

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
1 December 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Conoco, Inc. for com-
pulsory pooling and a nonstandard oil
proration unit, Eddy County, New
Mexico. CASE
7729

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin, Esq.
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2 MR. STOGNER: We'll call next Case
3 Number 7729.

4 MR. PEARCE: That is on the application
5 of Conoco, Inc. for compulsory pooling and a nonstandard oil
6 proration unit, Eddy County, New Mexico.

7 MR. KELLAHIN: If the Examiner please,
8 I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf
9 of Conoco, Inc., the applicant, and I have two witnesses to
10 be sworn.

11
12 (Witnesses sworn.)

13
14 MR. KELLAHIN: Mr. Examiner, the appli-
15 cation requests the compulsory pooling of 162.57 acres, and
16 I believe the original application includes -- included a
17 request for approval of a nonstandard proration unit.

18 It's my understanding that the 2.57 acres
19 excess is within the limits acceptable under Division rules,
20 and if that understanding is correct, then we would ask to
21 delete that from the application.

22 MR. STOGNER: Let the record show that
23 the nonstandard oil proration unit part of this case will be
24 dismissed.

25 MR. KELLAHIN: Mr. Examiner, as our

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first witness we call Mr. Hugh A. Ingram.

HUGH A. INGRAM

being called as a witness and being duly sworn upon his oath,
testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Ingram, let me ask you to state your name
and occupation for the record.

A My name is Hugh A. Ingram. I'm Conservation
Coordinator for Conoco, Inc.

Q Mr. Ingram, have you previously testified
before the Oil Conservation Division?

A Yes, I have.

Q Your testimony today is directed with regard
to the working interest owners that you've attempted to con-
tact in order to form a voluntary unit for this proration
unit?

A That's correct.

Q And pursuant to that effort, Mr. Ingram, have
you prepared certain exhibits?

A Yes, I have.

Q Are you generally familiar with the land title

1
2 ownership for this proration unit and who the working interest
3 owners are?

4 A. Yes, I am.

5 MR. KELLAHIN: Mr. Examiner, we tender
6 Mr. Ingram as a qualified petroleum landman.

7 MR. STOGNER: Mr. Ingram is so quali-
8 fied.

9 Q. Mr. Ingram, let me direct your attention,
10 first of all, to what we've marked as Exhibit Number One, and
11 have you identify that exhibit for us.

12 A. Exhibit Number One is a well location and
13 acreage dedication plat showing the location of the proposed
14 Dagger Draw Well No. 4, to be located 660 feet from the west
15 line, 1980 feet from the south line of Section 19, Township
16 19 South, Range 25 East, Eddy County, New Mexico.

17 Q. What is the spacing for the North Dagger
18 Draw-Upper Penn Pool, Mr. Ingram?

19 A. The spacing for North Dagger-Upper Penn is
20 160 acres.

21 Q. Pursuant to Division rules, is the proposed
22 location a standard location?

23 A. Yes, it is.

24 Q. Let me direct your attention now to what
25 we've marked as Exhibit Number Two, and have you identify

1
2 that exhibit for us.

3 A Exhibit Number Two is an area plat showing
4 several sections in the North Dagger Draw-Upper Penn Pool.
5 I might point out that it does extend somewhat to the east
6 in the uppermost section and somewhat to the south off the
7 map, but this map shows basically most of the North Dagger
8 Draw-Upper Penn Pool.

9 In the Section 19, the Well No. 4 is located
10 there as outlined in red. The boundaries of the pool that
11 I've just mentioned were outlined in blue. So you can see
12 that basically the well is located pretty much in the center
13 of the North Dagger Draw-Penn Pool.

14 Q Directing your attention to Section 19, there
15 appears to be a well in the northwest quarter of the same
16 section. What kind of well is that, Mr. Ingram?

17 A That is a fairly recently drilled well, the
18 Lodewick "A" No. 1. That is what I would term a good well;
19 it's producing currently, I don't know the exact number, but
20 in excess of 100 barrels of oil a day.

21 Q Is that operated by Conoco?

22 A It is. It was drilled by Amoco on their
23 tract and after the well was completed Conoco took over the
24 operation and we currently operate the well.

25 Q All right, sir, I see a notation at the bot-

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tom of the map indicating the type of wells that have been indicated on the exhibit. Would you simply identify those symbols for us?

A. The symbol "M" designates Morrow completion and the symbol "C" designated Cisco completions. The well that we're talking about, the subject well of this application, will be a Cisco completion.

Q. All right, sir, with regards to your efforts to form a voluntary unit for this proration unit, spacing unit, Mr. Ingram, let me direct your attention to Exhibit Number Three and ask you to identify what that exhibit is.

A. Exhibit Number Three is a copy of the certified mail receipts that we -- were returned to us as a result of our having sent a pooling agreement to each of the then known working interest owners.

I might point out that since -- in fact, just last week -- we learned that one interest, that of S. P. Cone, has been divided. No, I'm sorry, it's the interest of Harvey E. Yates that has been divided into about five different interests, and since I found that and since this exhibit was made, I did make copies of the pooling agreement and yesterday I delivered them to the other working interest owners, whose -- I think a son of S. P. Yates -- and delivered those to them and they are considering the pooling agreement

1
2 at this time. So there has been that recent change but a
3 copy of the pooling agreement has been delivered to them.

4 Q Mr. Ingram, what is Conoco's proposed time-
5 table for the commencement of the subject well?

6 A There is an interest in one of the leases
7 in this 160-acre tract that will expire, I believe, on Decem-
8 ber 19th, and we've been working on trying to get this project
9 started now for a couple of months and get everyone, all of
10 the working interest owners to approve our AFE and our pooling
11 agreement, and we're still in the process of negotiating with
12 some of the working interest owners, but --

13 Q All right, sir, let's go then to Exhibit
14 Number Four and have you describe for us where we stand with
15 relation to the different owners in the proration unit.

16 A Exhibit Number Four shows, to the best of
17 my knowledge, the -- all of the working interest owners in
18 that quarter section. The new interest owners have been added
19 to this exhibit, those being Fred G. Yates, Spiral, Inc.,
20 Explorers Petroleum Corporation, and I believe that's all
21 of them.

22 Q Those appear on the second page?

23 A Yes.

24 Q All right.

25 A Those are the additional interests that we

1
2 just learned about last week. As a matter of fact, those
3 have not been recorded on county records. We learned about
4 those strictly from Harvey Yates.

5 Q All right, let me direct your attention to
6 the Amoco Production Company interest in the proration unit,
7 and ask you describe for the Examiner where you stand on those
8 negotiations.

9 A Okay, our land people in Midland have been
10 negotiating with Amoco exploration or land people in Houston,
11 and Amoco, it is our opinion at this particular time that
12 Amoco will either join in the drilling of this well or farm
13 their interest out to us. That's what we've been told by
14 their representative.

15 Q At this point we don't have a written con-
16 tractual arrangment with Amoco.

17 A Not at this point in time.

18 Q All right. The next interest, the Estate
19 of Lacey Armor has approved the pooling, and if you'll continue
20 on down the next interest?

21 A Okay, Kathy Cone Auvenshine has not re-
22 sponded. She has a very small interest and we haven't re-
23 ceived "no", a disapproval. There are some of them that have
24 just not responded and she's one of those.

25 Q All right, sir, and if we go down in the next --

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2 A. Kenneth Cone has not responded. Depco,
3 we're negotiating with them at this time to buy their interest.
4 They are not opposed to the drilling of the well. It's just
5 a rather remote area for them and they think that they might
6 be more interested in selling of their interest than they
7 would be in participating in the well, so we're negotiating
8 with them for a price at this particular time.

9 Husky Oil Company, in our phone conversation
10 with them they, apparently, in the process of mailing, or
11 something, did not receive the original mail-out of the
12 pooling agreement. Husky is interested in participating in
13 the well. It's just a matter that they have not returned
14 the pooling agreement to us as of yet. Another copy was
15 mailed to them just last week and we expect them to join.

16 S. P. Yates has not responded to our pooling
17 agreement. We've been talking with S. P. Yates about some
18 properties that he has an interest in in another area and I
19 don't know, I really think that they will probably join
20 later but at this particular time they have not joined.

21 Q Have you notified all of the potential
22 working interest owners in this proration unit of the pending
23 application of the hearing here today?

24 A Yes, we have. I know that the Commission
25 notified all of them, too, and this case has been continued

1
2 twice and I did send them a copy, send them a letter, noti-
3 fying them of each continuance of this case and they have
4 been notified that it has been continued to this date.

5 Q All right, sir. Let me direct your atten-
6 tion now to Exhibit Number Five, Mr. Ingram, and have you
7 identify that for us.

8 A Exhibit Number Five, the first page is a
9 copy of an AFE, showing the estimated costs that we think it
10 will take to drill this well: The total cost being \$765,000.

11 Q How does that cost compare to other wells
12 drilled in the Dagger Draw Field?

13 A Well, the most recent well drilled there was
14 the Lodewick "A" No. 1, which I referred to on Exhibit Number
15 Two. It's just north of the Dagger Draw No. 4, and the cost
16 to drill that well, by Amoco, was -- I've forgotten the exact
17 number. It's something over \$800,000, so we feel like, you
18 know, we're in the ballpark.

19 Q All right, sir. With regards to the oper-
20 ating agreement that you are circulating among the working
21 interest owners, Mr. Ingram, upon what type of form have you
22 prepared that operating agreement?

23 A We have submitted a COPAS 1977 Combined
24 Fixed Rate Form to the other operators.

25 Q All right, sir, with regards to the over-

1
2 head charges you have set forth in your operating agreement
3 for a producing well rate and a drilling well rate, what are
4 those numbers?

5 A \$420, as I recall, is the rate for a pro-
6 ducing well, and \$4,200 for a drilling.

7 Q All right, sir, and what rates would you re-
8 commend be included by the Division as overhead charges in
9 a compulsory pooling order?

10 A I would recommend those rates just stated.

11 Q All right, sir, and what were those rates
12 again for a producing well?

13 A \$420 for a producing well.

14 Q And that's a month?

15 A Yes, per month.

16 Q And for a drilling well it's what?

17 A Ten times that or \$4,200.

18 Q All right, sir.

19 A That's standard among the industry.

20 Q All right, Mr. Ingram, were Exhibits One
21 through Five prepared by you or compiled under your direction
22 and supervision?

23 A Yes, they were.

24 MR. KELLAHIN: That concludes my examination
25 of Mr. Ingram.

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2 We move the introduction of Exhibits One
3 through Five.

4 MR. STOGNER: Exhibits One through Five will
5 be admitted in evidence.

6
7 CROSS EXAMINATION

8 BY MR. STOGNER:

9 Q Mr. Ingram, on Exhibits Three and Four, con-
10 cerning Kathy Cone Auvenshine's interest --

11 A Yes.

12 Q -- you have an address of Route 6, Box 79-N
13 listed in the listing and your mail return receipt shows
14 9210 Honeycomb Drive.

15 A Uh-huh. I would assume, Mr. Examiner, that
16 both of those addresses are correct; one being the delivery
17 address; the other being a box number. At any rate, we do
18 have, as you can see on Exhibit Three, Kathy Auvenshine did
19 sign the certified mail receipt and so she did receive the
20 pooling agreement.

21 Q You mentioned also that Harvey E. Yates'
22 interest was split up in five --

23 A It has been divided. I can give you that,
24 if you'd like to have that. We've just received it in a
25 letter from Harvey Yates last week and

1
2 Q Please.

3 A Those interests were given to us by letter
4 dated November 18th from Harvey E. Yates Company as being
5 the following: Harvey E. Yates Company, 9.89176 percent;
6 Yates Energy Corporation, 4.84213 percent; Spiral, Inc. --

7 Q Excuse me, would you spell that, please?

8 A S-P-I-R-A-L.

9 Q Thank you.

10 A 1.42586 percent; Explorers Petroleum Corpor-
11 ation, 4.1258 -- I'm sorry, that was a misprint and I called
12 them yesterday because that didn't add up. That should be
13 1.42586 percent; Fred G. Yates, Inc. 1.42586 percent. That
14 totals -- that's the same as the 19.01147 percent shown on
15 Exhibit Four -- no, that's not shown; I changed Exhibit Four,
16 but that is the total of what we originally thought was
17 Harvey E. Yates Company.

18 Q You said the original was 19.0147 percent?

19 A Yes, uh-huh.

20 Q Okay.

21 A And Harvey E. Yates Company approved, they
22 have the authority and did approve the pooling agreement for
23 Harvey E. Yates Company, for Spiral, Inc., and for Explorers
24 Petroleum Corporation.

25 The ones that were delivered yesterday to

1
2 Fred G. Yates, Inc., or Yates Energy Corporation, are under
3 the same name.

4 Q And each one of those interests are shown in
5 Exhibit Four on page one and two.

6 A Yes.

7 Q On Exhibit Five above your outline of your
8 costs there's a sentence up here that says "Additional 9,100
9 Conoco dollars, Conoco net will be charged to investment new
10 work to install production facilities on the subject well."

11 A Yes.

12 Q Will you explain that?

13 A Yes, this cost of \$765,000 shown at the bot-
14 tom of the page is just the cost to drill and set pipe.

15 MR. STOGNER: That's all the questions I
16 have. Does anybody else have any questions?

17 I'm sorry, Mr. Ingram, when did you first
18 make initial contact with these people concerning this?

19 A When I sent the pooling agreement out?

20 Q Was that your first contact?

21 A Yes, that was my first contact. Now, AFE's
22 the pooling agreement was sent separately from the AFE's and
23 also the operating agreement, I believe, was sent separate,
24 but all of those things were sent out in October, so we -- I
25 feel like they had plenty of time to respond, and all have

1
2 responded or we have had communication with all except those
3 three very small interests that I mentioned earlier, being
4 the Cone interests, and this is not really unusual in our
5 dealings with those individuals. Sometimes they'll respond
6 and sometimes they'll just not respond and we go about our
7 business.

8 MR. STOGNER: As there will be no further
9 questions, Mr. Ingram may be excused.

10 MR. KELLAHIN: Mr. Stogner, there's still
11 some question about whether or not a standard proration unit
12 ought to be a part of the application, or not. We've applied
13 for it. If it's necessary, please consider it. If it's not
14 necessary, you may disregard it. There is some little dif-
15 ference in the rule and apparently what the District does
16 with regards to the acreage, and so don't make us come back
17 again.

18
19 ALAN R. PETRIE

20 being called as a witness and being duly sworn upon his oath,
21 testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q Mr. Petrie, let me call you to the stand,

1
2 sir, and ask you to identify yourself and state your occupa-
3 tion and your place of employment?

4 A I'm Alan R. Petrie. I'm an engineer. I
5 work for Conoco, Incorporated, in Hobbs.

6 Q Mr. Petrie, have you previously testified
7 before the Oil Conservation Division?

8 A Yes, I have.

9 Q And have your qualifications as a petroleum
10 engineer been accepted and made a matter of record?

11 A Yes, they have.

12 Q Pursuant to your employment have you con-
13 ducted certain studies with regards to the drilling of the
14 proposed well for this proration and spacing unit?

15 A Yes.

16 Q All right, sir, let me direct your attention,
17 then, to what we have marked as Exhibit Number Six, I believe
18 it is.

19 A Yes. Exhibit Number Six is actually two
20 exhibits, Six-A and Six-B.

21 Q All right, sir, let's start with Six-A and
22 if you'll take a minute and unfold your map.

23 A Six-A and Six-B are cross sections. Six-A
24 is a cross section running north and south. If you'll look
25 down here in the bottom section there's an area map that

1
2 shows the directions these cross sections run. This cross
3 section was drawn on the Cisco formation and shown here in
4 the dark outline with the tic marks on it is the dolomitized
5 section of the Cisco formation. The center two lines is the
6 Dagger Draw No. 4 Well placed on this cross section, showing
7 its location in respect to the other wells.

8 I'd like to also point out the colored sec-
9 tions on this cross section. These are -- indicate possible
10 and probable and productive intervals in the Cisco dolomite
11 in Dagger Draw. The dolomite section in -- in the Dagger
12 Draw reef structure is the porosity pods of that formation
13 and is the only productive interval that we've found out of
14 it.

15 Q All right, Mr. Petrie, let me make sure we've
16 got ourselves oriented right on the wells on your cross sec-
17 tion with regards to the ones on Exhibit Number Two.

18 Show us again the well on your cross section
19 that is the Conoco well to the north of our present proration
20 unit.

21 A The well to the north of our present location
22 is the Lodewick "A" No. 1. It's the log directly to the left
23 of the stylized wellbore diagram.

24 Q All right, sir, and then as you go through
25 the cross section north to south you cut through the present

1
2 location and then the next well to the south is the well in
3 the northwest quarter of 30?

4 A Yes, Uh-huh.

5 Q All right, sir, and tell us what that well
6 is.

7 A Okay, that well is the Dagger Draw No. 1
8 Well, and it's directly to the right of this proposed loca-
9 tion.

10 Q All right, and your plan, as I understand
11 it, then, is to drill the current location proposed and at-
12 tempt to encounter the Cisco formation in a fashion similar
13 to that being produced by those two wells.

14 A Yes, sir, that's correct.

15 Q All right, sir. Now, are there any dry
16 holes in the immediate area for wells that attempted to com-
17 plete in the Cisco?

18 A There are no such as dry holes. There are
19 some wells that produced a small amount and were plugged.
20 There are two wells, the Molly, which is located in Section
21 13 that which would be to the northwest of the proposed loca-
22 tion, and also the Cone Federal, which is located in the
23 upper northeast of Section 24. They both produced a little
24 bit but they weren't productive enough to continue to produce
25 and the wells were shut-in and then subsequently plugged at

1
2 a later date.

3 Q All right, sir, you've -- you've showed us
4 your north-south cross section. Let's look at the east-west
5 cross section.

6 A Okay. It's Exhibit Number Six-B.

7 Q All right, sir, tell us a little bit about
8 the next cross section.

9 A Okay, this cross section runs from east to
10 west and it -- or excuse me, this cross section, yeah, east to
11 west, and it runs directly through the Lodewick Well, which
12 is the well that was north of our proposed location so you
13 don't see a diagram of where our proposed location would be
14 placed on this cross section.

15 It does, however, point out the slope of the
16 Cisco formation and the dolomitization that runs in that
17 direction. Again I'd like to point out the fact that the
18 colored sections are zones of potentially productive inter-
19 vals and productive intervals in these -- in these wells.

20 Q Tell us a little about the Cisco formation
21 and why you think the proposed location is the optimum loca-
22 tion within this proration unit.

23 A The Cisco formation is a reef structure and
24 porosity is dependent upon dolomitization, which is a func-
25 tion of ground water movement to the biggest extent, and by

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2 drawing the cross sections and Isopach map, we feel as though
3 at this location we will encounter the best possible chance
4 of hitting the dolomitization in the area, plus have suffi-
5 cient drainage area to make the well productive.

6 Q All right, sir, let's go, then, to Exhibit
7 Number Seven.

8 A Exhibit Number Seven is a porosity Isopach
9 based on a five percent cutoff and it shows the proposed loca-
10 tion, the Dagger Draw No. 4 Well, with a little red arrow in
11 Section 19. The Isopach lines are indicated, the net footage
12 by the bold letters, 10, 20, and 30. This location we feel
13 will have approximately 28 feet of dolomitization, which will
14 be productive in this well.

15 MR. STOGNER: How many feet?

16 A Approximately 28 feet.

17 Q Mr. Petrie, do you have an opinion with re-
18 gards to the risk involved in the drilling and completion of
19 an economic well upon which the Commission may determine a
20 penalty factor to be assessed against the nonconsenting
21 working interest owners?

22 A Yes, sir. As I mentioned earlier, since the
23 Cisco formation is a reef structure and since production is
24 totally dependent upon dolomitization, and dolomitization is
25 a by-product of ground water movement, it's very difficult to

1
2 predict the dolomitization in the area without drilling.
3 You'll have pods sometimes. So it's -- we do feel as though
4 this is a good location but we also feel there's a risk in-
5 volved in drilling this well, that we could miss the porosity
6 pods sometimes, so I would go (inaudible).

7 Q In terms of a percentage based upon the
8 statutory maximum of 200 percent risk factor, Mr. Petrie, do
9 you have a recommendation as to what that percentage ought
10 to be?

11 A I recommend that it be the 200 percent.

12 Q Mr. Petrie, let me direct your attention to
13 Exhibit Number Eight and have you identify that for us.

14 A Okay. Exhibit Number Eight is a proposed
15 wellbore schematic of how we intend to complete the well and
16 set the casings. We intend to set surface casing of 13-3/8ths
17 inch at approximately 450 feet; an intermediate casing string
18 of 8-5/8ths inch set at 1250; a production casing of 5-1/2
19 inch set at approximately 2920 feet, with the cement pro-
20 grams bringing the cement to the surface -- oh, I'm sorry,
21 the production string is the 5-1/2 inch casing and is set at
22 7920 feet.

23 Now, we intend to complete this well with
24 tubing and a packer. We -- there's a possibility that we'll
25 have to put the well on gas lift and we intend to acidize the

1
2 perforated interval with 100 gallons per perforated foot, is
3 what our intentions are at this time.

4 Q Mr. Petrie, were Exhibits Six through Eight
5 prepared by you or compiled under your direction and super-
6 vision?

7 A Yes, they were.

8 Q In your opinion, Mr. Petrie, will approval
9 of this application be in the best interests of conservation,
10 prevention of waste, and the protection of correlative rights?

11 A Yes, I believe it will.

12 MR. KELLAHIN: That concludes our examination
13 of Mr. Petrie. We move the introduction of Exhibits Six
14 through Eight.

15 MR. STOGNER: Exhibits Six through Eight
16 will be admitted into evidence.

17
18 CROSS EXAMINATION

19 BY MR. STOGNER:

20 Q I have a question here on Six-A and B.

21 A Yes, sir.

22 Q On your Six-A, on your shaded intervals in
23 the dolomite section, what was that again?

24 A Okay, those shaded intervals are -- we put
25 them in there to indicate productive intervals and potentially

1
2 productive intervals.

3 Q Okay, now on Six-A you've got four of these
4 shaded areas; on Six-B you only have two. Do you -- is there
5 any significance in that?

6 A I don't think so, no real significance. The
7 perforated intervals that you can see are the ones that we
8 shaded in in most of these wells and really it's an indica-
9 tion of where the wells could be productive, okay?

10 Q Okay.

11 A So you're -- you're actually seeing -- this
12 cross section is to the north of this location.

13 Q Okay.

14 A Okay?

15 MR. STOGNER: Are there any other questions?
16 Mr. Petrie is excused and he's also qualified. I forgot to
17 mention that awhile ago.

18 Mr. Kellahin, do you have anything further?

19 MR. KELLAHIN: Nothing further, thank you.

20 MR. STOGNER: Anybody else have anything
21 they wish to have come before us in Case Number 7729?

22 If not, the case will be taken under ad-
23 visement.

24
25 (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 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

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of case no. 7729, heard by me on December 1 1983.
Michael E. Stegner, Examiner
Oil Conservation Division