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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

APPLICATION OF MEWBOURNE OIL  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 15507

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 21, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
WILLIAM V. JONES, TECHNICAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Chief Examiner, and William V. Jones, Technical  
Examiner, on Thursday, July 21, 2016, at the New Mexico  
Energy, Minerals and Natural Resources Department,  
Wendell Chino Building, 1220 South St. Francis Drive,  
Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.  
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1 (8:52 a.m.)

2 EXAMINER McMILLAN: Okay. At this time I'd  
3 like to call Case Number 15507, application of Mewbourne  
4 Oil Company for compulsory pooling, Eddy County, New  
5 Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe representing the Applicant. I have two  
9 witnesses.

10 EXAMINER McMILLAN: Okay. Will the  
11 witnesses please stand up and be sworn in at this time?  
12 Thank you.

13 (Clayton Pearson and Nate Cless sworn.)

14 EXAMINER McMILLAN: Excuse me. Are you  
15 going to combine any of the cases?

16 MR. BRUCE: What I'm going to do, I think,  
17 is put the land on in each case, but there are two sets  
18 of two cases -- I think there are two sets that have  
19 identical geology, so I'm going to be really brief on  
20 the geology other than just mentioning the exhibits.

21 EXAMINER McMILLAN: Okay. Please proceed.

22 CLAYTON PEARSON,  
23 after having been previously sworn under oath, was  
24 questioned and testified as follows:

25

DIRECT EXAMINATION

1  
2 BY MR. BRUCE:

3 Q. Would you please state your name for the  
4 record?

5 A. My name is Clayton Pearson.

6 Q. And who do you work for?

7 A. Mewbourne Oil Company.

8 Q. What is your job with Mewbourne?

9 A. I'm a petroleum landman.

10 Q. Have you previously testified before the  
11 Division?

12 A. I have.

13 Q. And were your credentials as an expert  
14 petroleum landman accepted as a matter of record?

15 A. They were.

16 Q. And are you familiar with the land matters  
17 involved in this case?

18 A. Yes, sir.

19 MR. BRUCE: Mr. Examiner, I tender  
20 Mr. Pearson as an expert petroleum landman.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MR. BRUCE) Mr. Pearson, could you identify  
23 Exhibit 1 for the Examiner? Discuss the well unit,  
24 identify the name of the well and what formation is  
25 being pooled.

1           A.    Exhibit Number 1 is a land plat showing the  
2 project area for the subject well.  It also -- that's  
3 outlined in the yellow box.  It also shows the wellbore  
4 of the subject well.  The proration unit is comprised of  
5 the west half of Section 3, Township 24 South, Range 28  
6 East, Eddy County, New Mexico.

7           Q.    And, again, what is the well name?

8           A.    It is the Yardbirds 3 W2DM Fee Number 1H.

9           Q.    And is this a Wolfcamp well?

10          A.    It is a Wolfcamp well.

11                   MR. BRUCE:  For your information,  
12 Mr. Examiner, there are lots in this well unit, so it  
13 actually contains 319.21 acres.

14                   EXAMINER McMILLAN:  Point what?

15                   MR. BRUCE:  319.21 acres.

16          Q.    (BY MR. BRUCE) And this is in a Wolfcamp gas  
17 pool; is it not?

18          A.    It is.

19          Q.    So the spacing is 320-foot?

20          A.    Correct.

21          Q.    What is Exhibit 2?

22                   Oh, one other thing.  What type of land is  
23 involved in this?

24          A.    This is all fee land.

25          Q.    It's pretty mixed up fee land?

1           A.    Yes.  There are numerous small tracts and lots  
2 associated with the acreage.

3           Q.    And undivided interests?

4           A.    Yes.

5           Q.    What is Exhibit 2?

6           A.    Exhibit 2 is a tract ownership that discusses  
7 the ownership of the proration unit, and it also lists  
8 out the party -- the parties that are to be pooled,  
9 which as you can see are J.M. Turney and husband, Steve  
10 Turney, a 0.11699 percent interest in the well.

11          Q.    And what is Exhibit 3, which is a summary plus  
12 some correspondence?

13          A.    Exhibit 3 is a brief summary of the  
14 communications we've had with the parties to be pooled.  
15 It just shows that -- our mailings, as well as the proof  
16 of delivery.

17          Q.    And so these people did receive your well  
18 proposal?

19          A.    They have.

20          Q.    Have you had any -- has there been any contact  
21 with them?

22          A.    We haven't heard any response from them.

23          Q.    In your opinion, has Mewbourne made a  
24 good-faith effort to obtain the voluntary joinder of the  
25 parties?

1 A. We have.

2 Q. What is Exhibit 4?

3 A. Exhibit 4 is a copy of the AFE associated with  
4 the well that was sent along with the well proposal to  
5 all of the parties.

6 Q. And what is the -- has this well been drilled?

7 A. This well has been drilled.

8 Q. And what is the cost of the well?

9 A. It was right at \$7.3 million.

10 Q. And is this cost at that -- at that time, was  
11 that well cost fair and reasonable and in line with the  
12 costs of other wells -- Wolfcamp wells that were drilled  
13 in this area of New Mexico?

14 A. It was.

15 Q. And what overhead rates do you request?

16 A. 7,500 per drilling month and 750.

17 Q. And are those rates fair and in line with the  
18 rates of other operators of wells -- of Wolfcamp wells  
19 in this area?

20 A. Yes.

21 Q. And what is Exhibit 5?

22 A. Exhibit 5 shows the offset ownership around  
23 this proration unit, and we provided notice of this  
24 application to all of these parties involved.

25 MR. BRUCE: Mr. Examiner, through error,

1 the heading of the case just says "for compulsory  
2 pooling." The application actually did mention an  
3 unorthodox location, and we did notify the offsets of  
4 the unorthodox location.

5 EXAMINER McMILLAN: Okay.

6 MR. BRUCE: Mr. Examiner, Exhibit 6 is my  
7 notice letter to the offsets, and they both did receive  
8 actual notice.

9 And Exhibit 7, Mr. Examiner, is my  
10 Affidavit of Notice to Mr. and Mrs. Turney. I have not  
11 received a green card back yet, although, as Mr. Pearson  
12 testified, that was a valid address, at least at one  
13 point.

14 As a result, at the end of this hearing,  
15 just to be safe, I would ask that the matter be  
16 continued for two weeks so I can get the green card  
17 back.

18 Q. (BY MR. BRUCE) Do you request a cost plus 200  
19 percent penalty in the event the Turneys would not  
20 consent in this well?

21 A. We do.

22 Q. And in your opinion, is the granting of this  
23 application in the interest of conservation and the  
24 prevention of waste?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I tender Exhibits  
2 1 through 7 for admission into the record.

3 EXAMINER McMILLAN: Exhibits 1 through 7  
4 may now be accepted as part of the record.

5 (Mewbourne Oil Co. Exhibit Numbers 1  
6 through 7 are offered and admitted into  
7 evidence.)

8 MR. BRUCE: And I have no further questions  
9 of the witness.

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. This well has been drilled. Has it been  
13 completed?

14 A. Yes. It has been completed.

15 Q. My question is: For the interest here,  
16 compulsory pooling --

17 A. Yes.

18 Q. -- did you have a title problem with them or  
19 something?

20 A. Title is very chopped up in this area. It was  
21 just basically an oversight on the land side. We did  
22 propose it, but it was just one of the parties that  
23 wasn't -- it was overlooked, and we did give them the  
24 opportunity to participate and allow them to join in the  
25 well now. But it's just due to the title complexity and

1 the volume of owners. There are quite numerous owners  
2 involved here.

3 Q. Okay. So any unlocatable interests?

4 A. No.

5 Q. Are there any depth severances?

6 A. There are not in this tract, no.

7 EXAMINER McMILLAN: Go ahead.

8 CROSS-EXAMINATION

9 BY EXAMINER JONES:

10 Q. I guess I should ask quickly, on your Exhibit  
11 3, I think it is, that you proposed -- you went over the  
12 interests, and you talk about a 640-acre working  
13 interest unit. Would that be proportional to --  
14 basically, that was a proposal to join in that whole  
15 section; is that correct?

16 A. That's correct. We're forming a one-interest  
17 working interest unit, so anybody who elected to do so  
18 would be allowed to join in one section unit. And if  
19 not, we didn't hear anything, it goes on a well-by-well  
20 basis, their ownership.

21 Q. Okay. And I don't have any other questions.

22 EXAMINER McMILLAN: I have no further  
23 questions.

24 Thank you.

25

1 NATE CLESS,  
2 after having been previously sworn under oath, was  
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name and city of  
7 residence?

8 A. I'm Nate Cless, and I live in Midland, Texas.

9 Q. Who do you work for and in what capacity?

10 A. I'm a geologist for Mewbourne Oil Company.

11 Q. Have you previously testified before the  
12 Division?

13 A. Yes.

14 Q. Were your credentials as an expert petroleum  
15 geologist accepted as a matter of record?

16 A. Yes, they were.

17 Q. And are you familiar with the geology involved  
18 in this application?

19 A. Yes, I am.

20 MR. BRUCE: Mr. Examiner, I tender  
21 Mr. Cless as an expert petroleum geologist.

22 EXAMINER McMILLAN: So qualified.

23 Q. (BY MR. BRUCE) Mr. Cless, could you identify  
24 Exhibit 8 for the Examiner?

25 A. Yeah. Exhibit 8 is a structure map and

1 activity map across this area. It's centered around  
2 Section 3, and the proposed well that we're talking  
3 about is the well that's outlined in red, the Yardbirds  
4 3 W2DM Fee Number 1H. It's the west half-west half, the  
5 horizontal Wolfcamp -- Wolfcamp well.

6 Q. West half?

7 A. The west half. I apologize.

8 On this map, we've identified other  
9 Wolfcamp producers in this area that are two vertical  
10 Wolfcamp producers, which are outlined with blue  
11 circles. One is just to the north of Section 34, and  
12 another one is just to the south of Section 9. There is  
13 also one other Wolfcamp horizontal that was drilled in  
14 this area. That's located in the west half of Section  
15 35. That's also -- that's also one of Mewbourne's  
16 wells.

17 Q. We've mentioned the unorthodox location.  
18 Looking at this exhibit, what are the -- what are the  
19 first take points on this one?

20 A. Our first -- our first perforation is at 545  
21 from the north and 1,000 from the west.

22 EXAMINER McMILLAN: 545 --

23 THE WITNESS: 545 from the north, 1,000  
24 from the west.

25 Q. (BY MR. BRUCE) And what is the footages at the

1 end?

2 A. Our bottom hole is 330 from the south, 530 from  
3 the west.

4 EXAMINER McMILLAN: Is that also your final  
5 perforation?

6 THE WITNESS: Yes.

7 EXAMINER JONES: 5 what from the west?

8 THE WITNESS: 530.

9 EXAMINER JONES: Thank you.

10 Q. (BY MR. BRUCE) And what is Exhibit 9?

11 A. Exhibit 9 is a three-well cross section  
12 covering the Wolfcamp Formation in this area. It's the  
13 three closest offsets of the well that we have for  
14 this proposed -- close to our lateral.

15 At the very top of the cross section is the  
16 Wolfcamp Formation, which is outlined with that blue  
17 line. And then down to the bottom on the cross  
18 section -- internally, we've divided the Wolfcamp into  
19 Wolfcamp A, B, C and D, at least the Wolfcamp shales  
20 into four different intervals. And in this area, we're  
21 targeting the Wolfcamp D Formation, and you can see  
22 those -- there are red arrows on the bottom of this  
23 which indicate the location of our landing point through  
24 here.

25 But you can see just in general the

1 Wolfcamp Formation is very -- the thickness of it is  
2 very consistent. The porosity is very consistent  
3 throughout the logs. And we just expect that across  
4 this entire west half it to be fairly uniform and  
5 consistent.

6 Q. And you would expect the entire length of the  
7 lateral to be productive from the Wolfcamp B zone?

8 A. That's correct.

9 Q. And I notice in Mewbourne's designation of  
10 these exhibits, it has W2. So 2 is the same as B?

11 A. Well, yeah. We kind of say Wolfcamp -- that's  
12 just another internal designation. W1 is going to be  
13 what we call the Wolfcamp A and B, and W2 is going to be  
14 Wolfcamp C and D. Those are internal designations for  
15 us.

16 EXAMINER McMILLAN: Do you have any  
17 questions?

18 EXAMINER JONES: You're going to go fast on  
19 geology.

20 MR. BRUCE: Well, this one is separate from  
21 the other --

22 EXAMINER JONES: Oh.

23 MR. BRUCE: -- but I do have a couple more  
24 exhibits, Mr. Examiner.

25 EXAMINER JONES: Okay.

## CROSS-EXAMINATION

1

2 BY EXAMINER JONES:

3 Q. So stress direction, east-west?

4 A. In this area we've seen -- it's more  
5 northeast-southwest. We've seen both north-south and  
6 east-west with similar results in this area.

7 Q. Okay.

8 A. And so we will drill either direction a lot of  
9 time. It depends on the land and where we can get  
10 surface locations.

11 So for the most part, we've drilled the  
12 majority of our wells north-south, but we are also in  
13 the process of drilling east-west in here. We believe  
14 both directions work.

15 Q. Okay. Do you notice any issues on your frac  
16 because it kind of turns to match the frac, the stress  
17 direction, you know, when it leaves the wellbore. So --

18 A. Yeah. We haven't -- we haven't done any  
19 microseismic in this area, but we also haven't had any  
20 problems with any of our frac treatments. We've been  
21 able to pump down the amount of fluid and the amount of  
22 volume that we've intended to pump, you know, so -- and  
23 we've been pretty successful so far. And we've honed in  
24 on the right size of the volume and fracs in this area.

25 Q. Oh, okay. Empirical type --

1           A.    Yeah.  We study just a lot -- a lot of our  
2   data.  We study a lot of other people's data and just  
3   how are the wells performing, how big a frac are they  
4   using and what kind of fluids and volumes of sand are  
5   they using.  So I --

6           Q.    Okay.  I guess there's not a data-sharing  
7   effort for technical people around this --

8           A.    Every now and then -- we're working interest  
9   partners with a lot other companies, and so we'll share  
10  with people.  But a lot of the stuff we do is just  
11  public data.  A lot that information is out there  
12  available to the public, and so that's probably our main  
13  source, is just looking at public data and going from  
14  there.

15          Q.    Do you get into the issues of where to set your  
16  stages, or do you leave that all to the completion  
17  people?  I mean, do you have any information that would  
18  help them decide whether to fine-tune where to perf and  
19  frac?

20          A.    Initially going in -- I mean, initially going  
21  in, we were trying to identify certain points that we  
22  thought were better, but now we've kind of gotten to the  
23  point where, because these fracs have all gone off  
24  pretty well, we equally space our stages and our perf  
25  clusters and things like that.

1 Q. The reserves engineers are happy? I mean, are  
2 you matching what they predicted?

3 A. Yes, I think so. Like I said, this is one of  
4 our core areas, and we've got a lot of activity going on  
5 here. So I think we're all pretty happy with the  
6 results in this area.

7 Q. Okay.

8 A. Yeah.

9 Q. Thanks.

10 CONTINUED DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Cless, just to, you know, show the  
13 difference between vertical and horizontal wells, what  
14 does Exhibit 10 reflect?

15 A. Yeah. Exhibit 10 is just a production table of  
16 the Wolfcamp producers in this immediate area. And as I  
17 previous stated, there are two vertical Wolfcamp wells  
18 and then the one horizontal Wolfcamp well. And the  
19 horizontal Wolfcamp well is the Layla 35 MD Fee Number  
20 2H, which was drilled by Mewbourne. And you can just  
21 see -- you know, the two vertical wells were drilled in  
22 the mid-'80s and mid-'90s, and our first Wolfcamp  
23 horizontal in this area was drilled in 2014, in March of  
24 2014. You can see the results to date are much better  
25 with the Wolfcamp or -- or with the horizontals versus

1 the verticals through here.

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. What depth for the vertical did you perforate?

5 A. Well, those were not our wells, but a lot of  
6 them -- they would perforate with carbonate stringers,  
7 so it was varied throughout here, for the most part,  
8 when are people drilling. If they were to complete a  
9 Wolfcamp zone, it would be just carbonate or something  
10 like that.

11 Q. Okay. And so your recovery is both carbonate  
12 and shaley?

13 A. We believe -- I mean, for the most part, we're  
14 getting -- we're getting a lot of oil and gas out of the  
15 shale, and we may frac and do some carbonates to have  
16 some. But we're pretty much targeting the shales.

17 Q. Okay. I probably wouldn't understand what you  
18 said, but you say that -- you call these shales. As a  
19 geologist talking to another geologist, what would you  
20 call these? Are they really --

21 A. I mean, they're -- they're -- if you look at  
22 where we're -- where we're -- where we are in the Basin,  
23 you're kind of in a deeper water, so it's probably  
24 really more of an organic siltstone. It's highly  
25 organic siltstone.

1 Q. So it's rich in -- it's kind of a source-type  
2 stone?

3 A. Yes. That's exactly right.

4 MR. BRUCE: I didn't know engineers were  
5 ever happy, Mr. Examiner.

6 EXAMINER JONES: We're not (laughter). As  
7 long as it makes oil (laughter).

8 CROSS-EXAMINATION

9 BY EXAMINER McMILLAN:

10 Q. What's the oil gravity?

11 A. 58. And the GOR is 8,000 in this area.

12 Q. And what's the characteristics? Is it --

13 A. I'm not 100 percent sure on that.

14 EXAMINER JONES: So 58 is pretty high.

15 THE WITNESS: Yeah.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. So where is this located? Is it in the middle  
19 of a basin?

20 A. I mean, it's 2,328, so you're kind of -- you're  
21 kind of starting to get -- you're probably 20 miles away  
22 from the shelf, coming down into the basin. Obviously,  
23 you're not in the deepest part of the basin, but you're  
24 definitely in the basin setting now.

25 Q. It's sure a long ways --

1 MR. BRUCE: It's in the suburbs of --

2 EXAMINER JONES: Yeah. Okay (laughter).

3 EXAMINER McMILLAN: Needs to block off Main  
4 Street?

5 EXAMINER JONES: North of Loving, then.

6 EXAMINER McMILLAN: I do have -- the  
7 question I have here is -- you questioned the NSL, but I  
8 saw an NSL. An NSL for this was not recently approved,  
9 was it?

10 MR. BRUCE: Mr. Examiner, we did have a  
11 hearing on this previously, and the order was R-14001.  
12 At that time we thought -- well, we requested an  
13 unorthodox well location, but we originally thought only  
14 the terminus of the well, the last take point, would be  
15 unorthodox. Turns out that the first take point is also  
16 somewhat unorthodox. So that's -- besides getting one  
17 more party pooled in, we filed again.

18 EXAMINER JONES: Same API number?

19 MR. BRUCE: Yes.

20 EXAMINER McMILLAN: So this is going to be  
21 R-14001-A?

22 MR. BRUCE: Correct.

23 EXAMINER McMILLAN: Okay.

24 EXAMINER JONES: Do we know an API number  
25 or --

1 EXAMINER McMILLAN: 42936.

2 THE WITNESS: I have it.

3 CONTINUED DIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. One final exhibit, Mr. Cless. This is simply  
6 the original horizontal planning report?

7 A. That's correct. This is just a horizontal well  
8 plan. It shows the schematics of our original wellbore.

9 Q. So if you turn to page 2, just one item, this  
10 shows the original landing point as 753 feet from the  
11 north line, but here the first perforation is not the  
12 landing point?

13 A. That's correct. We've started -- because these  
14 shales are so thick, we actually started perforating  
15 part of the curve also. So that's why our first  
16 perforation is a little farther -- is a little closer to  
17 the -- to the north line.

18 CROSS-EXAMINATION

19 BY EXAMINER JONES:

20 Q. Is it because the shales are thick or because  
21 your planned perforating ended up moving up -- moving up  
22 the curve?

23 A. It wasn't done intentionally. It's just -- if  
24 you look at these shales, I mean, we're still at 60  
25 degrees. You're still in good -- good-looking shale.

1 So it's trying to maximize production and prevent waste.

2 Q. So if you put a tracer or something in there,  
3 you know where the production is coming from in your  
4 wellbore, well, you could see if this is better up the  
5 hole.

6 A. Uh-huh. Yeah. And we've done -- I mean,  
7 internally, we looked at different -- different landing  
8 points within that -- within that Wolfcamp D Formation.  
9 So we're always trying to learn more where the optimal  
10 zones are in these areas. So --

11 CONTINUED DIRECT EXAMINATION

12 BY MR. BRUCE:

13 Q. Mr. Cless, were Exhibits -- I notice a couple  
14 of the exhibits had the name of Jason Lodge, at  
15 Mewbourne. Do you work with Mr. Lodge as a team on a  
16 lot of these projects?

17 A. Yes, we do.

18 Q. And were Exhibits 8, 9, 10 and 11 either  
19 prepared by you or under your supervision or in  
20 consultation with Mr. Lodge?

21 A. Yes.

22 Q. And in your opinion, is the granting of this  
23 application in the interest of conservation and the  
24 prevention of waste?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I move the  
2 admission of Exhibits 8 through 11.

3 EXAMINER McMILLAN: Exhibits 8 through 11  
4 may now be accepted as part of the record.

5 (Mewbourne Oil Co. Exhibit Numbers 8  
6 through 11 are offered and admitted into  
7 evidence.)

8 EXAMINER McMILLAN: This case shall be  
9 continued to August the 4th.

10 EXAMINER JONES: We're off the record.  
11 (Case Number 15507 concludes, 9:16 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_

\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

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MARY C. HANKINS, CCR, RPR  
Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2016  
Paul Baca Professional Court Reporters

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