have reviewed the Federal records as to Mesa -- as
14 to the interest that Mesa assigned out and --

15 Q Again you're referring to Mesa Grande Re-
16 sources, is that correct?

17 A Mesa Grande Resources assigned out and
18 thereby covering Neumann, Peter C. Neumann, Venada, Venada
19 National, and Johansen Energy's interests.

20 Q And are you satisfied that you've now
21 made a complete and thorough search of the records and that
22 you have identified everyone who has an interest and is
23 entitled to notice?

24 A I am satisfied.

25 Q Were Exhibits Number Seven and Eight

1 prepared by you and -- or under your supervision and --

2 A Yes, they were.

3 MR. STOVALL: I would offer Ex-
4 hibits Number Seven and Eight into evidence at this time.

5 MR. STOGNER: Are there any ob-
6 jections?

7 MR. PEARCE: No objection.

8 MR. STOGNER: Dugan Production
9 Exhibits Seven and Eight will be admitted into evidence at
10 this time.

11 MR. STOVALL: And I have no-
12 thing further.

13 MR. STOGNER: Thank you, Mr.
14 Stovall.

15 Mr. Pearce?

16 MR. PEARCE: No questions, Mr.
17 Examiner. Thank you.

18

19 CROSS EXAMINATION

20 BY MR. STOGNER:

21 Q Mr. Corcoran, do you have any written re-
22 sponse to any of these letters on file?

23 A I have --

24 Q When I say these letters I'm referring to
25 Exhibit Number Seven.

1 A Okay, yes, from Venada we have a written
2 response and from Johansen we have an executed AFE and
3 that's -- that's it.

4 Q Okay, subsequent to the hearing would you
5 make a copy of it and we'll include that in the record of
6 this particular case?

7 A Right.

8 MR. STOGNER: Are there any
9 other questions of Mr. Corcoran?

10 MR. STOVALL: One -- one quick
11 question I overlooked earlier.

12

13 REDIRECT EXAMINATION

14 BY MR. STOVALL:

15 Q Again you've identified Northwest
16 Pipeline Corporation as having received notice. Will you
17 state the nature of their interest, please?

18 A That -- that -- the reason for that was
19 that they had a overriding royalty interest that at some
20 future point could convert to a working interest and I just
21 wanted to make them aware that the -- that we were proposing
22 to drill a well and that it may affect their -- their
23 interest in the future.

24 MR. STOVALL: Nothing further,
25 Mr. Examiner.

1 MR. STOGNER: If there are no
2 further questions, he may be excused.

3 Mr. Pearce, do you have any
4 closing statement?

5 MR. PEARCE: No, Mr. Examiner,
6 thank you.

7 MR. STOGNER: Mr. Stovall?

8 MR. STOVALL: I'll just restate
9 my closing statement made on November 4th.

10 MR. STOGNER: Thank you. If
11 there's nothing further in Case Number 9252, it will be
12 taken under advisement.

13

14 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete and correct transcript of the proceedings in
the Examiner's hearing of Case No. 9252,
heard by me on 8 December 1987.
William E. Hagan, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
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E X H I B I T S

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Dugan Exhibit One, Map

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Dugan Exhibit Two, C-102

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Dugan Exhibit Three, Letter

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Dugan Exhibit Four, List

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Dugan Exhibit Five, Notices

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Dugan Exhibit Six, Information

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MR. STOGNER: Call next Case
Number 9252.

MR. TAYLOR: Application of
Dugan Production Corporation for compulsory pooling, Rio Ar-
riba County, New Mexico.

MR. STOGNER: Are there appear-
ances in this case?

MR. STOVALL: Robert G. Stovall,
Farmington, appearing on behalf of Dugan Production Corpora-
tion.

MR. PEARCE: May it please the
Examiner, I am W. Perry Pearce, with the law firm Montgomery
& Andrews of Santa Fe, appearing on behalf of Amoco Produc-
tion Corporation.

MR. STOGNER: Mr. Stovall, do
you have any witnesses?

MR. STOVALL: I have the same
two witnesses as appeared in the previous case.

MR. STOGNER: Let the record so
show that the last two witnesses were sworn, however I wish
to have you to requalify them again for Mr. Pearce's bene-
fit.

MR. PEARCE: I'll stipulate the
witnesses are qualified as a landman and a petroleum engine-

1 er, respectively, Mr. Examiner.

2 MR. STOGNER: Let the record so
3 show, since there is no objection that they've been -- since
4 they've been previously qualified.

5 Mr. Stovall.

6
7 RICHARD CORCORAN,
8 being called as a witness who has been previously sworn and
9 remains under oath, testified as follows, to-wit:

10
11 DIRECT EXAMINATION

12 BY MR. STOVALL:

13 Q Mr. Corcoran, I'll call you first. Would
14 you just state your name for the record, please?

15 A Richard Corcoran.

16 Q And it's been stipulated your qualifica-
17 tions have been set forth in Case 9251. You've been accep-
18 ted. I will ask you, however, are you familiar with the ap-
19 plicaition in this case and with the information about which
20 you are to testify?

21 A I am.

22 Q I'd ask you to turn to Exhibit Number One
23 and identify that exhibit, please.

24 A This is a map covering Townships 25 and
25 26 North, Range 2 West. Identified on the map are several

1 things, one being a solid orange outline depicting the cur-
2 rent Gavilan Mancos Pool boundary; also a dashed orange out-
3 line showin the proposed extension to the Gavilan Mancos
4 Pool.

5 In blue, an outline covering our proposed
6 well spacing unit; several black dots showing existing pro-
7 ducing oil and gas wells from this -- this zone.

8 Q And what about the hachured shaded areas?

9 A That depicts interest in which Dugan Pro-
10 duction Corporation has some, some interest.

11 Q Thank you. Would you turn to Exhibit
12 Number Two, please, and identify that for the Examiner?

13 A Exhibit Number Two is a copy of the C-102
14 attached to the application for permit to drill for the
15 Bridge Com No. 1 Well. It identifies the well location as
16 surveyed, and the leasehold ownership as it was known to Du-
17 gan Production Corporation at the time the APD was submitted
18 to the BLM.

19 Q Thank you. Would you turn to Exhibit
20 Number Three, please?

21 A Exhibit Number Three is -- contains
22 several pages, ten pages, and it's a -- it includes a proto-
23 type letter offering the opportunity to join and advising
24 without the joinder Dugan Production Corporation would --
25 would proceed with forced pooling hearings.

1 Q All right, and in that exhibit is there
2 more than one notice or letter to --

3 A There are two notices, the first being in
4 July of 1987 and the second on September the 16th, 1987.
5 They -- each of these notices went to a -- to the working
6 interest owners identified on the distribution list.

7 The notice, the people identified on
8 these distribution lists change and the latest, the one
9 dated September 16th, 1987, included all those parties on
10 the first list plus Robert Bayless and Huntington T. Walker.

11 It further omitted David Schaffnit.

12 Q I'm sorry, did David Schaffnit -- is he
13 on the first?

14 A He's on the first list. I'm sorry, he's
15 not on the first list. I'm looking at the first case.

16 Q Strike this. There's a remarkable simi-
17 larity between these cases but I would like to strike the
18 reference to David Schaffnit.

19 A Okay, excuse me.

20 MR. STOGNER: Let the record
21 show that.

22 Q So the second letter, the September 16th
23 letter was distributed to all those people identified as
24 being -- as having received the July 31st letter --

25 A Plus --

1 Q -- with the addition of Bayless, Walker,
2 and Kindermac Partners, is that correct?

3 A That is correct.

4 Q And included with that letter was what
5 information?

6 A Was offering the opportunity to join and
7 advising without their joinder we would proceed with forced
8 pooling procedures.

9 Q And in -- did you also include an Author-
10 ization for Expenditure showing the estimated well costs?

11 A Yes, we did.

12 Q I'd ask you now to turn to Exhibit Number
13 Four and identify that, please.

14 A Exhibit Number Four is -- consists of
15 several pages, the first being a list of the people it was
16 sent to. The next are return receipts showing that these
17 folks received this letter, and the last page is -- or last
18 two pages -- well, the last page is a letter sent by our at-
19 torney, Mr. Stovall, to the people involved giving them not-
20 ice of Dugan's application for forced pooling.

21 Q And are the interest owners there identi-
22 fied the same as the interest owners identified in your Ex-
23 hibit Number Three September 16th letter?

24 A They are.

25 Q In determining these ownership lists and

1 in determining who was entitled to notice, would you please
2 tell the Examiner what steps you took?

3 A Okay. We first hired a contract landman
4 to research the records of the county. He furnished us a
5 list of all the instruments affecting title to the lands as
6 listed on the tract index in the abstract office.

7 He further reviewed certain documents and
8 concluded what the ownership was as he saw it for the (un-
9 clear) property.

10 Further to that, I talked to another
11 operator who allowed me to make a copy of all the leases and
12 other documents that they had at their disposal, which were
13 common to this -- to these lands.

14 Further they had a Division order title
15 opinion that covered common interest up and -- that covered
16 common interest.

17 After reviewing the documents my findings
18 basically paralleled the broker's.

19 I also reviewed Federal abstract takeoffs
20 and our files covering the lands involved.

21 Q All right. Now with respect to the work
22 done by the contract landman, that was primarily oriented
23 towards Tract No. 4, is that correct?

24 A That's correct.

25 Q And with respect to the lease which is

1 shown owned largely by Mountain States Natural Gas, Kinder-
2 mac Partners, Huntington Walker and Robert Bayless.

3 A That's correct.

4 Q With -- with respect to Tract No. 1, and
5 I'm referring, excuse me here, to Exhibit Two, with respect
6 to Tract No. 1, that exhibit indicates that it is a fee
7 lease owned by Dugan Production 100 percent, is that cor-
8 rect?

9 A Yes.

10 Q And does Dugan Production Corp's lease on
11 that tract provide for pooling 640 acres?

12 A It does.

13 Q All right. With respect to Tract No. 2,
14 you are showing interest owned on Exhibit Number Two by
15 Dugan Production Corp. and by Sun Exploration. It appears
16 to be a common lease, is that correct?

17 A It is a common lease.

18 Q Is it -- all right, and it has the same
19 lessors in that lease?

20 A No. I'm sorry, no, it doesn't.

21 Q Okay. Dugan Production has got 100 per-
22 cent of a lease from a person that owns a 37-1/2 percent in-
23 terest in the minerals, is that correct?

24 A That's right.

25 Q And Sun Exploration has 62-1/2 percent

1 from --

2 A What's --

3 Q Has a -- has a lease from owners that own
4 62-1/2 percent of the mineral interest, is that correct?

5 A It has come to my attention that part of
6 what I'm showing here as Sun's interest is not owned by Sun.

7 Q And what -- do you have any idea what
8 portion of that interest is not owned by Sun and --

9 A Yes, I do. It's -- 1.25 percent is under
10 lease to Amoco and then the -- or 1.25 percent of the
11 spacing unit is under lease, which -- to Amoco, and further,
12 an interest, 3.25 percent is owned by A. G. Hill, who --

13 Q Let -- let me -- did you give notice to
14 Amoco Production? It is Amoco Production, is that correct?

15 A That's correct.

16 Q Of this hearing?

17 A Not until -- no, not -- we did verbally
18 and then by written letter but just recently.

19 Q And Amoco, let the record reflect, as it
20 does, that Amoco has entered an appearance in this matter;
21 that it has actual notice.

22 With respect to the A. G. Hill interest,
23 did you give prior written notice to A. G. Hill with respect
24 to this case?

25 A Again not, not until just recently.

1 Q And have you had any discussions with A.
2 G. Hill regarding this case prior to today?

3 A Yes. They had discussions regarding this
4 -- this particular interest and they advised that they were
5 in the process of re-leasing it to Sun and Sun -- my conver-
6 sations with Sun, also they indicated that they were in
7 agreement. It's just the paper has not been exchanged yet.

8 Q Now when you're saying that A. G. Hill is
9 in the process of re-leaseing it, by that I assume you mean
10 leasing again.

11 A Yes, that's correct.

12 Q To Sun. Do I infer correctly from that,
13 that that acreage is owned in fee by A. G. Hill related in-
14 terests?

15 A That's correct.

16 Q And that it was under a lease to Sun Ex-
17 ploration?

18 A It was under lease and then the lease ex-
19 pired.

20 Q Do you happen to know when the lease ex-
21 pired?

22 A No, I'm not -- I don't have it here.

23 Q But to the best of your knowledge Sun and
24 A. G. Hill are discussing --

25 A They're further than discussing. They --

1 they basically have agreed but they have some minor points
2 that they want to clear up before they -- before they exe-
3 cute the agreement.

4 Q Have you examined all of these fee leases
5 in Tracts 1, 2, and 4, that exist, and obviously we're not
6 talking about the expired leases, but the leases that exist,
7 to determine whether or not they allow for pooling on 160
8 acres?

9 A I have reviewed documents regarding this.
10 On 2 I had to review a title opinion, which provided me with
11 that information.

12 Q And are there any leases which do not
13 provide or give the operator or lessee the right to pool --

14 A There are --

15 Q -- on 640 acres?

16 A There are two, Leota Jone and Annie
17 White. There are two leases in Tract No. 1, or I'm sorry,
18 Tract No. 4, that do not provide the right to pool 640-acre
19 spacing.

20 Q And who are the lessor or fee, fee min-
21 eral owners in that?

22 A They are Leota Jones and Annie White and
23 Annie White's interest now is being spoken for by the -- by
24 her estate, by the personal representative of her estate.

25 Q Annie White is deceased, then, is what

1 you're saying?

2 A That's correct.

3 Q And her estate is currently in probate to
4 the best of your knowledge?

5 A That's right.

6 Q And are those mineral interests under
7 lease?

8 A They are under lease to Robert Bayless.

9 Q And have you provided the mineral inter-
10 est owners with notice of this hearing?

11 A We -- we have, and that is set out on Ex-
12 hibit Five.

13 Q Would you identify Exhibit Five -- Exhi-
14 bit Number Five, please?

15 A I sure will. It is a -- consists of two
16 pages, the first being the return receipts evidencing that
17 the parties that this letter was sent to received it; the
18 second page being the letter advising -- advising the par-
19 ties involved that -- of our -- of our forced pooling appli-
20 cation.

21 Q And Mrs. Leota Jones is identified as one
22 of the recipients on the first page of Exhibit Five and she
23 is the mineral interest owner and lessor of the lease to Mr.
24 Bayless, is that correct?

25 A That's -- yes, that is correct.

1 Q And do you know who Mrs. Erin Schaefer
2 is?

3 A That's the personal representative of the
4 estate of -- of Annie White.

5 Q And have you had any discussions with Mr.
6 Bayless regarding these -- these mineral interests and the
7 leases and the fact they do not contain a pooling clause?

8 A Yes, we -- I have and advised them of
9 that and he told me that he would be participating for their
10 proportionate share of --

11 Q Did he indicate whether or not he would be
12 able to either amend the lease or take a new lease, or do
13 something to allow pooling on 640 acres?

14 A He said he would handle that.

15 Q And do you know, do you have any personal
16 knowledge of whether either of these lessors is related to
17 Mr. Bayless in any way?

18 A Yes, they are. They are in-laws, the one
19 being the mother-in-law and --

20 Q Which one is that?

21 A Leota Jones, and I'm not sure exactly
22 what the -- what Annie White's relationship is but there is
23 a relationship.

24 Q Thank you. Looking again at Exhibit Num-
25 ber Two, Tract No. 3, are you aware of any -- any interests

1 in Tract No. 3 which have not received notice of this hear-
2 ing?

3 A Yes, I am. As I tried to point out ear-
4 lier, Amoco and A. G. Hill did not --

5 Q Excuse me, no, we're looking at Tract No.
6 3 now.

7 A Oh, I'm sorry. Yes, Mesa Grande Resour-
8 ces and Dugan Production; Mesa Grande has several co-owners
9 in their 75 percent and they -- it's my understanding they
10 have -- he has co-owners and that we did not notice them.

11 Q All right. Thank you. Let me make sure
12 I'm really through.

13 MR. STOVALL: I have no further
14 witness -- questions of this witness, Mr. Examiner.

15 MR. STOGNER: Thank you, Mr.
16 Stovall.

17 Mr. Pearce, your witness.

18 MR. PEARCE: One, and I think
19 very briefly.

20
21 CROSS EXAMINATION

22 BY MR. PEARCE:

23 Q Mr. Corcoran, who was the contract land-
24 man on this job?

25 A His name is Claude Kennedy.

1 MR. STOVALL: For your
2 information, Mr. Pearce, he's out of Albuquerque. He's an
3 independent landman out of Albuquerque.

4 Q I can obviously find this out from my
5 client. Who leased the 1.25 percent of the 640 to Amoco? Do
6 you know?

7 A Let me think for a second and I may be
8 able to answer it.

9 Oh, Rucklehaus.

10 Q Melvin?

11 A Melvin T. That's correct.

12 MR. PEARCE: No further
13 questions of this witness. Thank you, Mr. Examiner.

14 MR. STOGNER: Thank you, Mr.
15 Pearce.

16 Mr. Stovall, do you have any
17 further questions?

18 MR. STOVALL: No further
19 questions.

20
21 CROSS EXAMINATION

22 BY MR. STOGNER:

23 Q I'm still a little bit confused on my
24 numbers here, Mr. Corcoran.

25 A Yes.

1 A. G. Hill owns, as I understand it, 3.25
2 percent interest in the 640?

3 A That's correct.

4 Q Now, is that a divided interest
5 throughout or just only in Tract 2?

6 A It's only in Tract 2.

7 Q So whatever it comes out, it's 3.25 of
8 the 640.

9 A That's right. That's correct.

10 Q And the 1.25 percent of Amoco's interest
11 is out of Tract 2 --

12 A Yes.

13 Q -- and it comes out to 1.25 percent of
14 the 640.

15 A Yes, that's correct.

16 Q Okay. Now, I do not see A. G. Hill's or
17 Amoco Production's name appearing on any of the mailing
18 lists, is that correct?

19 A That is correct.

20 Q Okay. What kind of, again, what kind of
21 communications have you had with them?

22 A I had verbal communication concerning
23 this interest.

24 Q When?

25 A Monday.

1 Q That's the only communications you've had
2 with them?

3 A I have also written them a letter sent
4 yesterday advising them of the situation.

5 MR. STOVALL: Mr. Examiner, I,
6 just to help you with what obviously appears to be concer-
7 ning you, Dugan Production is going to request a continuance
8 in this matter. We believe that the problem with respect to
9 notice of Amoco is solved by the appearance of Mr. Pearce.
10 That constitutes an effective waiver of notice, but with re-
11 spect to the A. G. Hill interest, it's our understanding
12 that they and Sun Exploration are negotiating a new lease
13 and that Sun will commit that interest to the well at that
14 time.

15 But we will request a continu-
16 ance in this case for two weeks to allow that notice and
17 then if they wish to -- to come in and participate in the
18 case, to give them the opportunity to do so, but we believe
19 that interest will likely be joined in the well and a con-
20 tinuance will not be necessary.

21 MR. STOGNER: Okay, and how --
22 what kind of a continuance are you seeking?

23 MR. STOVALL: We're going to
24 request it to the next hearing date, which I believe would
25 be the 18th.

1 MR. STOGNER: Okay. Now as far
2 as the notice, that may or may not be true about the waiving
3 notice but there is a policy that compulsory pooling is the
4 last ditch effort in trying to reach voluntary agreement.

5 MR. STOVALL: Well, may I ask
6 Mr. Corcoran a question or two with respect to the Amoco in-
7 terest?

8 MR. STOGNER: Okay, that will
9 be fine.

10 MR. STOVALL: Mr. Corcoran,
11 have you had -- you've indicated that you have had some dis-
12 cussions with Amoco Production, is that correct?

13 A That's correct.

14 MR. STOVALL: Has Amoco indi-
15 cated to you a willingness to either join in the well or --

16 A Yes.

17 MR. STOVALL: -- somehow --

18 A They have advised me that they will not
19 be force pooled. They will either join or make us a trade
20 of some sort.

21 MR. STOVALL: Trade some
22 interest or somehow allow Dugan to acquire the interest of
23 Amoco --

24 A That's right.

25

1 Q -- in there.

2 A That's correct.

3 Q And it would be your anticipation, then,
4 that Amoco would not be affected by this forced pooling
5 order.

6 A I anticipate they'll do as they said,
7 that they'll either join or they will trade us.

8 MR. PEARCE: May I jump back
9 into this, Mr. Examiner?

10 MR. STOGNER: Please do, Mr.
11 Pearce.

12 MR. PEARCE: Mr. Corcoran, I
13 didn't understand your answer to Mr. Stovall's question just
14 now.

15 A Okay.

16 MR. PEARCE: In the present
17 posture of this case do you seek the pooling of the 1.25
18 percent interest in the 640 held by Amoco Production
19 Company?

20 A Yes, sir.

21 Q Okay, let's turn to Mesa Grande
22 Resources. As I understand it, they were -- they did
23 receive notice.

24 A Mesa Grande Resources did, yes.

25 Q Okay, how about Mountain States?

1 A Yes.

2 Q And all the other interested parties that
3 -- other than the two that we were just discussing.

4 A That's right.

5 Q Okay.

6 A Now, now, the investors for Mesa Grande
7 did not receive notice, or certain investors, certain other
8 people.

9 MR. STOVALL: I have another
10 witness who will present additional testimony on that mat-
11 ter, Mr. Examiner.

12 Q Okay, now as far as Mesa Grande Resources
13 is the actual mineral interest and other interest owners
14 that he may have, do they actually own mineral interests or
15 do they have a cooperation between themselves? I don't
16 quite understand that.

17 A Well, apparently they do actually own an
18 interest.

19 Q And who is that?

20 A I do not have those names with me.

21 Q Okay.

22 MR. STOGNER: Mr. Stovall, I'm
23 going to request that we continue this for another two weeks
24 in addition to the November 18th. After all, even the Nov-
25 ember 18th will not satisfy the 21 day written requirement.

1 MR. STOVALL: Well, that would
2 be --

3 MR. STOGNER: And there again,
4 last ditch effort --

5 MR. STOVALL: Well, Mr. Exam-
6 iner, with respect to deal with the Amoco - Hill interests,
7 we -- I'd be willing to do that, to give the full 21-day no-
8 tice, and we would anticipate that those interests would be
9 -- would be resolved. I mean it's Dugan's anticipation that
10 those interests will be brought into the well voluntarily
11 and -- and will not be force pooled into the well; recogniz-
12 ing that the order will give some time for people to join in
13 the well after the issuance of the order.

14 And with respect to the Mesa
15 Grande, the interest derived through Mesa Grande, we'd like
16 to present additional testimony on that through Mr. Roe.

17 MR. STOGNER: Okay, then we'll
18 discuss the continuance a little bit later.

19 Are there any other questions
20 of this witness?

21 MR. PEARCE: Not now, Mr.
22 Examiner.

23 MR. STOGNER: Mr. Stovall?

24 MR. STOVALL: No, I have none.

25 MR. STOGNER: You may continue.

1 MR. STOVALL: I'd like to call
2 Mr. Roe at this time.

3
4 JOHN ROE,
5 being called as a witness who has been previously sworn and
6 remains under oath, testified as follows, to-wit:

7
8 DIRECT EXAMINATION

9 BY MR. STOVALL:

10 Q Mr. Roe, again you've been stipulated to
11 and qualified as a witness in this case but I would like to
12 ask you for the record are you familiar with the application
13 in this case and the matters about which you are about to
14 testify and the exhibits that have been prepared?

15 A Yes, I am.

16 Q All right. Mr. Roe, let's address first
17 the question of the interests which have been derived --
18 I'll refer to them as having been derived -- through Mesa
19 Grande Resources. Have you had any conversations with Mesa
20 Grande Resources with respect to any interests which may
21 have come out of their 75 percent interest in Tract No. 3?

22 A Yes. I have had conversations with Greg
23 Phillips of Mesa Grande Resources.

24 Q And could you briefly describe the nature
25 of that conversation or those conversations?

1 A Yes. Prior to our distributing the ini-
2 tial proposal to drill this well, the AFE that we were sen-
3 ding to the working interest owners, which is part of what
4 we have as Exhibit Number Three, and this letter that trans-
5 mitted the AFE, dated July 16th, which is also part of Exhi-
6 bit Number Three, it would be the last page, that the letter
7 that we sent initially to what we believed to be the working
8 interest ownership within Section 28 of Township 26 North,
9 Range 2 West, prior to sending that letter out on July 31st,
10 1987, I had made or by phone had contacted leaseowners as we
11 thought they existed. I don't have the exact date that I
12 contacted Mesa Grande Resources, but during the phone con-
13 versation with Mr. Greg Phillips I was advised that -- that
14 Mesa Grande Resources had some partners in the 75 percent
15 ownership of the common lease that we had with -- between
16 Mesa Grande Resources and Dugan Production, Dugan Production
17 owning the 25 percent.

18 I asked Mr. Phillips if we -- to provide
19 me with a list of the people that were his partners in his
20 75 percent interest and Mr. Phillips advised me that he
21 would take care of providing that notice if I would provide
22 him with adequate copy that he could make additional copies
23 as necessary.

24 Q Was it your understanding then that Mesa
25 Grande Resources was representing these owners who derived

1 their interest through Mesa Grande?

2 A It -- yes, it was my understanding that
3 any approval or authorization that was necessary from the
4 partners that Mesa Grande had would be secured through Mesa
5 Grande's efforts and because I was a little familiar with --
6 with the arrangements that led to Mesa Grande having a 75
7 percent working interest in this lease, I felt it was
8 reasonable that Mesa Grande take care of whatever side ar-
9 rangements they had in their 75 percent ownership.

10 Q In other words, you believe that Mesa
11 Grande had sold to investors participations in -- in the --
12 in the lease, is that correct?

13 A Yeah, I -- I did not really begin to --

14 Q Or in some other way --

15 A -- their exact ownership. It was my un-
16 derstanding that they were investors that were linked to
17 this particular parcel of land. Now whether they actually
18 owned an interest in the lease or not, I did not make an
19 attempt to understand their agreement.

20 MR. STOVALL: Mr. Examiner, Mr.
21 Greg Phillips is here. May I have just a moment to talk to
22 him?

23 MR. STOGNER: You bet. Let's
24 take about five minutes.

25

(Thereupon a recess was taken.)

1 MR. STOGNER: What were we
2 doing?

3 MR. STOVALL: We were discus-
4 sing the resolution to a question and I think I've got a
5 non-resolution to the question that we'd like to present to
6 the Examiner.

7 MR. STOGNER: All right, then
8 the hearing will presume to order.

9 Mr. Stovall?

10 MR. STOVALL: Mr. Examiner, it
11 appears that there is some discussion, we've had some dis-
12 cussion with Mr. Phillips. He is not going to be called as
13 a witness at this time. It appears that there is possibly a
14 notice problem in this case with respect to the interest de-
15 rived through Mesa Grande Resources, but I'd like to ask Mr.
16 Corcoran a couple of questions to get into the record and
17 lead us to where we need to be.

18
19 RICHARD CORCORAN,
20 being recalled as a witness and remaining under oath, testi-
21 fied as follows, to-wit:

22
23 REDIRECT EXAMINATION

24 BY MR. STOVALL:

25 Q Mr. Corcoran, back to the Mesa Grande in-

1 terest -- I'm recalling Mr. Corcoran, excuse me, I forgot I
2 had Mr. Roe. Recall Mr. Corcoran, if I may for the moment.

3 MR. STOGNER: Please.

4 Q Regarding the Mesa Grande interests and
5 the interest derived through Mesa Grande, you've indicated
6 that those interests, people who derived their interest
7 through Mesa Grande Resources did not receive notice, is tha
8 correct?

9 A That's correct.

10 Q And in the course of your discussions,
11 have you had any discussions with Mesa Grande Resources with
12 respect to this acreage and the possible acquisition of it
13 by Dugan Production?

14 A Yes. We have on-going discussions regar-
15 ding the purchase or exchange of this acreage with -- with
16 Mesa Grande.

17 Q And is it uour belief or opinion that a
18 deal might be consummated in which Mesa Grande, and all the
19 interest derived through Mesa Grande, might be acquired by
20 Dugan Production and therefor not be required to be force
21 pooled?

22 A It's possible, yes.

23 MR. STOVALL: Mr. Examiner, we
24 now have, it appears, an additional notice problem and for
25 that reason I'm also going to reopen Case 9251 after we con-

1 clude for the same resolution, but inasmuch as we're already
2 going to have a continuance in this case, we are going to
3 have to make -- give notice to those interests derived
4 through Mesa Grande, it appears.

5 MR. STOGNER: Let's go off the
6 record, Sally.

7
8 (Thereupon a discussion was had off the record.)
9

10 MR. STOVALL: To clarify the
11 record, since we've been off for a few minutes and I'm some-
12 what distracted, Mr. Corcoran has been recalled as a wit-
13 ness. I have no further questions on the recall of Mr. Cor-
14 coran at this time.

15 MR. STOGNER: Mr. Pearce?

16 MR. PEARCE: No questions, Mr.
17 Examiner.

18 MR. STOGNER: Okay, I have no
19 further questions of Mr. Corcoran at this time.

20 MR. STOVALL: And now I'll re-
21 call Mr. Roe, who is --

22 MR. STOGNER: Okay, let the re-
23 cord so reflect. Mr. Roe is now recalled.
24
25

1 JOHN ROE,

2 being recalled as a witness and remaining under oath, testi-
3 fied as follows, to-wit:

4
5 REDIRECT EXAMINATION

6 BY MR. STOVALL:

7 Q Mr. Roe, would you please turn briefly to
8 Exhibits One and Two? Looking at Exhibit Number One, we've
9 identified the boundaries of the Gavilan Mancos Oil Pool and
10 identified the boundaries of the proposed extension of that
11 pool by the nomenclature Case 9250, heard today. Are you
12 familiar, Mr. Roe, with the pool rules of the Gavilan Mancos
13 Oil Pool?

14 A Yes, I am.

15 Q And what is the appropriate spacing for a
16 well drilled within the Gavilan Mancos Oil Pool?

17 A The Gavilan Mancos Pool Rules provide for
18 640-acre spacing units.

19 Q And is there any provision in the Gavilan
20 Mancos Oil Pool Rules making them applicable to any wells
21 drilled outside the boundary of that pool?

22 A Rule One of the Gvilan Mancos Pool Rules
23 stipulates that any well drilled or recompleted within one
24 mile of the boundary of the Gavilan Mancos Pool Rules will
25 operate under the Gavilan Mancos Pool Rules.

1 Q Mr. Roe, looking at Exhibit Number Two,
2 that's the C-102 form, is that surveyed location for the
3 Bridge Com No. 1 Well a legal location under the rules of
4 the Gavilan Mancos Oil Pool?

5 A Yes, it is.

6 Q And is it your opinion that this pool
7 will -- or that this well will properly be an extension of
8 the Gavilan Mancos Oil Pool as that pool is extended by Case
9 9250?

10 A Yes.

11 Q Mr. Roe, in Dugan's application they're
12 requesting that Dugan Production be designated the operator
13 of the well to be drilled in this pool and would you briefly
14 tell the Examiner why Dugan Production is qualified, in your
15 opinion, to operate a well in this area?

16 A Well, Dugan Production is the largest
17 single working interest owner within Section 28 of Township
18 26 North, Range 2 West. We have a total of 260 net acres,
19 which represents a working interest of 40.625 percent. We
20 are familiar with the operations in this area and have par-
21 ticipated in the majority of the prior development of the
22 Gavilan Mancos Pool from -- since its discovery in 1981.

23 Q Mr. Roe, would you turn to Exhibit Number
24 Three, please? This exhibit is the -- it's been identified
25 as the letter sent by Dugan Production to the various work-

1 ing interest owners offering them an opportunity to partici-
2 pate in the well and there appears attached to each of the
3 two letters therein an Authorization for Expenditure.

4 Would you explain those exhibits, those
5 particular pages of Exhibit Number Three, please?

6 A Yes, Exhibit Number Three includes two
7 pages that are what we call an AFE, or Authorization for
8 Expenditure. The most recent AFE is dated September 16th,
9 1987, and represents our estimate of what it would cost to
10 drill, complete, and equip for production a well to a depth
11 of 8070 feet, which is our proposed TD for this well.

12 It is an amended cost estimate from an
13 AFE that was dated September -- or July 16th, which is the
14 last page of the Exhibit Number Three. The primary
15 difference between the two AFE's is the fact that we revised
16 our projected total depth from 8360, which was a depth
17 adequate to evaluate the Dakota formation, to 8070 feet,
18 which will be a depth adequate to drill through and complete
19 and evaluate the Mancos formation.

20 Q Mr. Roe, does this -- do you believe this
21 AFE dated, amended AFE dated September 16th, 1987, repre-
22 sents a reasonable estimated cost for a well of this depth
23 in this area?

24 A It represents our best estimate based
25 upon our recent experience, assuming a relatively trouble-

1 free well, yes.

2 Q And would you ask the Division to approve
3 this AFE as a reasonable estimated well cost for this appli-
4 cation?

5 A Yes, I would.

6 Q In your application, Dugan's application,
7 Dugan has requested the Division to include in the order
8 provisions that would allow the operator to recover the
9 actual costs of drilling and completing the well. You're
10 asking that those -- are you asking therein that those
11 costs be paid in advance, estimated costs be paid in advance
12 by parties not wishing to have their costs paid out of pro-
13 duction and that they actually recover actual well costs u-
14 pon completion of the well and invoicing? Is that your re-
15 quest?

16 A Yes. For those parties that do not vol-
17 untarily commit their interest prior to the effective date
18 of the pooling order, we would ask that they pay in advance,
19 yes.

20 Q And with respect to those parties who
21 elect to pay their share -- their share of the costs for the
22 drilling and completion of this well out of production, your
23 application is requesting that an additional penalty factor
24 be recovered by the operator and that that penalty factor be
25 200 percent, is that correct?

1 A Yes.

2 Q Why do you believe that a 200 percent
3 penalty factor is reasonable?

4 A Well, this is an area we have a signifi-
5 cant amount of experience in and there is many problems that
6 can be encountered. We feel there's a very high risk in
7 drilling and affecting a well completion in addition to the
8 fact of unknown there being reservoir quality rock at this
9 location.

10 It's our belief that the maximum permis-
11 sible penalty should be authorized and it's our understand-
12 ing that that is 200 percent.

13 Q Mr. Roe, given the knowledge that this
14 matter is going to be continued until December 2nd, I be-
15 lieve, approximately that timeframe, and in consideration of
16 operating conditions in the Gavilan area during this season,
17 do you see any need to request the effective period during
18 which the well be -- drilling of the well be commenced be
19 extended for any reason?

20 A Yes. This is an area that we would pre-
21 fer to have our drilling operations either prior to winter
22 setting in or drilled during the winter only if we have a
23 very cold winter. So we would like to have the option to,
24 in the event road and weather conditions would not allow us
25 to drill before winter sets in, or in the event we don't

1 have a hard enough winter to give us a good freeze, we
2 would like the period with which this forced pooling is ap-
3 plicable, to be extended to beyond the normal ninety days,
4 to June 1st of 1988.

5 Q And, Mr. Roe, is it your intent by this
6 application to force pool all parties who have not manifes-
7 ted an intent to voluntarily join in the well by the execu-
8 tion of both an Authorization for Expenditure and an operat-
9 ing agreement?

10 A Yes.

11 Q Mr. Roe, would you please take a look now
12 at Exhibit Number Six and identify that for the Commission?

13 A Okay, Exhibit Number Six is a reproduc-
14 tion of some information contained in a survey by a firm by
15 the name of Ernst and Whinney. The purpose of this survey
16 is to provide industry, the oil and gas industry, with num-
17 bers that are representative throughout the industry for
18 reasonable or actual overhead costs for drilling and
19 operating a well of varying depths.

20 Q And what does that survey information
21 show with respect to reasonable costs for a well of this
22 depth in this area?

23 A Based upon survey results for the year
24 1986, which is the most current data that we have available,
25 the average overhead rate while the well is in the drilling

1 phase, would be \$4138 a month and the monthly charge during
2 the producing phase would be \$446 a month.

3 Q And is Dugan Production requesting that
4 the Division order an administrative fee be established for
5 drilling and for producing in the forced pooling order?

6 A Yes. Dugan Production has requested that
7 the overhead rate during the drilling phase be set at \$4000
8 per month and the overhead rate during the producing phase
9 of the well be set at \$400 per month.

10 Q And in your opinion is this amount
11 reasonable?

12 A Yes, it is reasonable and possibly a lit-
13 tle conservative based on the actual survey numbers.

14 Q Mr. Roe, are you familiar with Exhibits
15 One through Six? Have they been prepared by you or under
16 your supervision and do you have reason to be confident and
17 know of their accuracy?

18 A Yes, the Exhibits One through Six were
19 prepared either by myself, Mr. Corcoran, or under our super-
20 vision.

21 MR. STOVALL: Move the admis-
22 sion of Exhibits One through Six.

23 MR. STOGNER: Exhibits One
24 through Six will be admitted into evidence at this time.

25 Q Mr. Roe, one -- one final question, Mr.

1 Roe. Do you believe the granting of this application would
2 be in the interest of conservation, the prevention of waste,
3 and the protection of correlative rights?

4 A Yes, I do.

5 MR. STOVALL: Nothing further
6 of Mr. Roe.

7 MR. STOGNER: Thank you. Thank
8 you, Mr. Stovall.

9 Mr. Pearce, your witness.

10 MR. PEARCE: No questions of
11 this witness, Mr. Examiner.

12 MR. STOGNER: I have no further
13 questions of this witness at this time, either.

14 Are there any other questions
15 of Mr. Roe?

16 He may be excused.

17 Are there any closing state-
18 ments at this time?

19 MR. STOVALL: Mr. Examiner, for
20 the sake of expediency, I would like to adopt my closing
21 statement made in Case 9251 with the exception of my request
22 for an expedited order. In view of the notice problems that
23 we have in this, I'm not going to ask for an expedited or-
24 der.

25 We do request all other matters

1 as set forth in that closing statement and I ask that it be
2 adopted in this case.

3 MR. STOGNER: Okay, let the re-
4 cord show that the closing statement of Mr. Stovall in Case
5 9251 will be incorporated in Case 9252.

6 Mr. Pearce?

7 MR. PEARCE: Mr. Examiner, it
8 is clear from this record there are some title interests in
9 this property under consideration, at least in Case 9252,
10 which were missed in the title search. Those interest own-
11 ers have not received the required notice of this hearing nor
12 have they been approached with requests to voluntarily par-
13 ticipate in this well; however, my client in this matter,
14 Amoco Production Company, as recently been contacted, as
15 this record shows. We have been assured that we will be
16 provided with an AFE and a proposed operating agreement
17 covering the well to be drilled on this acreage.

18 Amoco hopes that acceptable
19 terms can be agreed to by the parties so that it can volun-
20 tarily join in a well on this property.

21 Amoco is not at this time pre-
22 pared to fully participate in this hearing but recognizes
23 that the operator has a desire to proceed expeditiously.
24 While we, I think, disagree with Mr. Stovall's position that
25 our appearance at this hearing waives any right we might

1 have to object to the conduct of this hearing because of
2 failure to give us notice, and failure to allow us an oppor-
3 tunity to voluntarily participate, our objections with re-
4 gard to those matters, I believe, will be satisfactorily re-
5 solved one way or another before the continued hearing of
6 this case.

7 On that basis, we anticipate
8 either participating in that continued hearing or having our
9 problems with regard to this acreage resolved prior to that
10 time.

11 MR. STOGNER: Thank you, Mr.
12 Pearce.

13 MR. STOVALL: Mr. Examiner, if
14 I may offer, Mr. Greg Phillips has not entered an appear-
15 ance, or Mesa Grande has not entered an appearance but Mr.
16 Greg Phillips is here and has indicated to me that he would
17 like to make a statement on behalf of Mesa Grande. I don't
18 know if he still wishes to do so.

19 MR. STOGNER: Mr. Pearce, do
20 you have any objections?

21 MR. PEARCE: None, Mr. Exam-
22 iner.

23 MR. STOGNER: Mr. Phillips, do
24 you wish to have a statement at this time.

25 MR. PHILLIPS: I, given the

1 continuance of the case, don't feel like a statement is
2 necessary.

3 MR. STOGNER: Okay, thank you.

4 Anything further in this case
5 today?

6 This case will be continued to
7 the Examiner Hearing scheduled for December 2nd, 1987, to be
8 held here in this room, at which time that should give ade-
9 quate timeframe for all parties concerned to try and reach
10 voluntary agreement and for adequate notice to be given to
11 those parties who have not received the same.

12
13 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing was
reported by me; that the said transcript is a full, true,
and correct record of the hearing, prepared by me to the
best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9252,
heard by me on 4 November 19 87.

Michael J. [Signature], Examiner
Oil Conservation Division