

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 BC OPERATING, INC., CASE NO. 15661
CROWN OIL PARTNERS V, CRUMP
ENERGY PARTNERS, AND NADEL AND
GUSSMAN PERMIAN, LLC FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 30, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
 WILLIAM V. JONES, TECHNICAL EXAMINER
 MICHAEL McMILLAN, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, William V. Jones and Michael McMillan, Technical Examiners, and David K. Brooks, Legal Examiner, on Thursday, March 30, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
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FOR APPLICANTS BC OPERATING, INC., CROWN OIL PARTNERS V,
CRUMP ENERGY PARTNERS, AND NADEL AND GUSSMAN PERMIAN,
LLC:

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1 (10:36 a.m.)

2 EXAMINER GOETZE: Call Case 15661,
3 application of BC Operating, Inc., Crown Oil Partners V,
4 Crump Energy Partners, and Nadel and Gussman Permian,
5 LLC for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the
8 Examiners, Michael Feldewert, Santa Fe office of
9 Holland & Hart, on behalf of the Applicant. I have two
10 witnesses today.

11 MS. BRADFUTE: Jennifer Bradfute on behalf
12 of SK Warren Operating, and we have no witnesses here
13 today.

14 EXAMINER GOETZE: Very good.

15 MR. BRUCE: Mr. Examiner, Jim Bruce of
16 Santa Fe on behalf of William Joseph Foran. I have no
17 witnesses.

18 EXAMINER GOETZE: You have two witnesses?

19 MR. FELDEWERT: (Indicating.)

20 EXAMINER GOETZE: Would the witnesses
21 stand, identify yourself to the court reporter and be
22 sworn in, please?

23 MR. MOYLETT: Michael Moylett.

24 MR. GIANFALA: Brandon Gianfala.

25 (Mr. Gianfala and Mr. Moylett sworn.)

1 MR. FELDEWERT: Mr. Examiner, call our
2 first witness.

3 BRANDON GIANFALA,
4 after having been first duly sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

8 Q. Would you please state your name and identify
9 by whom you're employed and in what capacity?

10 A. Brandon Gianfala, landman at BC Operating.

11 Q. And how long have you been a landman with BC
12 Operating?

13 A. Since August of 2016.

14 Q. And do your responsibilities include the
15 Permian Basin?

16 A. Yes.

17 Q. And, Mr. Gianfala, have you previously
18 testified before the Division as an expert in petroleum
19 land matters?

20 A. Yes, I have.

21 Q. And had your credentials accepted and made a
22 matter of public record?

23 A. Yes, that is correct.

24 Q. Are you familiar with the application that's
25 been filed in this particular matter?

1 A. Yes, I am.

2 **Q. And are you familiar with the status of the**
3 **lands in the subject area?**

4 A. Yes, I am.

5 MR. FELDEWERT: Mr. Examiner, I would
6 re-tender Mr. Gianfala as an expert witness in petroleum
7 land matters.

8 EXAMINER GOETZE: Ms. Bradfute?

9 MS. BRADFUTE: No objection.

10 EXAMINER GOETZE: Mr. Bruce?

11 MR. BRUCE: No objection.

12 EXAMINER GOETZE: The witness is so
13 qualified.

14 **Q. (BY MR. FELDEWERT) Would you please turn to**
15 **what's been marked as BC Exhibit Number 1? And**
16 **utilizing this exhibit, would you please explain to the**
17 **Examiner what the company seeks here and what the**
18 **development plans are?**

19 A. It seeks the pooling of the east half of
20 Section 22, 320 acres, to drill a mile lateral.

21 **Q. Okay. And is the wellbore depicted on here in**
22 **the east half of the east of Section 22?**

23 A. Yes.

24 **Q. It shows that there are three tracts of land**
25 **involved?**

1 A. Correct.

2 Q. What's the target of your proposed well?

3 A. Wolfcamp.

4 Q. Now, with respect to this particular well, is
5 this -- is this acreage in the recently created Purple
6 Sage; Wolfcamp Gas Pool?

7 A. It is.

8 Q. Which requires 320-acre spacing whether it's an
9 oil well or gas well, correct?

10 A. Correct.

11 Q. And requires 330-foot setbacks?

12 A. That is correct, yes.

13 Q. Would this particular well comply with those
14 setback requirements?

15 A. Yes, it will.

16 Q. Is BC Exhibit Number 2 -- is that the currently
17 filed APD in the C-102 plat?

18 A. Correct. Yes.

19 Q. And, in fact, wasn't this filing done to amend
20 the existing filing to place this well in the Purple
21 Sage Gas Pool?

22 A. It was, yes.

23 Q. So this existing Exhibit Number 2, page 2 will
24 provide the Examiner with the API number for the well
25 and then the pool and the pool code, correct?

1 A. Correct.

2 Q. Now, has the company recently filed an amended
3 C-102 that describes the first and last take points?

4 A. It has, yes.

5 Q. And is that depicted in what's been marked as
6 BC Operating Exhibit Number 3?

7 A. Yes, it is.

8 Q. If I turn to what's been marked as BC Exhibit
9 Number 4, is that the well-proposal letter that was sent
10 to the working interest owners for this east-half
11 acreage?

12 A. Yes, it is.

13 Q. And does this -- did this letter include an AFE
14 for the proposed well?

15 A. Yes, it does.

16 Q. And those costs that are reflected on the last
17 page of this exhibit, are they consistent with what the
18 company and other operators incur for drilling similar
19 Wolfcamp wells?

20 A. Yes, it is.

21 Q. And if I look at the first page of this exhibit
22 down there at the bottom, does it identify for the
23 Examiner the overhead rates that are being proposed by
24 the operator?

25 A. Yes, it does.

1 Q. And what are those?

2 A. 7,000 while drilling and 700 while producing.

3 Q. And are those rates likewise consistent with
4 what other operators have incurred in this area for
5 Wolfcamp wells?

6 A. Yes, they are.

7 Q. Now, if I turn to what's been marked as BC
8 Exhibit Number 5, does this provide the Examiner with a
9 breakdown of the working interest in this east-half
10 acreage?

11 A. Yes, it does.

12 Q. I see that BC Operating does not hold the
13 interest. What's the relationship between them and
14 Crown Oil Partners, Crump Energy Partners and Nadel and
15 Gussman Delaware, LLC?

16 A. BC Operating is the operating arm for those
17 three entities, Crown, Crump and Nadel and Gussman
18 Delaware.

19 Q. And those three entities that you just
20 mentioned own a majority of the working interest in this
21 east-half section, correct?

22 A. Yes, they do.

23 Q. Now, of the remaining interest owners listed on
24 here, how many of them remain to be pooled?

25 A. All of them.

1 Q. Okay. Are there certain individuals that are
2 removed from this pooling list as of today?

3 A. Yes. They are --

4 Q. Who is that?

5 A. -- Mr. Foran.

6 Q. So he's about halfway down?

7 A. Yes, Joseph William Foran.

8 Q. And then what's the other entity?

9 A. Isramco.

10 Q. They're more towards the top, correct --

11 A. Yes.

12 Q. -- or right in the middle?

13 At this point in time, the rest remain to
14 be pooled?

15 A. Yes, they do.

16 Q. Have you been in discussion with these interest
17 owners about finalizing a joint operating agreement for
18 this acreage?

19 A. I have, yes.

20 Q. Now, in the course of that effort, was there an
21 interest owner that you were unable to locate?

22 A. Yes, there was, Theodore Hochstim.

23 Q. He's shown there at the bottom of this exhibit?

24 A. Yes, he is.

25 Q. What efforts were taken to locate this interest

1 owner?

2 A. Internet, courthouse, in the field, just about
3 everything we could think of.

4 Q. Since you were unable to locate this interest
5 owner prior to this hearing, did the company provide
6 notice by publication in the local newspaper directed to
7 interest owners?

8 A. Yes.

9 Q. And if I turn to what's been marked as BC
10 Operating Exhibit Number 6, is that the Affidavit of
11 Publication --

12 A. It is.

13 Q. -- of this hearing?

14 A. Yes, it is.

15 Q. And you've confirmed that Mr. -- how do you say
16 that?

17 A. Hochstim.

18 Q. -- Hochstim is listed in this -- by name in
19 this notice?

20 A. Yes, he is.

21 Q. Okay. Now, with respect to these remaining
22 interest owners, you said you've been in discussions
23 with them about finalizing a joint operating agreement?

24 A. Yes, I have.

25 Q. And have you been able to get in touch with all

1 of them and discuss this?

2 A. Yes, I have.

3 Q. Now, there's been an entry of appearance here
4 by Mr. S.K. Warren. Are you familiar with the principal
5 of that particular entity?

6 A. Yes, I am.

7 Q. Who is that?

8 A. Steve Warren.

9 Q. Have you been in touch with Steve Warren?

10 A. I have, yes.

11 Q. Since you proposed this well, have you
12 undertaken efforts to reach an agreement with
13 Mr. Warren?

14 A. Yes, I have.

15 Q. Initially, what did your efforts focus on, what
16 type of agreement?

17 A. A farm-out agreement.

18 Q. Have you been able to reach agreement on those
19 terms?

20 A. We have not.

21 Q. Has Mr. Warren recently requested to receive a
22 copy of the JOA that is being considered by the other
23 interest owners?

24 A. He did, or his counsel did.

25 Q. Was that this week?

1 A. It was Tuesday.

2 Q. And did you provide him a copy of that
3 yesterday?

4 A. I did.

5 Q. Is that the first time he requested to see a
6 copy of the joint operating agreement that's being
7 considered?

8 A. Yes. That's the first time he's requested.

9 Q. And that has been provided to him, correct?

10 A. Yes.

11 Q. And he, just like every other working interest
12 owner, if they execute that voluntary agreement, they
13 will be dismissed from the pooling order?

14 A. Yes, they will.

15 Q. If I turn to what's been marked as BC Exhibit
16 Number 7, does this contain an affidavit prepared by my
17 office with attached letters providing notice of this
18 hearing to these pool parties?

19 A. Yes, it does.

20 Q. And were BC Operating Exhibits 1 through 5
21 prepared by you or compiled under your direction and
22 supervision?

23 A. Yes, they were.

24 MR. FELDEWERT: Mr. Examiner, at this time,
25 I'd move the admission of the evidence of BC Operating

1 Exhibits 1 through 7, which includes the Affidavit of
2 Publication, and then this Notice of Affidavit marked as
3 Exhibit 7.

4 EXAMINER GOETZE: Ms. Bradfute?

5 MS. BRADFUTE: No objection.

6 EXAMINER GOETZE: Mr. Bruce.

7 MR. BRUCE: I have no objection.

8 EXAMINER GOETZE: Thank you.

9 Exhibits 1 through 7 are so entered.

10 (The Applicants' Exhibit Numbers 1
11 through 7 are offered and admitted into
12 evidence.)

13 EXAMINER GOETZE: Now, if you wish to
14 cross.

15 MS. BRADFUTE: Thank you.

16 CROSS-EXAMINATION

17 BY MS. BRADFUTE:

18 Q. If you could look back to Exhibit Number 4 and
19 look at what is -- I guess would be the fourth
20 paragraph, the first sentence with regards to "BC is
21 proposing to drill the Well under the terms of a
22 modified 1989 AAPL" --

23 A. Uh-huh.

24 Q. -- "form Operating Agreement which will be
25 mailed under separate cover."

1 A. Yes.

2 **Q. Did you actually mail out the operating**
3 **agreement to working interest owners shortly after**
4 **sending this January 11th, 2017 letter?**

5 A. I did not.

6 **Q. Okay. And one follow-up question: Has the**
7 **well been spudded?**

8 A. It has.

9 **Q. Thank you.**

10 EXAMINER GOETZE: Mr. Bruce.

11 MR. BRUCE: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER GOETZE:

14 **Q. We see that -- good morning.**

15 A. Good morning.

16 **Q. In your letter is a revised well-proposal**
17 **letter. Why is it a revised letter?**

18 A. We originally wanted to do a mile-and-half
19 lateral that would originate in the southeast quarter of
20 Section 15, to the north of Section 22, and we couldn't
21 come to an agreement with the interest owners in that
22 south half of Section 15. And we already had a permit
23 for the mile lateral in Section 22, so we felt it easier
24 to just go ahead and drill that one.

25 **Q. And this had always been a Wolfcamp well? This**

1 is the original target as proposed way back?

2 A. Yes, sir.

3 EXAMINER GOETZE: No further questions for
4 this witness.

5 MR. FELDEWERT: We'll call our next
6 witness.

7 MIKE MOYLETT,
8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. FELDEWERT:

12 Q. Would you please state your name, identify by
13 whom you're employed and in what capacity?

14 A. My name is Mike Moylett. I'm a geologist with
15 BC Operating.

16 Q. Mr. Moylett, you previously testified before
17 this Division on a number of occasions as an expert in
18 petroleum geology, correct?

19 A. Correct.

20 Q. Are you familiar with the application filed in
21 this case?

22 A. Yes, I am.

23 Q. And have you conducted a geologic study of the
24 lands and in particular the Wolfcamp Formation that's
25 the subject of this hearing?

1 A. Yes, I have.

2 MR. FELDEWERT: Mr. Examiner, I would move
3 to re-tender Mr. Moylett as an expert witness in
4 petroleum geology.

5 EXAMINER GOETZE: Ms. Bradfute?

6 MS. BRADFUTE: No objection.

7 EXAMINER GOETZE: Mr. Bruce?

8 MR. BRUCE: No objection.

9 EXAMINER GOETZE: Thank you.
10 Welcome back.

11 He is so qualified.

12 **Q. (BY MR. FELDEWERT) Mr. Moylett, there are a**
13 **number of targets in the Wolfcamp Formation, correct?**

14 A. Yes, sir, different benches in the Wolfcamp
15 Formation.

16 **Q. What's the target of this particular --**

17 A. Upper Wolfcamp.

18 **Q. Okay. And does this targeted interval exist**
19 **throughout the surface acreage at issue?**

20 A. Yes, it does.

21 **Q. And have you reviewed the structure of this**
22 **interval underlying the acreage at issue?**

23 A. Yes, I have.

24 **Q. If I turn to what's been marked as BC Exhibit**
25 **Number 8, is this a structure map that you've created**

1 **for this hearing?**

2 A. Yes. This is a structure map on top of the
3 Wolfcamp Formation. Contour interval is 100 [sic] feet.
4 The dip, based on that, is approximately 1 degree updip
5 to the -- to the west or to the left and downdip to
6 the -- to the east. I've noted in Section 22 there that
7 we'd pretty much be drilling on strike in the Wolfcamp
8 Formation. Also noted on this map, as of February 24th
9 when I prepared this map, are all active producing
10 Wolfcamp wells on this map, and it shows that we are
11 surrounded in all directions by Wolfcamp horizontal
12 wells.

13 **Q. In this particular area, do you observe any**
14 **faults or pinch-outs or any other geologic impediments**
15 **to the development of your benchmark with horizontal**
16 **wells?**

17 A. No, there are not.

18 **Q. When I look at the existing Wolfcamp wells in**
19 **this area, there seems to be a mixture of lay-down and**
20 **stand-up wells; is that correct?**

21 A. Yes, there are.

22 **Q. Is well orientation important here for the**
23 **Upper Wolfcamp zone?**

24 A. No, it is not.

25 **Q. And why is that?**

1 A. Because the principal stress direction out here
2 is probably closer to like north 30 degrees east, north
3 40 degrees east, so it's not north-south or east-west.
4 So operators have drilled east-west and north-south.

5 Q. Okay. And you haven't observed any appreciable
6 difference between the two, whether it's lay-down or
7 stand-up?

8 A. No.

9 Q. If I then turn to what's been --
10 Before we leave this, I see here -- up
11 around Section 22, I see a series of three black dots?

12 A. Yes. I have a north-south cross section and an
13 east-west. And I did not put the east-west cross
14 section on here, but you'll see it on the legend, the
15 east-west cross section, because this well -- this is
16 just horizontal Wolfcamp wells. So --

17 Q. I think I may have flipped here. Let's do the
18 north-south cross section first, which is the last
19 exhibit, Exhibit Number 10.

20 And first off, as we're digging this out,
21 did you provide for the Examiner, in the bottom,
22 right-hand corner, the legend that identifies the wells
23 that were utilized in the cross section?

24 A. Yes. I noted in the blue squares.

25 Q. Why did you choose the logs for those

1 **particular three wells?**

2 A. Well, there are a modern suite of logs, and
3 also they're the closest wells to our Chicken Fry well
4 that we're drilling. And as a matter of fact, the well
5 in Section 22, we drilled right by it. Approximately
6 the well --

7 **Q. And in your expert opinion, are those wells**
8 **that you've chosen representative of the acreage?**

9 A. Yes, they are.

10 **Q. And have you identified on here the Wolfcamp**
11 **Formation and then, in particular, the Wolfcamp zone**
12 **that you are targeting with your wells?**

13 A. Yes. This is a stratigraphic cross section
14 hung on top of the Wolfcamp that would be the datum.
15 The target interval I've noted on the cross section. We
16 will be targeting the sands at approximately, you know,
17 9,500 feet that you'll see on the cross section. There
18 are two sands in there. We're targeting the lower of
19 those two.

20 **Q. And the middle well here is actually in Section**
21 **22, right?**

22 A. Yes. On this cross section, if we start with
23 the depth track, to the left of the depth track is the
24 gamma ray log. Highlighted in blue is the carbonate
25 stringers in there, and it does indicate that the sands

1 we are drilling, you know, are sands. It's not a
2 mixture of carbonates and sands. To the right of the
3 depth track is the neutron-density porosity log, and for
4 the target interval, I highlighted porosity greater than
5 8 percent, which is a common cutoff used in the Upper
6 Wolfcamp.

7 **Q. In yellow?**

8 A. Yes. That's in yellow.

9 **Q. All right.**

10 A. Then in red, for correlation purposes, I
11 highlighted resistivities less than 100 ohms in the
12 Wolfcamp Formation. And this particular Wolfcamp Sand
13 has a resistivity of around 10 ohmmeters [sic]. I've
14 highlighted that in red. As we go from north to south,
15 you can see the consistency of the targeted interval.

16 **Q. Did you create a similar cross section that**
17 **goes from west to east across this acreage?**

18 A. I did.

19 **Q. And some -- utilize the same well in Section**
20 **22?**

21 A. Yeah. Dinero Operating Aminoil Federal 1 is
22 the same well on both cross sections.

23 **Q. And it's the middle well; is that correct?**

24 A. It's the middle one on the east-to-west, noted
25 on the bottom right of the cross section, the legend,

1 the three wells use in this west-to-east cross
2 section -- the cutoffs that I used in the north-south
3 cross section are the same on this cross section. This
4 highlighted again the consistency of the Wolfcamp Sands
5 that we're targeting even on the west-to-east direction.

6 Q. Okay. In your expert opinion, do you expect
7 the tracks that are comprising the proposed nonstandard
8 spacing and proration unit to contribute to the
9 production of the proposed well.

10 A. Yes.

11 Q. And in your opinion, is the granting of this
12 application in the best interest of conservation, the
13 prevention of waste and the protection of correlative
14 rights?

15 A. Yes.

16 Q. Were BC Operating Exhibits 8 through 10
17 prepared by you or compiled under your direction and
18 supervision?

19 A. Yes, they were.

20 MR. FELDEWERT: Mr. Examiner, I would move
21 admission into evidence BC Exhibits 8 through 10.

22 MS. BRADFUTE: No objection.

23 EXAMINER GOETZE: Mr. Bruce?

24 MR. BRUCE: No objection.

25 (BC Operating, Inc. Exhibit Numbers 8

1 through 10 are offered and admitted into
2 evidence.)

3 MR. FELDEWERT: And that concludes my
4 examination of this witness.

5 EXAMINER GOETZE: Ms. Bradfute?

6 MS. BRADFUTE: No questions.

7 EXAMINER GOETZE: Mr. Bruce?

8 MR. BRUCE: No questions.

9 EXAMINER GOETZE: It's just me.

10 CROSS-EXAMINATION

11 BY EXAMINER GOETZE:

12 Q. So to get back to contention or the discussion
13 on orientation, really there is no benefit as to
14 orientation of the well when dealing with this portion
15 of the Wolfcamp?

16 A. I haven't noticed any in there. There are
17 east-west and north-south wells drilled by operators in
18 that bench.

19 Q. And let's see. How's this going to be set up?
20 As a toe-up?

21 A. Yeah, drilling north -- no. The toe is down,
22 north to south. The circles are the heels.

23 Q. Oh, okay.

24 A. And the ends are the -- are the toes.

25 Q. This wasn't the well that was proposed for a

1 **mile and a half, was it?**

2 A. Well, we originally had a permit for a mile.
3 Then we had interest in the south half of 13 [sic], so
4 we tried to, you know, work with the operator in Section
5 15, actually, to drill a mile and a half. We couldn't
6 come to a timely agreement on that, so we decided to
7 drill our mile lateral.

8 **Q. So this well has been spud; is that correct?**

9 A. Yes. We actually TD'd it today. And it was
10 spudded because of the April 1st lease obligation.

11 EXAMINER GOETZE: Well, I have no further
12 questions for you. Thorough as usual.

13 THE WITNESS: Thank you, Mr. Goetze.

14 EXAMINER GOETZE: Do you have any comments?

15 MS. BRADFUTE: Mr. Examiner, I'd like to
16 say that SK Warren Operating just received the proposed
17 operating agreement yesterday afternoon while my client
18 was actually on the plane to come here to the hearing,
19 so we really did not receive it until around 4:00, 5:00
20 in the afternoon. My client's in the process of
21 reviewing that JOA and understands that many other
22 working interest owners are likewise reviewing recently
23 proposed or submitted JOAs.

24 In the event that my client decides not to
25 execute the JOA, we would like to reserve his rights to

1 request a de novo hearing of this matter, but in the
2 meantime, he is, of course, considering the JOA and
3 reviewing that document that's just been received.

4 EXAMINER GOETZE: Very good.

5 Mr. Bruce?

6 MR. BRUCE: Nothing.

7 EXAMINER GOETZE: Mr. Feldewert?

8 MR. FELDEWERT: We ask --

9 EXAMINER GOETZE: Take it under advisement.

10 MR. FELDEWERT: -- you take it under
11 advisement. Thank you, sir.

12 EXAMINER GOETZE: Thank you very much.

13 (Case Number 15661 concludes.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

21

22

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

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