

## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE , NEW MEXICOHearing Date JUNE 27, 1996 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William L. Taylor Jenny Edge Kamela Staley	Campbell, Taylor, Foye & Anderson Newbury Prod Co Amoco	Santa Fe Midland, TX Denver CO

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

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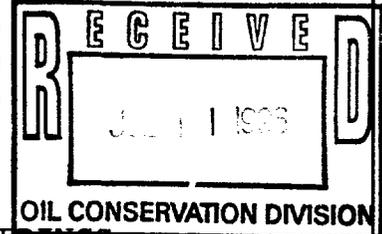
NAME	REPRESENTING	LOCATION

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 NAUMANN OIL AND GAS, )  
INC., FOR COMPULSORY POOLING, AN )  
UNORTHODOX GAS WELL LOCATION, AND A )  
NONSTANDARD GAS PRORATION UNIT, )  
EDDY COUNTY, NEW MEXICO )

CASE NO. 11,553

**ORIGINAL**



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 27th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 27th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

June 27th, 1996  
 Examiner Hearing  
 CASE NO. 11,553

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\* \* \*

## A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
 Suite 1 - 110 N. Guadalupe  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:18 a.m.:

3           EXAMINER CATANACH: At this time I'll call Case  
4   11,553, which is the Application of Naumann Oil and Gas,  
5   Inc., for compulsory pooling, an unorthodox gas well  
6   location, and a nonstandard gas proration unit, Eddy  
7   County, New Mexico.

8           Are there appearances in this case?

9           MR. CARR: May it please the Examiner, my name is  
10   William F. Carr with the Santa Fe law firm Campbell, Carr,  
11   Berge and Sheridan.

12           We represent Naumann Oil and Gas, Inc., in this  
13   matter, and I have two witnesses.

14           EXAMINER CATANACH: Are there additional  
15   appearances in this case?

16           Will the two witnesses please stand to be sworn  
17   in at this time?

18           (Thereupon, the witnesses were sworn.)

19                         DAVID N. FRYE,  
20   the witness herein, after having been first duly sworn upon  
21   his oath, was examined and testified as follows:

22                                 DIRECT EXAMINATION

23   BY MR. CARR:

24           Q. Will you state your name for the record, please?

25           A. David Frye.

1 Q. And where do you reside?

2 A. Plano, Texas.

3 Q. Mr. Frye, by whom are you employed?

4 A. I'm employed and own Logro Corporation.

5 Q. And what is the relationship of Logro Corporation  
6 in this case to Naumann Oil and Gas, Inc.?

7 A. Logro and Naumann are partners in this prospect.

8 Q. Have you previously testified before this  
9 Division?

10 A. Yes, I have.

11 Q. At the time of that testimony, were your  
12 credentials as an expert witness accepted and made a matter  
13 of record?

14 A. Yes, they were.

15 Q. And were you qualified as a petroleum landman at  
16 that time?

17 A. Yes, sir.

18 Q. Are you familiar with the Application filed in  
19 this case on behalf of Naumann Oil and Gas, Inc.?

20 A. Yes, I am.

21 Q. And are you familiar with the status of the lands  
22 in the subject area?

23 A. Yes.

24 MR. CARR: Mr. Catanach, are the witness's  
25 qualifications acceptable?

1 EXAMINER CATANACH: Yes, they are.

2 Q. (By Mr. Carr) Mr. Fry, could you initially  
3 review -- or summarize for the Examiner what it is Naumann  
4 seeks with this Application?

5 A. Naumann is seeking the pooling of all zones in  
6 the south half of Section 22 -- excuse me, Section 31 of 17  
7 South, 30 East. We're looking for a south-half equivalent,  
8 which is a 315.24-acre unit for the Undesignated Strawn,  
9 the Undesignated South Loco Hills-Morrow Gas Pool, the  
10 Undesignated Sand Tank-Morrow Gas Pool.

11 We're also seeking pooling of a standard 160-acre  
12 unit, being the southeast quarter, for any potential zones  
13 that would be spaced on 160-acre spacing, and then a 40-  
14 acre spacing, being the southwest quarter, southeast  
15 quarter, of the section for Loco Hills, Queen, Grayburg and  
16 the San Andres Pool.

17 Q. We're looking for approval of a nonstandard gas  
18 proration unit for wells developed on 320-acre spacing; is  
19 that right?

20 A. Yes.

21 Q. And that's required because of a survey  
22 variation?

23 A. Yes.

24 Q. What is the location of the proposed well?

25 A. The proposed location is 2220 feet from the east

1 line and 660 feet from the south line in the section.

2 Q. And what will the name of that well be?

3 A. It will be the Sand Tank Fed Com Number 1.

4 Q. This is an unorthodox location on 160-acre  
5 spacing, is it not?

6 A. Yes.

7 Q. And you are moving what direction from a standard  
8 location?

9 A. Due west.

10 Q. And who -- Is the tract to the west, the  
11 southwest quarter of the section, also to be operated by  
12 Naumann pursuant to this spacing -- or this compulsory  
13 pooling --

14 A. Yes.

15 Q. -- Application?

16 Let's go to what has been marked as Naumann  
17 Exhibit Number 1, and I'd ask you to identify that and  
18 review it for Mr. Catanach.

19 A. Exhibit Number 1 is a plat of the pooled area,  
20 which shows the south half of the section, the three tracts  
21 that comprise the south half of the section, as well as the  
22 proposed location.

23 Tract 1, being the southwest quarter, is a  
24 155.24-acre tract owned 100 percent by Phillips Petroleum.

25 Tract 2 is an 80-acre tract, being the west half,

1 southeast quarter. It shows that the ownership is part  
2 Logro Corporation and part Anadarko Petroleum.

3 And Tract 3 being the east half, southeast  
4 quarter, showing Read and Stevens, et al., as owning that  
5 tract.

6 Q. What are the primary objectives in this proposed  
7 well? What formations?

8 A. The lower Morrow, upper Morrow and Strawn.

9 Q. Let's go to Exhibit Number 2. What does this  
10 exhibit show?

11 A. Exhibit Number 2 is a compilation of the  
12 ownership by tract. The tract numbers refer to the tracts  
13 on the plat. We have -- We list tract number, the owner,  
14 and then the owner's interest in each tract, and then their  
15 interest in any of the units that we might consider, being  
16 the south-half unit, the 160-acre unit or the 40- acre  
17 unit.

18 Q. You have contacted all of the interest owners  
19 shown on this exhibit, have you not?

20 A. Yes, sir.

21 Q. Have you been able to reach all of the owners?

22 A. I have -- All of the owners have been contacted,  
23 with the exception of one who did not pick up his certified  
24 mail. However, it was to the proper address, and we have  
25 also left phone messages on his answering machine.

1 Q. And is that Michael Moore that you're talking  
2 about?

3 A. Yes, sir.

4 Q. What percentage of the working interest or the  
5 working interest ownership has been voluntarily committed  
6 to the well in each of the proposed spacing units?

7 A. In the 315.24-acre unit, we have 19.23 percent  
8 has been voluntarily committed; in the 160-acre unit, 38  
9 percent; and in the 40-acre unit, 18.75 percent.

10 Q. At this time, if we look at Exhibit 2, we have  
11 Phillips Petroleum as probably the principal owner, at  
12 least in the southwest quarter. What is the status of your  
13 negotiations with Phillips?

14 A. I have in hand from Phillips a proposed term  
15 assignment, assigning their interest to me. We are  
16 negotiating the form of assignment now.

17 Q. And Anadarko, what is the status of those  
18 negotiations?

19 A. Anadarko and I have been contacted and have been  
20 discussing the AFE in the proposal. However, Anadarko has  
21 not yet made an election to either participate or to farm  
22 out.

23 Q. Who has voluntarily committed at this time?

24 A. The Anderson-Malone Trust dated 12-5-81, Read and  
25 Stevens, and Enron Oil and Gas, as well as the Logro

1 interest.

2 Q. So at this time you're anticipating that there  
3 will be substantial voluntary commitment to the well?

4 A. I believe almost all of the owners will  
5 voluntarily commit.

6 Q. Let's go to what has been marked as Exhibit  
7 Number 3, and I'd ask you first to identify it, then review  
8 the information on this exhibit.

9 A. This is an AFE for an 11,800-foot lower Morrow  
10 test. It's actually the proposed well.

11 Q. Would you review the totals on this exhibit,  
12 please?

13 A. The AFE indicates that the dry hole cost of this  
14 well will be \$632,000. In the event of a completion that  
15 will cost an additional \$362,500, for a total completed  
16 well cost of \$994,500.

17 Q. Mr. Frye, are these costs in line with what's  
18 charged by other operators for similar wells in the area?

19 A. Based on our conversations with other operators,  
20 I believe they're in line with current wells being drilled.

21 Q. Could you summarize for Mr. Catanach the efforts  
22 you have made to obtain the voluntary joinder of all  
23 interest owners in the proposed spacing units?

24 A. As early as May 2nd, I have proposed a well to  
25 Phillips and the other owners in the south half. I've sent

1 them all letters by certified mail and followed up with  
2 each owner by telephone, at least attempted to talk by  
3 telephone.

4 Q. Are copies of the letters to these owners with  
5 attached return receipts confirming that they, in fact,  
6 were received, marked Naumann Exhibit Number 4 in this  
7 case?

8 A. Yes.

9 Q. In your opinion, has Naumann made a good-faith  
10 effort to locate and obtain the voluntary joinder of all  
11 interest owners in the proposed spacing units?

12 A. Yes.

13 Q. Have you made an estimate of the overhead and  
14 administrative cost to be incurred while drilling the well  
15 and also while producing it if it is successful?

16 A. Yes, I have.

17 Q. And what are those figures?

18 A. I believe a drilling overhead rate of \$5603 and a  
19 producing well rate of \$563 would be not only fair and  
20 reasonable, but they are also the mean in the *Ernst and*  
21 *Young* 1995 Survey.

22 Q. Do you recommend that these figures be  
23 incorporated in any order which results from this hearing?

24 A. Yes, I do.

25 Q. Is Naumann Exhibit Number 5 an affidavit with

1 attached letters confirming that notice of this Application  
2 has been provided to affected owners in accordance with OCD  
3 rules?

4 A. Yes, it is.

5 Q. Will Naumann also be calling a technical witness  
6 to testify about the risk associated with the proposed  
7 well?

8 A. Yes.

9 Q. Were Exhibits 1 through 5 either prepared by you  
10 or compiled under your direction?

11 A. Yes.

12 MR. CARR: At this time, Mr. Catanach, we would  
13 move the admission into evidence of Naumann Exhibits 1  
14 through 5.

15 EXAMINER CATANACH: Exhibits 1 through 5 will be  
16 admitted into evidence.

17 MR. CARR: And that concludes my direct  
18 examination of Mr. Frye.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. Mr. Frye, you testified you had something in hand  
22 from Phillips. It's not a written agreement, but it's --

23 A. In fact, it is a written agreement. We're just  
24 negotiating the minor points, language, that sort of thing.

25 Q. You anticipate that will be signed by both

1 parties?

2 A. Yes, I do.

3 Q. And Anadarko has not yet decided to participate;  
4 is that what you said?

5 A. That is correct. However, they have not voiced  
6 any objection to the proposed operations.

7 Q. Are you still making an effort to try and reach  
8 the Moore interest?

9 A. Yes, I have. In fact, I've left another message  
10 on his answering machine, pointing out the importance of  
11 what's -- what I'm trying to do, and also trying to point  
12 out that it's not a lawsuit or any kind of sales or things  
13 of that nature.

14 Q. You just haven't been able to get hold of him; he  
15 hasn't returned any of your calls?

16 A. That's right. He lives in Oak Cliff, which is in  
17 Dallas. I don't know why he wouldn't call back or pick up  
18 his certified mail, but it was returned unclaimed, not bad  
19 address.

20 Q. And all of the other interest owners in Tract  
21 Number 3, you anticipate they're joining?

22 A. I anticipate that all of them will commit their  
23 interest to me, to participate with.

24 Q. The location is unorthodox only with respect to  
25 the 160-acre unit; is that your understanding?

1 A. Yes, sir.

2 Q. You will be operating the southwest quarter as  
3 well?

4 A. Yes, sir.

5 Q. Would you anticipate maybe drilling a well in  
6 that 160?

7 A. I would anticipate, although we don't -- As one  
8 of our major objectives, we don't know that we have  
9 anything that would be spaced on 160 acres. However, if we  
10 were successful, we would always attempt to offset in a  
11 producing zone if we thought it was...

12 EXAMINER CATANACH: That's all I have of the  
13 witness. He may be excused.

14 MR. CARR: Mr. Catanach, at this time we call Mr.  
15 Jack Naumann.

16 JACK NAUMANN,

17 the witness herein, after having been first duly sworn upon  
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Could you state your name for the record, please?

22 A. Jack Naumann.

23 Q. Where do you reside?

24 A. Midland, Texas.

25 Q. Mr. Naumann, what is your relationship with

1 Naumann Oil and Gas, Inc.?

2 A. The president of Naumann Oil and Gas.

3 Q. Have you previously testified before this  
4 Division?

5 A. Yes.

6 Q. At the time of that testimony, were your  
7 credentials as an expert witness accepted and made a matter  
8 of record?

9 A. Yes.

10 Q. And how were you qualified at that time? As a  
11 geologist?

12 A. As a geologist.

13 Q. Are you familiar with the Application filed in  
14 this case?

15 A. Yes.

16 Q. And have you made a geological study of the area  
17 surrounding the proposed well?

18 A. Yes, I have.

19 Q. Are you prepared to share the results of that  
20 study with Mr. Catanach?

21 A. Yes.

22 MR. CARR: Are the witness's qualifications  
23 acceptable?

24 EXAMINER CATANACH: Yes, they are.

25 Q. (By Mr. Carr) Mr. Naumann, you have prepared

1 exhibits for presentation here today, have you not?

2 A. I have.

3 Q. Let's go to what has been marked for  
4 identification as Naumann Exhibit Number 6. I'd ask you to  
5 identify that and review it for the Examiner.

6 A. Exhibit Number 6 is structure on top of the lower  
7 Morrow horizon, which is one of our main objectives here.

8 Q. And what does this show?

9 A. Basically, we just have a regional dip, is what  
10 we're indicating here with our map.

11 Q. There's also a trace on this exhibit for a  
12 subsequent cross-section; is that right? Two well, A --

13 A. That's correct, A to A'.

14 Q. Let's go to the isopach maps, and let's start  
15 with the lower Morrow, being Exhibit Number 7. Would you  
16 review that, please?

17 A. All right. Exhibit Number 7 is an isopach of the  
18 lower Morrow sand interval, which is showing the  
19 channelized nature of the lower Morrow sand.

20 Q. There is one well on the plat that is currently  
21 producing from this interval, is it not?

22 A. That's correct, it's indicated highlighted in  
23 yellow.

24 Q. Up in Section 34?

25 A. Yes.

1 Q. Basically in the lower Morrow, we have sort of a  
2 typical Morrow channel, do we not?

3 A. That's correct.

4 Q. Based on this interpretation, you need to move  
5 the proposed well location to the west if, in fact, you're  
6 going to maximize your opportunity to succeed in producing  
7 this interval; is that right?

8 A. That is also correct.

9 Q. All right. Let's take a look at the -- Is this  
10 the primary objective, this lower --

11 A. Lower Morrow is our primary objective.

12 Q. Let's go to the next isopach, the isopach on the  
13 upper Morrow, and I'd ask you to review this now for Mr.  
14 Catanach.

15 A. Okay, the Upper Morrow isopach is a gross  
16 interval showing the possible trend here of the location of  
17 the various upper Morrow sands that we hope to encounter.

18 Q. This is more of a beach-type deposit, is it?

19 A. That's correct. There's numerous sands here that  
20 are interpreted as being beach-type deposits.

21 Q. And again in this case, the proposed location is  
22 at a favorable location to produce this sandbody?

23 A. That's correct.

24 Q. Now, let's go to the Strawn, Naumann Exhibit  
25 Number 9. Would you review that, please?

1           A.    Okay, Exhibit Number 9 is a gross isopach of the  
2    Strawn interval here, which also indicates the possibility  
3    of the Strawn thickening here with hopefully some porosity  
4    development that we would encounter in the Strawn.

5           Q.    Basically, when you look at all three of these  
6    isopachs, this is a location that should be at least  
7    acceptable in each of the primary intervals?

8           A.    That's correct.

9           Q.    Let's go now to the production map, Naumann  
10   Exhibit Number 10.  Would you review that?

11          A.    Yes, the production map is color-coded, which is  
12    identifying the horizons that are currently producing  
13    within our area here.  We've got lower Morrow, upper  
14    Morrow, Strawn, Bone Springs, and what we have called the  
15    Permian, which is the Grayburg San Andres Hills Loco Hills  
16    up to the north.  And we have also identified here what the  
17    cumulative production to date is, next to each well from  
18    this thick horizon.

19          Q.    How much production do you estimate you need to,  
20    in fact, pay out of the proposed well?

21          A.    Approximately a BCF of gas or equivalent.

22          Q.    When we look at the offsetting development, are  
23    there wells in the area that, in fact, are not economic or  
24    will not be economic?

25          A.    Very much so.

1 Q. Can you identify any of those?

2 A. In Section 4 we have a Strawn well which is in  
3 the northwest of the southwest, which is not economic. The  
4 well in the southeast of the southwest probably is also  
5 noncommercial as far as paying the well out. An upper  
6 Morrow well in Section 3, the northwest quarter, is also a  
7 noncommercial well.

8 We have several new completions here, which we're  
9 not sure out of the Strawn and Morrow what they're going to  
10 end up being.

11 Q. Let's go to the cross-section, Exhibit 11. Can  
12 you just generally review that for Mr. Catanach and  
13 indicate what it shows?

14 A. Okay. The cross-section, which is identified on  
15 all of our maps here as A to A', is basically a  
16 stratigraphic section.

17 And what we're trying to illustrate here is just  
18 the positions of the Strawn, the Atoka and the upper and  
19 Lower Morrow horizons, and these two wells are both  
20 representative of the particular intervals, at least the  
21 Strawn production and the upper Morrow production.

22 Q. Differently, what conclusions can you reach from  
23 your geological study of this area?

24 A. Basically, the lower Morrow with the channelized  
25 section is very high-risk due to, again, the channelized

1 nature of the deposition of the sand.

2 The upper Morrow, you have numerous sands that  
3 we'll have a chance of encountering, but they're -- It's  
4 going to be tough to be able to find enough of those to  
5 have good commercial quality, which is again illustrated by  
6 the producing map that we've got here in the upper Morrow.

7 And the Strawn, we're very hopeful that we'll be  
8 able to find enough porosity that will be able to give us  
9 commercial quantities of gas.

10 Q. Are you prepared to make a recommendation to Mr.  
11 Catanach as to the risk penalty that should be assessed  
12 against any interest owner who does not voluntarily  
13 participate in the well?

14 A. Based upon the risk that we see in all three of  
15 these horizons, 200 percent.

16 Q. Mr. Naumann, in your opinion is there a chance  
17 that a well at this proposed location, in fact, could not  
18 be -- might not be an economic success?

19 A. Yes.

20 Q. And in your opinion, would this 200-percent risk  
21 penalty be applicable to all formations that are being  
22 pooled?

23 A. Yes.

24 Q. If you find some shallow zone that would be  
25 developed on 160-acre spacing units, that would, in fact,

1 be just a rank wildcat?

2 A. They're very much so, yes.

3 Q. And so in that situation 200 percent should also  
4 apply?

5 A. Yes.

6 Q. Does Naumann seek to be designated operator of  
7 the proposed well?

8 A. Yes.

9 Q. In your opinion, will the granting of this  
10 Application and the drilling of this well be in the best  
11 interest of conservation, the prevention of waste and the  
12 protection of correlative rights?

13 A. Yes, I believe it will be.

14 Q. How soon do you hope to commence drilling?

15 A. As soon as possible.

16 Q. Were Naumann Exhibits 6 through 11 prepared by  
17 you?

18 A. Yes, they were.

19 MR. CARR: At this time, Mr. Catanach, we would  
20 move the admission into evidence of Naumann Exhibits 6  
21 through 11.

22 EXAMINER CATANACH: Exhibits 6 through 11 will be  
23 admitted as evidence.

24 MR. CARR: And that concludes my direct  
25 examination of Jack Naumann.

## EXAMINATION

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BY EXAMINER CATANACH:

Q. Mr. Naumann, you characterized the lower Morrow as the primary objective of the well?

A. That's correct.

Q. And after that, would you say upper Morrow was the second, or Strawn was the second?

A. Well, the possibility of encountering those formations is going to be high, and more than likely there will be some form of production that we can achieve out of the Strawn and the upper Morrow.

The risk that you have there is to be able to have enough porosity development, say, in the Strawn and enough deposition within the upper Morrow sands to be able to have a commercial well, which are very, very difficult to predict right here.

Q. How does the Grayburg San Andres formation look in terms of potentially productive --

A. Not very good. The porosity seems to diminish quite a bit down here to the south.

Q. If you encountered production in the lower -- well, in the Morrow formation and in the Atoka, would you -- Are you anticipating a dual completion of this well?

A. Probably not. We would probably go ahead and complete it singly.

1 Q. And the lower Morrow is driving the location; is  
2 that correct?

3 A. That's correct.

4 Q. Was this isopach for the lower Morrow, was it all  
5 done on well control?

6 A. That's correct.

7 Q. And some limited data on Section 31, that's --

8 A. It's very limited, and we've got one new  
9 completion which we don't have a log available on, so I  
10 can't tell you down in Section 7 what was encountered in  
11 that wellbore.

12 The lower Morrow, out in through here is, like I  
13 say, channelized deposits, and for -- you know,  
14 representative of what we're hoping to find out there in  
15 Section 49, you can see where that well thickened up to  
16 close to 50 feet of gross interval here of the lower  
17 Morrow, and it made a very, very good gas well.

18 Q. So you in fact don't know if that interval  
19 thickens in Section 31 there?

20 A. No. We're obviously hopeful that it will.

21 Q. That is still a standard location for a Morrow  
22 gas well, anyway? Right?

23 A. Yeah, right, correct.

24 EXAMINER CATANACH: Okay. I have nothing further  
25 of the witness.

1 MR. CARR: Mr. Catanach, that concludes our  
2 presentation in this case.

3 EXAMINER CATANACH: Okay, there being nothing  
4 further in this case, Case 11,553 will be taken under  
5 advisement.

6 (Thereupon, these proceedings were concluded at  
7 8:42 a.m.)

8 \* \* \*

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 11553,  
heard by me on Aug 27 196.

David Catanach, Examiner  
Oil Conservation Division

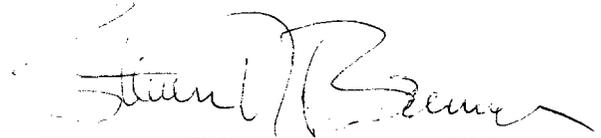
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) SS.  
COUNTY OF SANTA FE )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 27th, 1996.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 1998