

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:) CASE NO. 12,893
)
APPLICATION OF EOG RESOURCES, INC., FOR)
COMPULSORY POOLING IN EDDY COUNTY, NEW)
MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

July 11th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, July 11th, 2002, at the Aztec City Council Chamber, Aztec City Hall, 201 West Chaco, Aztec, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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STEVEN T. BRENNER

I N D E X

July 11th, 2002
 Examiner Hearing
 CASE NO. 12,893

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>RICHARD L. LANNING</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Examiner Brooks	11
<u>RANDALL S. CATE</u> (Geologist) (Engineer)	
Direct Examination by Mr. Carr	13
Examination by Examiner Brooks	19
Examination by Examiner Stogner	23
REPORTER'S CERTIFICATE	25

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	11
Exhibit 2	7	11
Exhibit 3	9	11
Exhibit 4	10	11
Exhibit 5	10	11
Exhibit 6	15	19
Exhibit 7	16	19

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

MICHAEL E. STOGNER
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 8:21 a.m.:

3
4
5 EXAMINER STOGNER: Well, with that, let's call
6 Case Number 12,893, which is the Application of EOG
7 Resources, Inc., for compulsory pooling in Eddy County, New
8 Mexico.

9 Call for appearances.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe office of Holland and
12 Hart, L.L.P.

13 We represent EOG Resources in this matter, and I
14 have two witnesses.

15 MR. BROOKS: Okay. Well, since that's a CP I
16 guess I'll be the Examiner on that.

17 12,893, thank you.

18 Would your witnesses please stand and identify
19 yourselves for the record?

20 MR. LANNING: Richard Lanning.

21 MR. CATE: Randy Cate.

22 (Thereupon, the witnesses were sworn.)

23 MR. CARR: May it please the Examiner, at this
24 time we call Richard Lanning.

25 MR. BROOKS: Take the witness stand, please.

1 RICHARD L. LANNING,

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

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Would you state your name for the record, please?

7 A. Richard Lee Lanning.

8 Q. Mr. Lanning, where do you reside?

9 A. Midland, Texas.

10 Q. By whom are you employed?

11 A. EOG Resources.

12 Q. And what is your position with EOG Resources?

13 A. I'm a landman.

14 Q. Have you previously testified before the New
15 Mexico Oil Conservation Division?

16 A. No, sir, I haven't.

17 Q. Would you briefly review for the Examiner your
18 educational background?

19 A. I received a bachelor's degree in economics from
20 New Mexico State University in 1972.

21 Q. And receiving your degree, for whom have you
22 worked?

23 A. I've worked for Texaco, for Champlain Petroleum
24 Company, for Clayton Williams and for EOG Resources.

25 Q. And at all times have you been employed as a

1 petroleum landman?

2 A. Yes, sir.

3 Q. Are you familiar with the Application filed in
4 this case?

5 A. Yes, sir.

6 Q. Are you familiar with the status of the lands in
7 the area which is the subject of this Application?

8 A. Yes, sir, I am.

9 MR. CARR: We tender Mr. Lanning as an expert in
10 petroleum land matters.

11 MR. BROOKS: So qualified.

12 Q. (By Mr. Carr) Would you summarize for Mr. Brooks
13 what it is that EOG seeks with this Application?

14 A. We seek an order pooling the minerals from the
15 surface to the base of the Morrow in the south half of
16 Section 23, Township 19 South, 27 East, in order that we
17 can drill our Gordon "23" State Com Number 1 well at a
18 location 997 from the south and 1455 from the west of
19 Section 23.

20 Q. Let's go to what has been marked for
21 identification as EOG Exhibit 1. Would you identify that
22 and review it for Mr. Brooks?

23 A. The south half of Section 23 is outlined there in
24 the pink outline. The well location is spotted there, as
25 you can see, in the southeast quarter of the southwest

1 quarter. The yellow indicates acreage that we currently
2 control, EOG and its partners.

3 Q. And the Devon interest is the interest that we're
4 pooling today?

5 A. Yes, sir, that's right.

6 Q. What is the primary objective in the proposed
7 well?

8 A. Morrow, and the Angell Ranch Morrow field.

9 Q. Is Devon the only interest owner in the south
10 half of this section who has not committed its interest to
11 this well?

12 A. Yes, sir, they are.

13 Q. Would you refer to EOG Exhibit Number 2 and
14 review for Mr. Brooks your efforts to reach a voluntary
15 agreement with Devon for the commitment of their interest
16 to this spacing unit?

17 A. Exhibit 2 contains our letter dated May 16th to
18 Devon in which we propose the well, we state the location,
19 we state their interest, we enclosed an AFE for their
20 review and we requested that they either participate in the
21 well or grant us a term assignment or reasonable farmout
22 covering their interest.

23 Q. And what conversations have you had with Devon
24 since you sent this letter to them?

25 A. The last page of this exhibit is a log of my

1 phone calls with Devon.

2 Q. You've been talking with Ken Gray?

3 A. Yes, sir. Ken Gray is the landman for Devon that
4 handles this area.

5 Q. When was your most recent contact with Mr. Gray?

6 A. On July the 8th.

7 Q. And what was the nature of that conversation?

8 A. I was hoping that -- not that I didn't want to
9 come up here and see you all -- we were hoping that we
10 could make a deal.

11 Q. What was your most recent conversation with Mr.
12 Gray?

13 A. On July the 8th we tried to make a last-minute
14 deal with Devon so that we could avoid this hearing.

15 Q. And what did he tell you?

16 A. He indicated once again, as he had in the past,
17 that this was not a high-priority item with Devon, and that
18 until they were forced to make a decision that it probably
19 would not be brought forward.

20 Q. And he understood you were going forward with the
21 pooling hearing today?

22 A. Yes, sir, and he had no objection.

23 Q. What percentage of the working interest in this
24 spacing unit is voluntarily committed to the well?

25 A. The balance of the working interest amounts to

1 .875522.

2 Q. So we have everything but that one 40-acre tract?

3 A. Devon controls about a 99- -- a little over
4 99-percent interest in that tract. There is one small
5 interest owner in that tract that we have committed.

6 Q. Okay, let's go to Exhibit Number 3, the AFE.
7 This is the AFE that you provided to Devon?

8 A. Yes, sir, it is.

9 Q. Would you review the costs as set forth on this
10 exhibit?

11 A. The dryhole costs for the well are estimated to
12 be \$506,000, additional \$639,600 for completion, and the
13 total estimated well cost would be \$1.145 million.

14 Q. Has EOG drilled other Morrow wells in the area?

15 A. Yes, sir, we have.

16 Q. And are these costs consistent with the costs
17 actually incurred in drilling these other wells?

18 A. Yes, sir, they are.

19 Q. Have you made an estimate of the overhead and
20 administrative costs to be incurred while drilling the well
21 and also while producing it if it is successful?

22 A. Yes, sir.

23 Q. And what are those?

24 A. \$5000 for the drilling well rates and \$500 for a
25 producing well.

1 Q. How do these figures compare with the most recent
2 Ernst and Young cost estimates for wells in this area?

3 A. They're below Ernst and Young estimates.

4 Q. And these costs are in line, I would assume, with
5 what's charged by other operators in this area?

6 A. In line if not a little bit below.

7 Q. Do you recommend that these figures be
8 incorporated into the order which results from today's
9 hearing?

10 A. Yes, sir.

11 Q. Is EOG Exhibit Number 4 the accounting procedures
12 from the operating agreement for this well?

13 A. Yes, sir, it is.

14 Q. And do these provisions provide for the
15 escalation or adjustment of well costs in accordance with
16 COPAS procedures?

17 A. Yes, sir, they do.

18 Q. Do you recommend that the rates established by
19 the order that is entered in this case also provide for
20 adjustment in accordance with the COPAS provisions?

21 A. Yes, sir.

22 Q. Is Exhibit Number 5 an affidavit confirming that
23 notice of this Application and hearing have been provided
24 to Devon in accordance with the Rules of the Oil
25 Conservation Division?

1 A. Yes, sir, it is.

2 Q. Were Exhibits 1 through 5 prepared by you or
3 compiled under your direction?

4 A. Yes, sir, they were.

5 Q. Can you testify as to their accuracy?

6 A. Yes, sir.

7 MR. CARR: We'd move the admission into evidence
8 of EOG Exhibits 1 through 5.

9 MR. BROOKS: Exhibits 1 through 5 are admitted.

10 MR. CARR: That concludes my examination of Mr.
11 Lanning.

12 MR. BROOKS: Very good. Well, the witness speaks
13 rather rapidly, so I may need to ask him to repeat a couple
14 of things he's already said. Let me read it back to you
15 and see for sure if I've gotten this data right.

16 EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. This is the south half of Section 23, Township 19
19 South, Range 27 East, Eddy County, New Mexico --

20 A. Yes, sir.

21 Q. -- correct? The name of the well is the Gordon
22 "23" State Com Number 1?

23 A. Yes, sir.

24 Q. The field is the Angell Ranch-Morrow Pool?

25 A. I think it's -- It may be Morrow/Atoka. I think

1 it includes both now. But it's the Angell Ranch Pool.

2 EXAMINER BROOKS: Do you know the exact field
3 name, Mr. Carr?

4 MR. CARR: It is the Angell -- It's in the
5 Undesignated Angell, A-n-g-e-l-l, Ranch-Atoka-Morrow Gas
6 Pool.

7 EXAMINER BROOKS: Well, I'm glad you told me that
8 they spell Angell A-n-g-e-l-l, because I would never have
9 guessed that. That's the Undesignated Angell Ranch-Atoka-
10 Morrow?

11 MR. CARR: Yes, sir.

12 Q. (By Examiner Brooks) Okay, are there any other
13 -- are you seeking pooling as to any -- Well, first of all,
14 this is 320-acre spacing?

15 A. Yes, sir.

16 Q. Are you seeking pooling as to any formations
17 spaced other than 320 acres?

18 MR. CARR: Are there secondary objectives in the
19 well?

20 THE WITNESS: We haven't identified any secondary
21 objectives, I don't believe.

22 MR. CARR: I don't believe so.

23 THE WITNESS: I'd rather Mr. Cate testify to
24 that.

25 Q. (By Examiner Brooks) Okay. Let's see, is there

1 anything else I need to clarify?

2 And EOG Resources, Inc., is to be the operator of
3 this well; is that correct?

4 A. Yes, sir.

5 EXAMINER BROOKS: I believe that's all I need to
6 know. The witness may stand down.

7 MR. CARR: At this time we call Randy Cate.

8 EXAMINER BROOKS: I see you filled out my form,
9 so I didn't need to --

10 MR. CARR: I put from surface to base of
11 Morrow --

12 EXAMINER BROOKS: Yes, that's right.

13 RANDALL S. CATE,

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your name for the record, please?

19 A. Yes, it's Randall Cate.

20 Q. Where do you reside?

21 A. In Midland, Texas.

22 Q. Mr. Cate, by whom are you employed?

23 A. EOG Resources.

24 Q. And what is your position with EOG?

25 A. My title is project reservoir engineer.

1 Q. Have you previously testified before the New
2 Mexico Oil Conservation Division?

3 A. Yes, I have.

4 Q. At the time of that testimony were your
5 credentials as an expert in reservoir engineering accepted
6 and made a matter of record?

7 A. Yes, they were.

8 Q. Are you familiar with the Application filed in
9 this case on behalf of EOG Resources, Inc.?

10 A. Yes.

11 Q. Have you made an engineering study of the area
12 which is the subject of the Application?

13 A. Yes.

14 Q. And are you prepared to review the results of
15 that work with Examiner Brooks?

16 A. Yes, I am.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER BROOKS: The witness's qualifications
20 are accepted.

21 Q. (By Mr. Carr) Mr. Cate, let's go to what has
22 been marked for identification as EOG Exhibit Number 6.
23 I'd like you to identify the exhibit, explain the various
24 types of information shown on the exhibit and review it for
25 Mr. Brooks.

1 A. Exhibit Number 6?

2 Q. Yes, sir, the composite map?

3 A. Yes, this map is a map that details the structure
4 and the sand isopach'd thickness that we interpret based on
5 our log calculations that I'll also present on a cross-
6 section in Exhibit Number 7.

7 We do see a fault that is dictated by well
8 control, and we do have seismic lines that also pinpoint
9 that fault. It's not really critical. We're hoping that
10 it will help maybe trap this lower Morrow sand. But the
11 prospect is primarily a lower Morrow sand.

12 The other point in this area is that there's
13 approximately nine square miles shown on this map, and that
14 out of those nine square miles, in this Township 19-27,
15 there's 11 penetrations in the Morrow. All but two of them
16 made less than a BCF of gas.

17 And one of them down in the far right lower
18 corner is a well that made 2750 MCF. It's still producing,
19 and I will show you on the cross-section, and that is the
20 lower Morrow pay that we're going for. But we are about
21 two miles away from the nearest commercial production.

22 Now, I do show the cumulative production on each
23 of the wells that did produce the Atoka-Morrow, and as can
24 be seen, we're directly offsetting a well that EOG had
25 drilled in the north half of Section 23, which was called

1 the Barbie "23" Number 1, and it's on the cross-section
2 also. We were not able to effect a commercial completion
3 there. So from a risk point of view we are surrounded by
4 noncommercial tests.

5 Then you go upthrown to the northeast with the
6 fault and noncommercial tests up there, and that's also on
7 the cross-section.

8 The structure is basically regional dipping
9 northwest to southeast at approximately 100, 150 feet per
10 mile, except for where the fault is.

11 Q. Is the trace on this exhibit for the cross-
12 section?

13 A. Yes, that's shown in blue and it's B-B'.

14 Q. Let's go to that now, which is Exhibit 7.

15 A. Yes. We interpret the lower Morrow to occur
16 where the lower Morrow itself is thicker, isopach thicks,
17 some people call it enseisements, but -- we're not sure if
18 it's actually that, but it does tend to correlate to an
19 isopach thick.

20 The well on the far right, B', the far right,
21 that's the well I was referring to earlier that is the
22 prospect here, the sand that we're going for. And you can
23 see down in the lower Morrow -- By the way, this is hung on
24 the lower Morrow, stratigraphic cross-section hung on the
25 lower Morrow. And that sand actually did not produce in

1 the well. We're looking at this sand that is approximately
2 10,950 to 11,000 feet, and it's wet at this location. But
3 we believe as we go updip we might have a chance of
4 encountering the sand updip in a gas column.

5 The second well from the right is a Mewbourne
6 well. And as you can see, the lower Morrow has thinned in
7 this area, and they did make a completion in the lower
8 Morrow sands, but they only cum'd 46 1/2 million gas, and
9 that well is now inactive.

10 So on these first two wells you can see we have
11 water risk in the Morrow, and we also have limited size.
12 And it looks to me like the Morrow sands in the Mewbourne
13 well were approximately 10-percent crossplot porosity,
14 which should produce -- I think we've got limited
15 reservoirs as another risk in this area.

16 Then if you move to the third well from the
17 right, which is the EOG Barbie "23" that we drilled, we
18 have made a completion and it's a noncommercial test. But
19 we do see that the lower Morrow is thickening once again,
20 and so we believe that we have a chance that we just missed
21 it, and moving south we might pick up a thicker isopach and
22 therefore catch that lower Morrow sand.

23 And then the well on the far left is upthrown
24 from the indicated fault, and Yates had DST'd and did not
25 try to complete it, so it was as the DST shows. There was

1 no flow of gas, and they even picked up a little bit of
2 water in some of the lower -- but it looks very, very
3 tight, in my opinion.

4 So the risks that we're seeing are water, limited
5 reservoir, stratigraphic nature of the lower Morrow
6 channels, just -- and also a potential for just being
7 tight. If we have sand it could be too low a porosity to
8 produce.

9 Q. Are you prepared to make a recommendation to Mr.
10 Brooks as to the risk penalty that should be assessed
11 against the Devon interest if it is not voluntarily
12 committed to the well?

13 A. Yes, I believe that this location is worthy of
14 the maximum 200 percent.

15 Q. Are there secondary objectives in the area?

16 A. No, I looked at -- There has been some
17 noncommercial Atoka and Strawn, but we don't anticipate it
18 here. But I do believe our -- for -- for 320s, and then
19 for a smaller spacing unit than that, I believe 40s or 160s
20 if it was a Wolfcamp well or something, would fall entirely
21 on our dedicated acreage.

22 Q. And you had owned that spacing unit, so pooling
23 would be unnecessary?

24 A. That's right.

25 Q. Does EOG Resources, Inc., seek to be designated

1 operator of the proposed well?

2 A. Yes, we do.

3 Q. In your opinion, will the granting of this
4 Application and the drilling of the well be in the best
5 interest of conservation, the prevention of waste and the
6 protection of correlative rights?

7 A. Yes.

8 Q. Were EOG Exhibits 6 and 7 prepared by you?

9 A. Yes, under my supervision.

10 Q. And have you reviewed them?

11 A. Yes.

12 Q. And can you confirm their accuracy?

13 A. Yes.

14 MR. CARR: At this time, Mr. Brooks, we move the
15 admission into evidence of EOG Resources, Inc., Exhibits 6
16 and 7.

17 EXAMINER BROOKS: Exhibits 6 and 7 are admitted.

18 MR. CARR: That concludes my direct examination
19 of Mr. Cate.

20 EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. Okay, Mr. Cate, did I correctly understand you
23 that the Gulf Eddy GL State Number 1, while it was
24 perforated in the lower Morrow, was not produced from the
25 lower Morrow?

1 A. No, it did produce its 2.7 BCF in the very most
2 lower Morrow sand.

3 Q. Okay, so I didn't correctly understand.

4 A. Yeah. But our target is actually this thicker
5 sand up above, is what -- We have mapped that interval from
6 10,950 to 11,000, and that is the thickness reflected on
7 the map, Exhibit 6, for the isopach.

8 Q. Okay, and that was perforated in the Gulf Eddy GL
9 but not produced, correct?

10 A. That's correct. They squeezed the lower Morrow
11 perfs and middle Morrow perfs that they had tested and then
12 ended up in that very most --

13 Q. It's that lowest red line, down at the bottom of
14 the lower Morrow, is the perforations through which that
15 produced?

16 A. That's correct.

17 Q. Okay. Given that there aren't any good wells in
18 the horizon that is your target, is it the fact that it's
19 updip from there, is that what makes it an attractive
20 prospect?

21 A. Yes, that's correct. Updip, and that in the EOG
22 Barbie well, which is in the north half of 23 --

23 Q. Right.

24 A. -- we see the lower Morrow beginning to thicken
25 again.

1 Q. Right.

2 A. And we're hoping that it will be thick enough to
3 contain the sands at this location.

4 Q. And high enough not to experience the water
5 problems that Gulf did?

6 A. That's correct.

7 Q. Did you prepare the AFE that was admitted as
8 Exhibit Number 3?

9 A. No, I did not, that's prepared by our drilling
10 department.

11 Q. Okay, so if I were to ask you questions about
12 that, you wouldn't be able to answer them?

13 A. Well, I'm familiar with the AFE and did the PAF,
14 is our project approval forms. I haven't run all the
15 economics, which incorporates the AFE, and of course we had
16 just drilled the well just within half a mile north, so we
17 know what the drilling days should be. I did not actually
18 prepare it, but I have looked at it, and it looked very
19 reasonable.

20 Q. Okay. The thing that I was a little curious
21 about, about it, and I don't know a lot about these things,
22 but it seemed that while the total amount was actually
23 rather low for a Morrow well in Eddy County, I guess the
24 Morrow is not as deep here as it is some places, but the
25 ratio of completion costs to drilling costs was higher than

1 what we normally see. Do you know why that is in this
2 particular location?

3 A. Yes, we typically put costs in for stimulation.
4 Yes, \$120,000, if you'll -- Let's see. Yes, if you'll
5 notice under the completion stimulation --

6 Q. Right.

7 A. -- that's \$120,000. Our common practice is that
8 we will frac the well. We have found, especially in these
9 areas where there's tight sands, that to really get a
10 decent initial rate out of them they need a frac job. And
11 so they require typically an alka-foam frac, which is --
12 it's sensitive to the sandstone, it doesn't damage it, and
13 it's very expensive. That's why these cost -- the frac
14 jobs cost so much.

15 Q. And is that an expenditure that often is not
16 included on AFEs?

17 A. Ours typically have the in there --

18 Q. Yeah.

19 A. -- and we do typically frac them, so this would
20 be reasonable to expect --

21 Q. Well, it's fairly typical to frac the Morrow, is
22 it not?

23 A. Yes --

24 Q. All operators --

25 A. -- these days it is, yes.

1 Q. I was just wondering why the completion costs as
2 a percentage of the total cost were higher than what you
3 very often see in the Morrow AFES.

4 A. Yeah. Like I say, I believe it's due to the
5 higher stimulation cost on the completion.

6 EXAMINER BROOKS: Very good, thank you. That's
7 all I have.

8 EXAMINER STOGNER: I have a couple of questions
9 for Mr. Cate.

10 EXAMINER BROOKS: Go ahead.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. I'm referring now to the cross-section. This
14 pool that you're proposing to complete in is an Atoka-
15 Morrow Pool. When I look across here the Atoka is not
16 included. Are there some Atoka perforations in these wells
17 shown on the cross-section?

18 A. No, Mr. Examiner, not on these wells. Like I
19 say, I had looked at the Atoka. I saw one that they had
20 recompleted. Frankly, I can't remember exactly which well
21 it is, but it was a noncommercial, like maybe less than 50
22 million cubic feet. And so we really don't see it as a
23 potential. But had we, you know, lucked into one as a
24 possible recompletion, we would obviously want to be able
25 to produce that.

1 Q. So you don't know why the Atoka was included in
2 that pool?

3 A. No, I really don't know that.

4 EXAMINER STOGNER: No other questions.

5 MR. CARR: That concludes our presentation in
6 this case.

7 EXAMINER BROOKS: Very good. If there's nothing
8 further, then Case Number 12,893 will be taken under
9 advisement.

10 (Thereupon, these proceedings were concluded at
11 8:52 a.m.)

12 * * *

13
14
15
16 I do hereby certify that the foregoing
17 is a correct and true copy of the
18 proceedings of the Board of Game and
19 Fish Commission, Examination
20 Of Conservation Division, Examiner
21
22
23
24
25

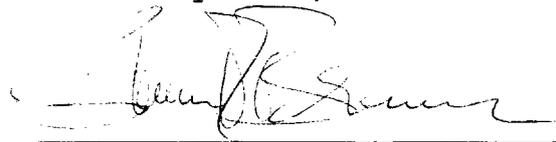
CERTIFICATE OF REPORTER

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 July 26th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002