

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6
7 1 February 1989

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Nearburg Producing Comp- CASE
11 any for an unorthodox gas well location, 9568
12 Eddy County, New Mexico.

13 BEFORE: David R. Catanach, Examiner

14
15 TRANSCRIPT OF HEARING

16
17 A P P E A R A N C E S

18 For the Division:

19
20 For Nearburg Producing
21 Company:

22 William F. Carr
23 Attorney at Law
24 CAMPBELL and BLACK, P. A.
25 P. O. Box 2208
Santa Fe, New Mexico 87501

1 MR. CATANACH: At this time
2 I'll call Case 9568.

3 The application of Nearburg
4 Producing Company for an unorthodox gas well location, Eddy
5 County, New Mexico.

6 MR. CARR: May it please the
7 Examiner, my name is William F. Carr. We represent Near-
8 burg Producing Company.

9 This case was heard on January
10 the 4th. At the time of the hearing it was discovered one
11 party had not received notice. Notice was provided by
12 certified mail on that date and now the case can be taken
13 under advisement based on the record made on January 4th.

14 MR. CATANACH: There are no
15 other appearances in this case at this time?

16 If not, Case 9568 will be
17 taken under advisement.

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

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9368, heard by me on February 1 1989 :

David R. Catorna, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 4 January 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Nearburg Producing Company for an unorthodox gas well location, Eddy County, New Mexico. CASE 9568

10 BEFORE: David R. Catanach, Examiner
11
12
13

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S
16

17 For the Division: Robert G. Stovall
18 Attorney at Law
19 Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico

20 For Nearburg Producing Company: Scott Hall
21 Attorney at Law
22 CAMPBELL and BLACK, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501
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I N D E X

CHARLES E. NEARBURG

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Cross Examination by Mr. Catanach 10

LOUIS J. MAZZULLO

Direct Examination by Mr. Hall 11

Cross Examination by Mr. Catanach 18

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Nearburg Exhibit One, Plat 5

Nearburg Exhibit Two, Plat 6

Nearburg Exhibit Three, Structural Map 12

Nearburg Exhibit Four, Isopach 14

Nearburg Exhibit Five, Isopach 14

Nearburg Exhibit Six, Letter 8

1 MR. CATANACH: Call next Case
2 9568.

3 MR. STOVALL: Application of
4 Nearburg Producing Company for an unorthodox gas well
5 location, Eddy County, New Mexico.

6 MR. CATANACH: Are there
7 appearances in this case?

8 MR. HALL: Mr. Examiner, Scott
9 Hall from the Campbell & Black law firm on behalf of the
10 applicant. We have two witnesses in this case this
11 morning.

12 MR. CATANACH: Any other
13 surprise appearances?

14 Will the witnesses please
15 stand to be sworn in.

16
17 (Witnesses sworn.)

18
19 CHARLES E. NEARBURG,
20 being called as a witness and being duly sworn upon his
21 oath, testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. HALL:

25 Q For the record, please state your name

1 and by whom you're employed.

2 A My name is Charles Nearburg. I live in
3 Dallas and I'm employed by Nearburg Producing Company as
4 its president.

5 Q And have you previously testified before
6 the Examiner and had your credentials made a matter of re-
7 cord?

8 A Yes, several times.

9 Q Are you familiar with the application
10 and the subject lands in this case?

11 A Yes, I am.

12 MR. HALL; Mr. Examiner, are
13 the witness' credentials still acceptable today?

14 MR. CATANACH: They are.

15 Q What is it that Nearburg seeks by this
16 particular application?

17 A Basically Nearburg seeks the approval of
18 an unorthodox Morrow well location at a point 1980 feet
19 from the north line and 990 from the west line of Section
20 26, Township 19 South, Range 25 East, Eddy County, New
21 Mexico.

22 Q And are you familiar with the rules
23 covering development of the Morrow formation in the area?

24 A Yes, I am.

25 Q What are those locational requirements?

1 the working interest in the proposed well to be drilled
2 and, let's see here, I guess that's the long and short of
3 this.

4 Q All right, let's look at Exhibit Two.
5 Does that exhibit shows the offsets and does it also show
6 the proposed location and a standard location for this
7 proration unit?

8 A Yes, Exhibit Number Two is basically
9 just another version of Exhibit Number One, although a
10 smaller or larger scale, depending on how you want to look
11 at it.

12 Q And why is this unorthodox location be-
13 ing proposed in this case?

14 A Basically the geology will more thor-
15 oughly cover this, but basically, we don't feel like we
16 have much of a chance, if any, of making a Morrow well if
17 we move it off of this location.

18 We've had difficulty making good wells
19 in the area in any case, and based on our geologic data
20 gathered in the drilling of the two offset wells, which I
21 just referred to, including dipmeters, et cetera, this ap-
22 pears to be the only location in that north half proration
23 unit which makes any sense.

24 Q All right, and you have another witness
25 who will --

1 A Yes.

2 Q -- provide geologic testimony, do you
3 not?

4 A Yes, Mr. Mazzullo will.

5 Q All right, Mr. Nearburg, do you believe
6 that the production from the subject well should be re-
7 stricted or penalized due to its location?

8 A Well, no, I don't believe it should,
9 being as we operate all the offset wells and also by virtue
10 of the fact that there's not been any particularly astound-
11 ing production in this immediate area, and given the dif-
12 ficulty that we're having marketing the gas in the first
13 place and the prices that we're receiving for it, no, I
14 would request that it not be penalized.

15 Q Did you request that a minimum allowable
16 be set for the well if, in fact, its production is penal-
17 ized?

18 A I think, yes, at least a million -- 1000
19 MCF per day.

20 Q Should production be penalized, what
21 affect would that have on your plans to go forward with the
22 well?

23 A Oh, I think we would seriously reconsi-
24 der our plans to drill it. It would be -- it would be very
25 difficult to convince our, you know, our partners in the

1 well that it would -- that it would justify the risk.

2 So we -- the well would probably not be
3 drilled.

4 Q All right. Mr. Nearburg, do you believe
5 that granting your application will be in the best interest
6 of conservation, the prevention of waste, and the protect-
7 ion of correlative rights?

8 A I do. We try to do a very thorough job
9 of drilling and evaluating this area and I think this is
10 sort of a last proration unit, one of the last proration
11 units in the immediate area that can be tested.

12 Q All right. Let me refer you to what's
13 been marked as Exhibit Six. Could you identify that,
14 please, sir?

15 A Yes. Exhibit Six is a letter, a waiver
16 of opposition letter from Mr. Michael Engeler (sic), Land
17 Manager of American National Petroleum Company, which is
18 the -- which is the owner of the southeast quarter of
19 Section 27, 19 South, 25 East. We have been working with
20 American National Petroleum Company and this is a waiver of
21 their objection to this well location.

22 Q Is Nearburg requesting an expedited or-
23 der in this matter?

24 A We would not -- well, wait a minute,
25 maybe I should --

1 Q And if so, why?

2 A Well, we don't desire to present any
3 undue hardship on the Commission, but we -- part of the
4 economics of our drilling in this area have been -- have
5 been -- are based on being able to make a deal with a
6 drilling contractor to move from one successive location to
7 the next, and therefore we have three wells that we would
8 like to drill back to back in order to get these economies
9 in scale.

10 If we have to stop between wells and he
11 has to move off and come back, it adds significantly to the
12 cost, and for that reason we are not in this particular
13 case -- well, I won't comment -- anyway, under a particular
14 land bind, it's just a matter of economics at this point.

15 Q All right. Were Exhibits One, Two and
16 Six prepared by you or at your direction?

17 A Yes, they were.

18 MR. HALL: We'd move the ad-
19 mission of the --

20 A Well, Six wasn't. I mean we requested
21 the letter.

22 Q All right.

23 MR. HALL: I'll move the admis-
24 sion of Exhibits One, Two and Six, anyway.

25 MR. CATANACH: Exhibits One,

1 Two and Six will be admitted as evidence.

2 MR. HALL: Nothing further of
3 this witness.

4
5 CROSS EXAMINATION

6 BY MR. CATANACH:

7 Q So you're not currently drilling the
8 well?

9 A Oh, no.

10 Q Do you know what the well, the Perino
11 Well, on the south half of 23, what does that make, appro-
12 ximately, do you know?

13 A Right now it's making on the order of
14 250 MCF per day, or less. It's been declining. When we
15 initially put it on production it started off at about 500
16 and it's been steadily declining in rate and pressure since
17 then.

18 Q How about the Boyd State No. 1?

19 A The Boyd State's been producing, I be-
20 lieve, somewhere in the range of 1-million or 1000 MCF to
21 1500 MCF per day and while we are seeing some decline in
22 the flowing tubing pressure, it does not appear near as
23 drastic as the Perino has.

24 Q Is that a Morrow gas well in the south-
25 west quarter of Section 27?

1 A That well was drilled by Coquino and it
2 was called the Coquina (unclear) State and it was drilled
3 and did test the Morrow formation and encountered very
4 tight sands and I don't believe I'm misstating the fact
5 that they -- I think they ran -- well, the logs are fairly
6 conclusive that the well did not produce. I believe they
7 also ran a DST which recovered nothing. I'm not positive
8 about the DST.

9 Q So that well is not producing?

10 A No, it never has produced.

11 MR. CATANACH: I have no fur-
12 ther questions. The witness may be excused.

13

14 LOUIS J. MAZZULLO,
15 being called as a witness and being duly sworn upon his
16 oath, testified as follows, to-wit:

17

18 DIRECT EXAMINATION

19 BY MR. HALL:

20 Q For the record please state your name.

21 A My name is Louis Mazzullo.

22 Q Mr. Mazzullo, by whom are you employed
23 and in what capacity?

24 A I'm a geological consultant under con-
25 tract to Nearburg Producing Company of Midland, Texas.

1 Q And you've previously testified before
2 the Examiner and had your credentials made a matter of
3 record, have you not?

4 A I have.

5 Q And you're familiar with the subject
6 well and the application we're here for today?

7 A I am.

8 MR. HALL: Mr. Examiner, are
9 the credentials of the witness acceptable?

10 MR. CATANACH: They are.

11 Q Mr. Mazzullo, let's refer to Exhibit
12 Three, if you would, please, sir, if you would explain that
13 to the Examiner.

14 A Exhibit Three is a structure map drawn
15 on the top of the Middle Morrow, which in this area de-
16 fines the top of the pay interval of the Morrow formation.

17 The Morrow formation pays from an inter-
18 val of approximately 200 feet. Within that interval of 200
19 feet are a number of discrete sandstones which constitute
20 the pay in the Morrow.

21 The structure map shows regional dip to
22 the southeast around the proposed location that's indi-
23 cated by the red dot and the red arrow. This easterly dip
24 is defined on the top of the Middle Morrow on the contour
25 interval of 50 feet on this map.

1 Please note that in the southwest
2 quarter of Section 26 is the Nearburg Boyd State 26 No. 1,
3 with a subsea of 5862 feet.

4 The proposed location is anticipated to
5 be up dip of that Boyd State 26-1 by a number of feet,
6 perhaps as much as 10 to 12 or 15 feet high to the well in
7 the southwest quarter. The well is proposed at this loca-
8 tion for a number of reasons, not the least of which is
9 structural favorability on two of the major Morrow reser-
10 voir zones that we're targeting in the proposed well. If
11 we were to move this well towards a standard location, that
12 is, towards the east by 990 feet, we run the risk of coming
13 down dip, perhaps even further down dip than the 26 No. 1.
14 Mr. Nearburg has already testified to the fact that the 26
15 No. 1 is declining in flowing tubing pressure, even though
16 production hasn't shown any substantial decrease yet, but
17 by being as far up dip as possible, we are firstly reducing
18 the amount of risk of drilling a depleted zone or at least
19 getting into -- at the very least getting into a possible
20 waterleg, which you do get into in this area.

21 Q How many Morrow zones are productive in
22 this area?

23 A Oh, there are a number of zones. I've
24 zoned the Morrow in this region into, perhaps, up to 12
25 different zones, but not all of them pay in every well.

1 Each well out here pays almost -- you could almost say that
2 every well pays out of a different zone, although that's
3 not strictly the case.

4 All the wells that you see on this -- on
5 this map that are colored in solid black are Morrow wells,
6 but they all produce out of variously different zones in
7 that 200 foot interval.

8 Q Are there typically multiple pay zones
9 for each well on this?

10 A Yes, that's not -- that's pretty common
11 in this area.

12 Q All right. Let's look at Exhibits Four
13 and Five, if you would, please.

14 A Exhibit Number Four is an isopach map or
15 a thickness map of total sand in one of the zones, one of
16 the major intervals that is productive in the Morrow. I
17 designate this as Morrow Zone 1-A. Other operators in the
18 area might assign this to Zone D or C, depending on termin-
19 ology.

20 Zone 1-A is actually a 50-foot interval
21 at the top of the Morrow reservoir that encompasses a
22 number of different sandstone units. These sandstone units
23 have been lumped together and a net sand value for each
24 well in this zone has been assigned on the basis of clean-
25 liness as we define it on a gamma ray log. So, for

1 example, the South Boyd -- the Boyd State 26 No. 1 in the
2 southwest quarter of the subject section contains 16 feet
3 of clean sand within this 50-foot interval that I've map-
4 ped.

5 The interval, or the trends of the sands
6 or the elongation from north to south in this unit reflects
7 the dominantly fluvial character of the sand. In other
8 words, these sands were deposited in rivers which flowed
9 from the north to the south. As I show, a thickness in the
10 sand may reach a maximum in the vicinity of the proposed
11 location.

12 The reason I've drawn this map and the
13 trends the way I have is based upon dipmeter data that
14 we've been able to get out of this zone in the Boyd State
15 26 No. 1 and in the Perino No. 2 in the southwest quarter
16 of Section 23. This dipmeter data indicates that this
17 particular sand unit, or the sand units that comprise this
18 mapping horizon are flowing from the south to the north --
19 from the north to the south, rather, and that they are
20 thickening in a direction away from and east of the Boyd
21 State 26 No. 1.

22 You'll notice alongside the 25 No. 1
23 there's a little arrow. That arrow is pointing southeast-
24 ward in the direction of flow of this fluvial unit, with a
25 little arrow pointing towards the east, which indicates a

1 thickening in that direction.

2 This is the major target horizon in the
3 Morrow that we're going after. It pays -- it's perforated,
4 I should say, in the No. 23-2, indicated by the solid
5 triangle with the number 19 indexed on it, but that well
6 contains a minimum amount of porosity, which I consider to
7 be productive in this area.

8 The dotted pattern on this map indicates
9 areas where there is more than 10 feet of 8 percent poro-
10 sity in the Morrow Sands, which in this area constitutes an
11 arbitrary cutoff value for an economic well.

12 By putting the location nonstandard as
13 we are, we're towards the west section line of Section 26,
14 I hope to get us into a structurally favorable position as
15 I defined on the previous exhibit, as well as tapping into
16 an area of maximum porosity development, or at least I hope
17 there to be maximum porosity development at that location.

18 If I were to move the location further
19 to the east, I will probably be in a similar porosity sit-
20 uation, but I'll be down dip and run the risk of getting
21 into water in this zone, which is a problem.

22 Q So in your opinion do you believe that
23 there is a greater likelihood of success drilling the well
24 at the unorthodox location than the standard location?

25 A Yes, I do.

1 Q And it's less likely that you'll en-
2 counter unacceptable amounts of water production at that
3 location?

4 A Yes, it is less likely to produce any
5 damaging water at that proposed location.

6 Q All right, let's look at Exhibit Five.
7 Do you have anything you wish to add about that?

8 A No, that's all I have.

9 Q Okay. Mr. Mazzullo, in your opinion is
10 -- do you believe that the granting of the application will
11 be in the best interest of conservation, the prevention of
12 waste, and protection of correlative rights?

13 A Do you want to comment on this?

14 Q That's Five.

15 A Exhibit Five.

16 Q That's what I asked you.

17 A Oh, I'm sorry, I misunderstood counsel.

18 In regard to say -- there's not much I
19 could add on Exhibit Number Five except that this is a
20 lower mapping horizon below the major objective in the
21 Morrow. It's mapped similar to the way I've mapped the
22 Zone 1-A. It is entirely more risky, it's a more risky
23 target horizon than the previous one because we have a
24 limited -- only a limited amount of data from offset wells
25 to suggest that this trend actually exists.

1 If it does exist, and if -- if the
2 thickening of the unit is as I show it on this well, again,
3 I would prefer to stay up dip, on the up dip flank of the
4 channel unit in order to maximize productivity of gas and
5 minimize productivity of water.

6 Q Right. Let me ask you again, do you
7 believe that granting the application will be in the best
8 interests of conservation, the prevention of waste and
9 protection of correlative rights?

10 A I do.

11 Q Were Exhibits Three, Four and Five pre-
12 pared by you or at your direction?

13 A They were prepared by me.

14 MR. HALL: We move the admis-
15 sion of Exhibits Three, Four and Five, and that concludes
16 our direct of this witness.

17 MR. CATANACH: Exhibits Three,
18 Four and Five will be admitted as evidence.

19
20 CROSS EXAMINATION

21 BY MR. CATANACH:

22 Q Mr. Mazzullo, does Zone 2 produce in
23 this area?

24 A Yeah. If you look on the map, there are
25 two wells that are indexed with solid triangles, one in

1 Section 22 and one in Section 27, both of which are oper-
2 ated by Nearburg Producing Company. They produce out of
3 this zone but as you can tell, they're not in a productive
4 porosity fairway, as I've defined it by the dotted pat-
5 terns.

6 I'm not even sure that this fairway is
7 going to exist at the proposed location. It's highly
8 speculative, so it makes this zone extremely risky and just
9 speculative at this point.

10 Q But if in fact it does exist, you're
11 moving further away from the area of maximum porosity de-
12 velopment.

13 A Well, again, we might -- we might -- if
14 we move further to the east, particularly in Zone No. 2,
15 which is already stratigraphically lower than Zone 1-A.
16 This zone here tends to be wet. If you look down in Sec-
17 tion 35, there's a well that has 47 feet of sand. That
18 well is wet, doesn't produce out of this zone. It tested
19 wet out of this zone even though it has the thickest sand
20 in the whole -- in the whole area. So if -- if in fact
21 this zone does exist at the proposed location, I'd sure --
22 I would sure like -- prefer to keep it as far up dip on the
23 flank of the unit as possible.

24 Q Is the well in the south -- the Boyd
25 State No. 1, does that -- does that produce any water at

1 all?

2 A Not -- not at present, and it's not
3 perforated in either one of these zones. It's perforated
4 in what I would call Zone 1-B, and it's not -- it doesn't
5 -- I don't anticipate Zone 1-B being developed at the
6 proposed location. That's a different animal altogether.

7 Q So your primary target would be Zone
8 1-A?

9 A 1-A.

10 Q Do you have any data which indicates
11 where the -- where the gas/water contact might be in
12 Section 26?

13 A In 26, it's very hard to predict that
14 because we don't have enough -- we don't have enough wells
15 that penetrate a good porosity section in this zone. The
16 only one that's penetrate -- well, there aren't any on this
17 map that penetrated a good porous section of this zone, so
18 it's hard to tell.

19 Elsewhere along this trend, if you'd
20 follow this trend down towards the south or up towards the
21 north, you'll find a number of wells that have -- that have
22 tested wet in this zone, but because these porosity zones
23 are isolated and separated by tight rock, it's hard to pin
24 down, they'd be different in different areas along the
25 trend. You could have the oil -- the gas/water contact at

1 one level at one point and another level in another point,
2 because along trend you don't even have pressure connec-
3 tion.

4 MR. CATANACH: I don't have
5 any more questions. The witness may be excused.

6 Is there anything further in
7 this case?

8 MR. HALL: Yes, Mr. Examiner.
9 Notice in this case was timely sent to all interest owners
10 entitled to notice. Unfortunately due to an administrative
11 error it was for the wrong case.

12 We had to send out notice
13 again on December 27th and we therefore request that this
14 matter be kept open for the docket on the 18th of this
15 month to enable those (unclear) to appear if they so
16 desire.

17 MR. CATANACH: This hearing
18 will be continued to leave the record open to January 18th.

19 What interest owners did you
20 have to re-notify?

21 MR. HALL: I'll be glad to
22 supplement the record with an affidavit or I can read them
23 to you here today.

24 MR. CATANACH: Why don't we do
25 both?

1 MR. HALL: Okay. Would you
2 like the addresses as well?

3 MR. CATANACH: No.

4 MR. HALL: Okay. Notice was
5 sent on both December 13th and December 27th to the fol-
6 lowing: Edward Judson, Kim Williams, William Martin of
7 Midland; Coquina Oil Company, Midland; Kelly Maria Taylor,
8 Midland; James D. Taylor, Midland; Marshall and Winston,
9 Incorporated, Midland; Anadarko Petroleum Corporation,
10 Midland; American National Petroleum Company, Houston. I
11 believe that's all.

12 MR. CATANACH: Mr. Hall, do
13 you know the interest these various companies hold in this
14 area?

15 MR. HALL: We've got Mr. Near-
16 burg to testify to that.

17 MR. CATANACH: Okay.

18 MR. NEARBURG: I'm not quali-
19 fied to comment as to their exact interest because I don't
20 have a land take-off.

21 American National Petroleum Company, we
22 received a letter that was previously admitted that I know
23 is the only one that has a significant interest.

24 I believe Anadarko's interest involved
25 some small leases in the -- in the west half of the west

1 half of Section 22, and we have previously worked with all
2 of the other people that we've sent notice to, MWJ and
3 Marshall and Winston, we have previously worked with them
4 on other interests in these areas, but to my knowledge,
5 with the exception of American National Petroleum Company,
6 all the other interests are very -- are quite small and I
7 don't even think that -- well, I think they're mostly con-
8 centrated up in the west half of Section 22.

9 I don't think that there's much in the
10 way of those interests that directly offsets the proposed
11 well.

12 MR. CATANACH: That's the
13 question I had. It seems to me that the only affected in-
14 terest is American National Petroleum Company. Other than
15 that, it looks Nearburg owns 100 percent of the affected
16 acreage.

17 MR. NEARBURG: These interests
18 are very -- I'm real comfortable in saying although I don't
19 have the take-off with me, I'm very comfortable in saying
20 that most of these other interests are very, very small,
21 but for the sake of completeness, you know, they -- they
22 were notified.

23 As we previously, obviously,
24 have proration units offsetting every direction except for
25 the ANP, American National Petroleum pieces, so you know,

1 we previously -- if these people have interests in those
2 offset proration units, we've dealt with them and, you
3 know, tried to develop their acreage for them by the
4 drilling of those wells, so --

5 MR. CATANACH: Okay, we'll
6 leave the record open then until January 18th and call for
7 appearances at that time.

8 There being nothing further
9 we'll leave the record open until January 18th, at which
10 time we'll call for any further testimony or appearances in
11 this case.

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

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9501 heard by me on January 4 1988.

David R. Catam, Examiner
Oil Conservation Division