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

EXAMINER HEARING

IN THE MATTER OF:

Application of Oryx Energy                      Cases 9783,  
Company for compulsory pooling,                      9784  
Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE:    MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
October 18, 1989

**ORIGINAL**

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FOR THE DIVISION:        ROBERT G. STOVALL  
                                 Attorney at Law  
                                 Legal Counsel to the Divison  
                                 State Land Office Building  
                                 Santa Fe, New Mexico

FOR THE APPLICANT:      KELLAHIN, KELLAHIN & AUBREY  
                                 Attorneys at Law  
                                 117 N. Guadalupe  
                                 Santa Fe, New Mexico 87504  
                                 BY: W. THOMAS KELLAHIN, ESQ.

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## E X H I B I T S

Case 9783

Case 9784

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1 HEARING EXAMINER: Let's call the next  
2 case, No. 9783, which is the application of -- I'm  
3 sorry. That's your job.

4 MR. STOVALL: Application of Oryx Energy  
5 Company for compulsory pooling, Lea County, New  
6 Mexico.

7 HEARING EXAMINER: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom  
9 Kellahin of the law firm of Kellahin, Kellahin and  
10 Aubrey, Santa Fe, New Mexico, appearing on behalf of  
11 the Applicant. I would request the examiner, for  
12 purposes of hearing, consolidate the testimony in this  
13 case with the next case, which is 9784.

14 HEARING EXAMINER: Are there any  
15 objections? Then I'll call the next case, No. 9784.

16 MR. STOVALL: Application of Oryx Energy  
17 Company for compulsory pooling, Lea County, New  
18 Mexico.

19 HEARING EXAMINER: Are there any other  
20 appearances in either of these cases besides Mr.  
21 Kellahin?

22 Let the record show there is not.

23 Mr. Kellahin, do you have any witnesses?

24 MR. KELLAHIN: Mr. Examiner, I propose to  
25 call Mr. Alan Beers, who is a petroleum landman, and

1 Mrs. Shelley Lane, who is a petroleum geologist. I'd  
2 like the record to reflect that they have previously  
3 been qualified as expert witnesses, and that they both  
4 continue under oath.

5 HEARING EXAMINER: Let the record so show.  
6 Mr. Kellahin, you may proceed.

7 MR. KELLAHIN: Mr. Examiner, at this time I  
8 call Mr. Alan Beers.

9 C. ALAN BEERS,  
10 the witness herein, after having been first duly sworn  
11 upon his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Beers, I have attempted to consolidate  
15 your exhibits, and so I don't lose track of you or you  
16 me, I have taken your land testimony exhibits with  
17 regards to each case and kept them separately  
18 numbered, and then numbered them within each case,  
19 Exhibits 1 through 4 or 5 or 6, whatever the number  
20 was. Let's use the exhibits for Case 9783 and start  
21 with those first.

22 The first exhibit I have as No. 1 is a land  
23 plat that shows various working interest ownerships  
24 and percentages. Are you familiar with that display?

25 A. Yes, sir.

1 Q. Let's use that display and have you, first  
2 of all, identify to the best of your knowledge the  
3 information contained on that display is true and  
4 accurate, is it?

5 A. Yes, it is.

6 Q. Let's identify the well that is the subject  
7 of Case 9783, which, according to the docket sheet is  
8 identified as the spacing unit in the south half of  
9 Section 26. And that will be the Ojo Chiso Federal  
10 No. 2 Well, is it?

11 A. Yes, sir, it sure is.

12 Q. How is that shown on the exhibit?

13 A. It is shown as a proposed location, and the  
14 working interest is owned, Oryx 50 percent; BTA, 25  
15 percent; Pacific Enterprises, 12.5; and Joe Reynolds,  
16 12.5.

17 Q. For Case 9784, the docket identifies that  
18 acreage to be the north half of Section 27, and that  
19 is identified as the Antelope Ridge No. 1 Well, I  
20 believe; is that correct?

21 A. That is correct.

22 Q. Is that proposed well location and spacing  
23 unit shown on your display?

24 A. Yes, it is.

25 Q. Is there any difference in the working

1 interest owners between the spacing unit in the south  
2 half of 26 and the spacing unit in the north half of  
3 27?

4 A. No, there's not.

5 Q. Let's turn to the Ojo Chiso Federal No. 2  
6 Well and have you look at Exhibit No. 2. What is that  
7 exhibit?

8 A. That is a summary of events between myself  
9 and the other parties that own a working interest.

10 Q. Who are the working interest owners that  
11 you have had discussions with?

12 A. Pacific Enterprises, BTA Producers, and Joe  
13 Reynolds.

14 Q. As of the date of this hearing, Mr. Beers,  
15 have you reached on a voluntary basis 100 percent  
16 commitment of the working interest owners to the well  
17 either by farmout or participation?

18 A. No, sir.

19 Q. On either well?

20 A. Not 100 percent, no, sir, on either well.

21 Q. When we look at 9783, which is the Ojo  
22 Chiso No. 2 Well, tell us what parties still have not  
23 committed their interest to the well?

24 A. BTA Producers, Pacific Enterprises, and Joe  
25 Reynolds.

1 Q. When we look at the other case, 9784, for  
2 the Antelope Ridge No. 1 Well, what working interest  
3 owners as of the date of the hearing today have not  
4 committed their working interest?

5 A. Pacific Enterprises and Joe Reynolds.

6 Q. So for the north half of 27 then, BTA's  
7 interest is in fact committed --

8 A. Yes, sir.

9 Q. -- while their interest is not committed in  
10 the Ojo Chiso No. 2 Well?

11 A. That's correct.

12 Q. When did you first propose both of these  
13 wells to the working interest ownership?

14 A. The Ojo Chiso's Federal No. 2 and the south  
15 half of 26 was proposed on September the 12th, and the  
16 Antelope Federal Com No. 1 in the north half of 27 was  
17 proposed on August the 29th.

18 Q. When we look at the correspondence by which  
19 you have transmitted your proposals with regards to  
20 the well, does Exhibit No. 3 in Case 9783 represent  
21 that correspondence?

22 A. Yes, it does.

23 Q. When we turn to Exhibit No. 4 in Case 9783,  
24 what is that?

25 A. That is our proposed AFE for the proposed

1 well in the south half of Section 26.

2 Q. Is this the AFE you submitted to the  
3 working interest owners?

4 A. Yes, it is.

5 Q. Have you received any objection with  
6 regards to the estimated cost of the well as  
7 identified on Exhibit No. 4?

8 A. No, I haven't.

9 Q. Again, for the pooling of this spacing  
10 unit, you're proposing to pool all deep gas formations  
11 below the top of the Wolfcamp to the base of the  
12 Pennsylvanian formation?

13 A. I believe we're pooling from the surface to  
14 the basin of the Pennsylvanian; is that not correct?

15 Q. Yes, sir, but with regards to the deep gas  
16 spacing on 320 acres from the top of the Wolfcamp to  
17 the base of the Pennsylvanian, is the spacing unit --

18 A. Yes, that's correct.

19 Q. If there is shallower production that would  
20 be based on, say, 160 acres, do the parties or the  
21 percentages change from the 320 participation?

22 A. No, they don't.

23 Q. If it's reduced to 80's or 40-acre oil or  
24 gas spacing, are the parties the same and the  
25 percentages the same?

1 A. Yes, they are the same.

2 Q. In both wells?

3 A. In both wells.

4 Q. Let's turn to the exhibit package in the  
5 case, and it continues with Exhibit No. 5, which is  
6 the proposed Joint Operating Agreement?

7 A. Okay.

8 Q. That Joint Operating Agreement is a copy of  
9 the Joint Operating Agreement from the north half of  
10 Section 26, is it not?

11 A. It sure is, yes.

12 Q. Do you propose to use the same type format,  
13 Joint Operating Agreement, for each of these two wells  
14 that are the subject of the consolidated hearing?

15 A. Yes, I do.

16 Q. And you'll simply modify the language to  
17 make it appropriate for these wells?

18 A. That's correct.

19 Q. What are the proposed overhead rates in the  
20 Joint Operating Agreement for the north half of 26?

21 A. We propose a drilling well rate of \$5,800  
22 and a producing well rate of \$580.

23 Q. The same parties involved in these two  
24 spacing cases have agreed in writing by signing that  
25 Joint Operating Agreement to those proposed operating

1 charges?

2 A. Yes, sir.

3 Q. Do you recommend those charges to the  
4 examiner in the pooling cases before him now?

5 A. Yes, I do.

6 Q. Let's go through the package of exhibits  
7 for Case No. 9748. This is the Antelope No. 1 Well.  
8 Exhibit 1 is the same as Exhibit 1 in the other case?

9 A. That's correct.

10 Q. Exhibit No. 2, what is that?

11 A. That is my summary of events in proposing a  
12 well and trying to get a voluntary joinder in a  
13 proposed well.

14 Q. When we turn to Exhibit No. 3 in Case 9784,  
15 what does this represent?

16 A. This is my correspondence with the parties  
17 involved.

18 Q. Exhibit No. 3 is a package of letters dated  
19 August 29, 1989?

20 A. Yes, it is. That was the first proposal of  
21 the proposed well with the attached AFE.

22 Q. When we go to Exhibit No. 4, which is a  
23 letter dated August 30, 1989, what are you attempting  
24 to do here?

25 A. The proposed AFE went out with Oryx Energy

1 Company's interest being wrong, and we simply changed  
2 it and mailed out the same AFE with the Oryx interest  
3 being changed from 100 percent to 50 percent, which  
4 didn't affect any cost for any of the parties.

5 Q. When we turn to Exhibit No. 5, would you  
6 identify and describe this correspondence?

7 A. This is my notification to the parties that  
8 we were scheduling a pooling hearing for October the  
9 18th.

10 Q. Exhibit No. 6 represents what, Mr. Beers?

11 A. This is our proposed AFE for the Antelope  
12 Federal Com, the well in the north half of Section 27.

13 Q. And Exhibit No. 7 in Case 9784 is the Joint  
14 Operating Agreement?

15 A. Yes, it is.

16 Q. That was used for the north half of 26?

17 A. Yes, it was.

18 Q. And, again, you propose to utilize that  
19 same format?

20 A. Yes.

21 Q. And language for the Antelope Ridge No. 1  
22 Well?

23 A. Right.

24 Q. In your opinion, Mr. Beers, have you as a  
25 landman exhausted all good faith efforts to form on a

1 voluntary basis spacing units for each of the two  
2 wells?

3 A. Yes, I have.

4 MR. KELLAHIN: That concludes my  
5 examination of Mr. Beers, Mr. Stogner.

6 We would move the introduction of his  
7 Exhibits 1 through 6 in Case 9783, and 1 through 7 in  
8 Case 9784.

9 HEARING EXAMINER: All the exhibits which  
10 you mention are going to be taken under advisement at  
11 this time. I'm also going to take administrative  
12 notice of the testimony presented in the previous  
13 case, Case No. 9782, in the best interests of time.

14 And at that point I have no questions of  
15 this witness.

16 You may continue.

17 MR. KELLAHIN: Thank you. At this time,  
18 Mr. Examiner, I would like to submit to you the  
19 certificates of mailing. The certificate of mailing  
20 in Case 9783 is Exhibit No. 6. The certificate of  
21 mailing in Case 9784 is Exhibit No. 8.

22 At this time, Mr. Examiner, we'd like to  
23 call Mrs. Shelley Lane as the petroleum geologist on  
24 behalf of Oryx Energy Company.

25 SHELLEY LANE,

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

3 DIRECT EXAMINATION

4 BY MR. KELLAHIN:

5 Q. Miss Lane, would you identify for the  
6 examiner how you have organized your geologic  
7 presentation in terms of both these cases?  
8 Specifically, if he looks at a set of the geologic  
9 displays in Case 9783, are you proposing the same  
10 geologic displays in Case 9784?

11 A. Yes. They are essentially the same.

12 Q. In what ways are they different?

13 A. The pond chart for the risk factor, those  
14 are different, and they do have the proposed units on  
15 them for the -- for instance, in 9783, I have outlined  
16 or hatched the proposed unit, and then on 9784, I've  
17 hatched that proposed unit. So there is a slight  
18 difference.

19 Q. Let's do this then. I'm going to hand you  
20 what is proposed as Exhibit No. 7 in Case 9783, as  
21 well as Exhibit No. 9 in Case 9784. If you'll lay  
22 them side by side, we'll talk about both cases with  
23 regards to that structure map.

24 A. Yes.

25 Q. Let's start with the well in the south half

1 of 26, which is your Ojo Chiso No. 2 Well?

2 A. Yes, sir.

3 Q. Why have you selected this particular  
4 location and this particular orientation of the  
5 spacing unit?

6 A. I first might address the location. That  
7 is the proposed location that is on the AFE. We do --  
8 we are still negotiating the exact location. BTA  
9 would like to move the location a little bit to the  
10 west, and so they would like this order to reflect a  
11 legal location, and not this specific location.

12 Q. I believe, Miss Lane, that the application  
13 does, in fact, indicate a standard location anywhere  
14 within the particular quarter section?

15 A. Yes.

16 Q. We may have been so specific as to  
17 designate a possible 40-acre tract, but you're  
18 proposing a standard location?

19 A. Exactly, yes, sir.

20 Q. That is true of both wells, each well in  
21 each case is a standard well location?

22 A. Yes, sir.

23 Q. The examination of the geology to the Ojo  
24 Chiso No. 2 Well in Case 9783 results in what geologic  
25 conclusion with regards to a risk factor penalty?

1           A.       The risk factor, in my opinion, would be  
2 the maximum risk factor at 200 percent. And that is  
3 based on my evaluation of the surrounding wells within  
4 this area. If you look at the nine-section areas  
5 surrounding the Section 26, there are only about 45  
6 percent of those wells that have been economic  
7 producers in the Morrow formation, and the rest of the  
8 wells in this area have been dry and abandoned, or  
9 they have actually set pipe, and then tried to  
10 complete the zone, and that adds another bit of risk  
11 in that the zone is -- you cannot just evaluate it  
12 based on log analysis. There is some risk in  
13 completing the Morrow after you set pipe.

14                   So based on those two factors, I would  
15 recommend the 200 percent penalty.

16           Q.       Let's turn to the stratigraphic  
17 cross-section, which is your cross-section -- which  
18 should be B-B', isn't it?

19           A.       Yes, sir.

20                   MR. KELLAHIN: For purposes of the record,  
21 Mr. Examiner, I have marked the B-B' cross-section in  
22 Case 9783 as Exhibit No. 8.

23           Q.       Before you describe your geologic  
24 conclusions, Mrs. Lane, would you identify for us the  
25 wells, and describe for us how to read the display?

1           A.       Yes. This is a cross-section that's a  
2 stratigraphic cross-section through the Ojo Chiso  
3 Morrow field, and the wells are numbered. It's the  
4 cross-section on the location map that's indicated  
5 B-1, B-2, B-3, B-4, and B-5 are the wells on that  
6 location map, and these are the wells on the  
7 cross-section.

8                   I might point out that Wells B-3 and B-4,  
9 the information down at the bottom of those wells was  
10 inadvertently switched. It's just a drafting error.  
11 So I've indicated that with a red arrow that the  
12 production in those wells should be switched.

13                   The conclusions that I draw from this  
14 cross-section -- and this is a cross-section which  
15 vertically includes the Morrow formation. And the  
16 datum is the Morrow lime marker. And the conclusion  
17 that can be drawn from this cross-section is that the  
18 Morrow is extremely discontinuous. The productive  
19 sands can occur anywhere from around 12,800 feet down  
20 to something around 13,550 feet, and you do not  
21 necessarily know which sand you're going to get when  
22 you drill the well. So this increases the risk  
23 factor.

24                   The sands are colored in yellow, and you  
25 can see the discontinuity of the actual sands. And

1 then the porosity is even more discontinuous than the  
2 sands, and it is colored in red. This would support  
3 the 200 percent penalty.

4 Q. Is that your recommendation to the examiner  
5 for a risk factor penalty to assess in each of the two  
6 cases?

7 A. Yes, sir, it is.

8 Q. Does it diminish or reduce the risk to less  
9 than 200 percent based upon the results or outcome or  
10 log information available as the wells are drilled?

11 A. No, sir, it does not. The risk factor in  
12 here is actually much greater than the maximum allowed  
13 by the Commission, and that would not diminish the  
14 risks; so we are asking for the maximum penalty of 200  
15 percent.

16 Q. I direct your attention now to what is  
17 marked as Exhibit No. 9 in Case 9783. Would you  
18 identify Exhibit No. 9 in Case 9783?

19 A. Yes. This is pie chart which I've  
20 constructed, and it covers the area surrounding  
21 Section 26, and it includes the nine sections  
22 surrounding Section 26.

23 This pie chart shows that there were 11  
24 Morrow penetrations within this nine-section area, and  
25 out of those 11 Morrow penetrations, only

1 approximately 45 percent of those were economic  
2 producers. And by economic producers, I'm using 1 Bcf  
3 ultimate recoverable reserves for cutoff there.

4           Then if you look at the actually blackened  
5 area where I've annotated that as dry and abandoned  
6 without pipe, that means that the operator did not set  
7 pipe. They DST'd and decided the well would not  
8 produce.

9           The other wells that I talk about, the 36  
10 percent that are dry and abandoned or marginal with  
11 pipe, the operator actually set pipe on those wells  
12 and went to the added expense of setting production  
13 casing, and also attempting a completion. So that's  
14 indicating that there is a risk of completion in the  
15 Morrow formation.

16           Then the other portion, the 9 percent  
17 represents the Ojo Chiso No. 1 Well, which is  
18 currently completing, and we don't know the results of  
19 that well.

20           Q.     Do you have a geologic opinion as to  
21 whether or not there is a reasonable geologic  
22 probability of Atoka production at the Ojo Chiso No. 2  
23 Well location in the south half of Section 26?

24           A.     I do not believe we'll encounter any Atoka  
25 porosity at that location.

1 Q. The geologic conclusion then defines as the  
2 most prospective formation, the Morrow formation?

3 A. Yes, sir.

4 Q. In analyzing the economic production as  
5 you've defined it among the 11 Morrow penetrations, it  
6 appears that you have less than 50 percent of those  
7 penetrations that are economic by your standards?

8 A. Yes, sir.

9 Q. Does that fact reduce the risk factor  
10 penalty to less than 200 percent for this well?

11 A. No, sir.

12 Q. Turn with me now, if you will, to Case  
13 9784, and I'm going to show you what is marked as  
14 Exhibits 10 and 11. Let's start with 10. Would you  
15 identify and describe that?

16 A. Yes. This is a similar sort of  
17 presentation, a pie chart, and this represents the  
18 nine-section area surrounding Section 27 in our  
19 proposed Antelope No. 1 Well.

20 This chart shows that there are 12 Atoka  
21 penetrations in that nine-section area, and out of  
22 those 12 Atoka penetrations, only about a third of  
23 those have been economic producers. At least 50  
24 percent of those have been dry and abandoned or  
25 marginal wells, and then there are about 17 percent of

1 the wells that haven't been tested, and that's because  
2 they are completed at a deeper Morrow formation.

3 Q. Turn now to Exhibit No. 11 in Case 9784,  
4 and describe that display for us and your  
5 conclusions.

6 A. Yes. This is a similar chart surrounding,  
7 again, Section 27. This chart is showing the Morrow  
8 penetrations around Section 27. There were 10 Morrow  
9 penetrations, and out of those, 50 percent were  
10 economic producers. 40 percent were dry and  
11 abandoned, or marginal, and they did set pipe and go  
12 to the added expense of attempting a completion, and  
13 then 10 percent is testing, which again represents our  
14 Ojo Chiso No. 1 Well.

15 Q. With regards to the Antelope Ridge No. 1  
16 Well in the Atoka formation, does the economic  
17 evaluation that you've made with regards to the  
18 potential economic production from the Atoka of being  
19 approximately a third of the penetrations cause you to  
20 reach the geologic conclusion that the risk factor  
21 should be less than 200 percent?

22 A. No, sir, it should be 200 percent.

23 Q. As to the Morrow penetrations shown on your  
24 analysis in Exhibit No. 11, does the fact that you  
25 find 50 percent of those penetrations to be economic

1 allow you to reach the conclusion that the risk factor  
2 penalty should be less than 200 percent?

3 A. No, sir. Again, the 50 percent is a very  
4 risky number, and then the additional 40 percent of  
5 the wells which were either dry and abandoned, or some  
6 of those had to actually go to added expense; that  
7 increases the risk. So I believe the 200 percent is  
8 valid.

9 Q. In the event the Antelope Ridge No. 2 Well,  
10 which is the south half of Section 22, if, for  
11 happenstance, that well happens to be drilled first in  
12 sequence between the Antelope 1 and the Antelope 2,  
13 would that diminish the risk for the penalty factor  
14 for the Antelope region of the well?

15 A. Say that again. I'm sorry.

16 Q. We're looking at the risk factor penalty in  
17 the Atoka formation for the Antelope Ridge No. 1 in  
18 the north half of Section 27.

19 A. Right.

20 Q. The proposal is to drill that well  
21 concurrently with the Ojo Chiso Federal No. 2?

22 A. Yes.

23 Q. That's your plan?

24 A. Yes.

25 Q. If the sequence is that you drilled -- let

1 me ask you, maybe I've presumed too much. Would that  
2 be the sequence rather than have you drill the south  
3 half of Section 22 as the first well?

4 A. Yes. We would not drill the south half of  
5 22 first.

6 Q. That would be much too risky?

7 A. Yes.

8 Q. Are you going to learn anything between the  
9 Ojo Chiso No. 2 and the Antelope Ridge No. 1 that  
10 would allow you, because of that sequence and the  
11 information developed from that drilling, to diminish  
12 the risk of the second well?

13 A. No, because you still do not have any  
14 production to the north or west of you. So we are  
15 continually stepping out and extending the field, and  
16 the risk from well to well is still very high.

17 MR. KELLAHIN: That concludes my  
18 examination of Miss Lane.

19 We move the introduction of her exhibits.

20 HEARING EXAMINER: Her exhibits are hereby  
21 admitted into evidence.

22 MR. KELLAHIN: I've lost track of them.

23 HEARING EXAMINER: In the best interests of  
24 time, I'm going to again stress I'm going to take  
25 administrative notice of the testimony presented in

1 Case No. 9782 in this case.

2 Is there anything further?

3 MR. KELLAHIN: No, sir.

4 HEARING EXAMINER: In either case?

5 Does anybody else have anything further in  
6 Case Nos. 9783 and 9784?

7 Before I take this under advisement, I will  
8 make one statement. In my opinion, a little over a  
9 month is not time enough to reach voluntary  
10 agreement. However, even in a previous case in which  
11 we heard today, that was not the issue. But the next  
12 time, Mr. Beers, you come in and request compulsory  
13 pooling when you've only given them just a little over  
14 a month, I will give you extra time.

15 And with that, Cases Nos. 9783 and 9784  
16 will be taken under advisement.

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1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO )  
 ) ss.  
 4 COUNTY OF SANTA FE )

5

6 I, Deborah O'Bine, Certified Shorthand  
 7 Reporter and Notary Public, HEREBY CERTIFY that the  
 8 foregoing transcript of proceedings before the Oil  
 9 Conservation Division was reported by me; that I  
 10 caused my notes to be transcribed under my personal  
 11 supervision; and that the foregoing is a true and  
 12 accurate record of the proceedings.

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

17 WITNESS MY HAND AND SEAL November 13, 1989.

18

*Deborah O'Bine*  
 DEBORAH O'BINE  
 CSR No. 127

19

20

21 My commission expires: August 10, 1990

22

23

24

25

I do hereby certify that the foregoing is  
 a complete record of the proceedings in  
 the Examiner hearing of Case Nos. ~~9783~~ 9783 + 9784  
 heard by me on 18 October 1989.  
*Michael C. Hooper* - Examiner  
 Oil Conservation Division