

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. 12,032

APPLICATION OF KCS MEDALLION RESOURCES,)
 INC., FOR AN UNORTHODOX GAS WELL)
 LOCATION, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 20th, 1998

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 20th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 12,032

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A P P E A R A N C E S

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By: PAUL A. COOTER

ALSO PRESENT:

MARK W. ASHLEY
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* * *

1 WHEREUPON, the following proceedings were had at
2 11:30 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case 12,032.

5 MR. CARROLL: Application of KCS Medallion
6 Resources, Inc., for an unorthodox gas well location, Eddy
7 County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant. I have three potential
12 witnesses.

13 EXAMINER CATANACH: Call for additional
14 appearances.

15 MR. COOTER: Paul Cooter, representing Southwest
16 Royalties. We will have no witnesses.

17 MR. CARROLL: Mr. Bruce, can you give us a little
18 history of this location? Isn't this the subject of a *de*
19 *novo* case?

20 MR. BRUCE: Mr. Carroll, in Case Number 11,925 --
21 Well, let's step back even further.

22 KCS Medallion Resources originally proposed this
23 well as a -- at this location, as a south-half unit. As
24 the landman will testify, there's no particular reason for
25 that, other than the fact that there were existing laydown

1 units in the Atoka in this section. This section is under
2 a JOA, the entire section is under one JOA.

3 KCS filed for administrative approval of the
4 unorthodox location, and Southwest Royalties objected. The
5 matter went to hearing in Case Number 11,925, and Order
6 R-10,983 was issued in that matter. It did go up to a *de*
7 *nov*o hearing, and an order was issued.

8 At this time, as our witnesses will testify, we
9 simply seek to withdraw that application or have the prior
10 order vacated. Based on recent land work, we are proposing
11 a standup unit and -- at this location.

12 MR. CARROLL: And what's the status of your
13 request to have that order vacated or your application
14 withdrawn?

15 MR. BRUCE: I filed a letter a couple of days ago
16 with the Division Director, filing that request. The
17 Commission attorney is aware of it.

18 And at one point Mr. Cooter said that Southwest
19 Royalties was considering applying for a rehearing on the
20 *de novo* order and appealing that matter. So I told him at
21 that point we would just simply withdraw it.

22 MR. CARROLL: And was a penalty assessed in Order
23 Number 10,983?

24 MR. BRUCE: A penalty was assessed.

25 MR. CARROLL: Of what?

1 MR. BRUCE: In the *de novo* order it was 60-
2 percent penalty, based, I believe, solely on footage.
3 There was a minimum allowable for a short period of time,
4 established under that order.

5 MR. CARROLL: And the Division order was a 60-
6 percent penalty?

7 MR. BRUCE: Yes, Mr. Carroll.

8 MR. CARROLL: So in your request today, you're
9 reorienting your unit to a standup in the west half?

10 MR. BRUCE: Yes, we are. That is based primarily
11 on geology, as Mr. Siruta, our first witness, will discuss.
12 Actually, we believe the geology in the Morrow better
13 conforms to standup units, and KCS has now reached
14 agreement to voluntarily reorient the well units.

15 The interest owners, we think, before the
16 drilling of a well, may voluntarily reorient the well as a
17 unit. We think they're entitled to do so, and we see no
18 problem with this.

19 MR. CARROLL: And Mr. Cooter, Southwest
20 Royalties, Inc, is an offset or an interest owner in this
21 proposed unit?

22 MR. COOTER: Southwest Royalties is an offset
23 operator. It owns the lease which covers the south half of
24 Section 17, adjoining this tract. It operates a well on
25 its acreage.

1 MR. CARROLL: Okay, and are you applying for a
2 re-hearing of the Commission order?

3 MR. COOTER: No, sir.

4 MR. CARROLL: Were you contemplating that at some
5 point in time?

6 MR. COOTER: This is a new ballgame, while it's
7 the same actor and the same story. The matter was heard
8 originally by the Division, which entered its order
9 granting the Application but assessing the penalty. That
10 was heard *de novo*.

11 We contemplated -- "we" being Southwest Royalty,
12 contemplated filing an application for rehearing before the
13 Commission for that, from its order. We've now been
14 advised by Mr. Bruce that that order will -- They'll move
15 for vacating it or abandon it so that that question really
16 has now become moot, we believe.

17 The south-half -- As I understand Mr. Bruce's
18 position, the south-half unit is no more, proposed unit is
19 no more, so they do not seek the unorthodox location under
20 that type of unit. They've reoriented their unit. And now
21 they say, We'll drill a well in the same spot, but we're
22 going to have a west-half unit. Again, it is unorthodox,
23 and we are here to oppose that.

24 MR. CARROLL: Okay.

25 MR. COOTER: I might just add to it, since -- not

1 the forum, I get it again -- we would ask you to take
2 administrative notice of Case 11,925, both the testimony
3 and the exhibits in those two files -- or that file, from
4 both hearings.

5 The -- I don't know if the geologic testimony or
6 the engineering or reservoir testimony will change. I'm
7 assuming it will not; it's just the request that's changed.

8 MR. CARROLL: Then, Mr. Cooter, it's my
9 understanding that your client is an offset, and this well
10 encroached upon it for a south-half laydown unit but is not
11 actually encroaching if it's reoriented as a west-half?

12 MR. COOTER: Technically, you're right. But as I
13 think the evidence will show, there's just on quarter
14 section which the parties believe productive, and that's
15 the southwest quarter. And if they attach it to a standup
16 unit rather than a laydown unit, it's exalting form over
17 the actual facts, and that it's still going to -- even
18 though it is a standard location from the west line, it's
19 not from the south line. And if they want to put a
20 standard location from the south line and move that well
21 further to the north, then the matter would be a different
22 story.

23 MR. CARROLL: Anything further to add before we
24 start?

25 MR. BRUCE: Mr. Carroll, I'd just like to make

1 one statement, that as you noted, KCS' well is orthodox
2 with respect to Southwest Royalties. We don't think they
3 have any standing to object.

4 At the Examiner hearing on the proposed south-
5 half unit, the Examiner asked the Southwest Royalties
6 engineer, stating if it was a standup unit, quote, would we
7 be here today?, close quote.

8 And the answer was, That's correct.

9 In other words, we wouldn't be here today,
10 because they didn't have standing to object.

11 And that's our position in this case. We fail to
12 see how they're affected. And if you allow people to
13 object when the well isn't moving toward them, then you're
14 opening up a can of worms where virtually anyone can come
15 in and object to a well location.

16 For instance, as you'll see, Southwest Royalties'
17 well is only 660 feet from its adjoining section operated
18 by Ocean Energy. Is Ocean Energy now entitled to come in
19 and object to that well?

20 So we'd simply like to put on our case at this
21 point.

22 MR. CARROLL: Okay, so is that a motion to -- or
23 is that just noting --

24 MR. BRUCE: Well, I mean, if you want a motion,
25 yeah. I don't think Southwest has any standing to object,

1 and I think they're -- If they want to make a statement,
2 fine, but I don't think they should be allowed to object to
3 our Application.

4 EXAMINER CATANACH: I -- Yeah, I would note that
5 circumstances in this case are kind of different from a
6 standard case, and I would suggest that we allow Mr. Cooter
7 to stay and cross-examine the witnesses if he chooses to do
8 so, and we will make the determination later on, in fact,
9 if they have standing to object, and rule accordingly.

10 Will the witnesses please stand to be sworn in?

11 (Thereupon, the witnesses were sworn.)

12 WILLIAM A. SIRUTA,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

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

18 A. William Siruta.

19 Q. Who do you work for and in what capacity?

20 A. KCS Medallion, as a senior geologist.

21 Q. Have you previously testified before the
22 Division?

23 A. Yes, I have.

24 Q. And were your credentials as an expert petroleum
25 geologist accepted as a matter of record?

1 A. Yes.

2 Q. And are you intimately familiar with the geology
3 in this matter?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I tender Mr. Siruta as
6 an expert petroleum geologist.

7 EXAMINER CATANACH: He is so qualified.

8 Q. (By Mr. Bruce) Mr. Siruta, what is that KCS
9 Medallion seeks in this case?

10 A. We seek approval of an unorthodox location for a
11 well 860 feet from the south line and 660 feet from the
12 west line of Section 16, Township 19 South, Range 29 East.
13 The west half of 16 will be dedicated to the well.

14 Q. What is the primary zone of interest in your
15 proposed well?

16 A. It's multiple zones in the middle Morrow.

17 Q. What is Exhibit 1?

18 A. Exhibit 1 is production map of the area.

19 Q. Could you identify on that map the key wells in
20 that area?

21 A. All the wells in here shaded in green are Morrow
22 producers in the area. There's really four key wells in
23 here.

24 The well in the southwest of Section 17 is a
25 Southwest Royalties well which has been producing since

1 1974. It's made 5.2 BCF.

2 The Burlington well in the northeast of 17, which
3 has made 2 BCF since 1985.

4 The Burlington well in the northwest of 16, which
5 has made 1.5 BCF since 1979.

6 And the Burlington well in the southeast of 16,
7 which has made 325 million cubic feet.

8 Q. What about the wells to the south of you in
9 Sections 20 and 21?

10 A. The well in Section 20, in the northwest quarter,
11 had very little sand present and was not completed as a
12 Morrow well.

13 The well in the northeast of Section 21 had
14 Morrow sands present, and they were tested but were found
15 to be unproductive.

16 Q. What reserves do you hope to recover from this
17 well?

18 A. We hope to recover about 1 BCF. If this well had
19 been drilled years earlier, we would have recovered much
20 more reserves, but it has been partially drained by the
21 offsetting wells.

22 Q. And KCS Medallion only relatively recently
23 acquired its interest in this section; is that right?

24 A. That's correct.

25 Q. What is Exhibit 2?

1 A. It's a structure map on the base of the Morrow
2 massive shale.

3 Q. Is structure important in this area in the
4 Morrow?

5 A. No, it's really not.

6 Q. Okay. Now, this also contains the line of the
7 cross-section. Could you move on to your cross-section,
8 Exhibit 3, and identify the zones you're looking at for the
9 Examiner?

10 A. This is a cross-section of the key wells. And as
11 you look on the cross-section you can see that I have
12 labeled on it three middle Morrow sands, which are my own
13 personal classifications here of Morrow A, Morrow B and
14 Morrow C sands.

15 A key well to look at here is the well that's the
16 second from the right. It's the well located in Section
17 16. You can see in that well that the key sands are not
18 very well developed and have not even been tested in that
19 well. The production from that well was from a couple of
20 stray Morrow sands in here.

21 Q. Now, because of that poor performance of that
22 well and the occurrence of only stray sands, do you want to
23 move away from that well?

24 A. Yes.

25 Q. Okay. What are Exhibits 4, 5 and 6, Mr. Siruta?

1 A. These are sand isopachs of the three key sands,
2 the A, B and C. The wells that are shaded in green are the
3 wells that produce from that particular sand that is
4 mapped.

5 Q. Now, maybe it's best to put these side by side,
6 Mr. Siruta. In going through these, in your opinion, is
7 one of the -- hitting one of these zones enough to support
8 the drilling of a well, or do you need to stack the zones?

9 A. It appears in here that you at least have to have
10 a minimum of two of the zones to make a commercial well,
11 and you really like to stack all three of them if possible.

12 Q. Let's go through these exhibits a little bit and
13 show what they show on each zone.

14 First of all, can you discuss the trend of the
15 reservoir here?

16 A. It appears that all three of these Morrow sands
17 in here have a general trend in a north-south direction, or
18 a northwest-to southeast.

19 Q. Okay. Now, looking at this, in stacking the
20 zones, you hope to get -- what? Something over 30 feet of
21 net sand?

22 A. That's correct.

23 Q. In your opinion, is the proposed location
24 necessary to adequately test the Morrow and ensure a
25 reasonable chance of success?

1 A. Yes, I do.

2 Q. Now, looking at 4, 5 and 6 again, it appears that
3 the west half of Section 16 is productive in the middle
4 Morrow; is that correct?

5 A. That's correct.

6 Q. Or should be productive in the middle Morrow.
7 But that the east half of Section 16, it's really
8 questionable whether or not it would be productive?

9 A. That's correct.

10 Q. It looks like there's really only one zone
11 present, and that's the C sand?

12 A. That's correct.

13 Q. Are there plans to drill a Morrow well in the
14 east half of Section 16?

15 A. Yes, OXY Petroleum has plans to drill a well, and
16 I believe their location is going to be 1650 from the north
17 and 660 from the east.

18 Q. Now, are they going for the middle Morrow?

19 A. No, they have a well that I don't have posted on
20 these maps. It's located down in the southeast quarter,
21 and I don't know the exact footage. I believe it's --

22 Q. Southeast quarter of which section?

23 A. I'm sorry, the southwest quarter of Section 9 --

24 Q. Okay.

25 A. -- which is just north of 16. And I believe it's

1 like 1980 from the west line and 660 from the south.

2 That well has some of the middle Morrow sands in
3 it, but they're not very well developed. They, I believe,
4 have completed that well in the lower Morrow, and I think
5 that they believe the lower Morrow trends through the east
6 half of the section.

7 Q. So geologically, the east half makes sense for a
8 lower Morrow well?

9 A. That's correct.

10 Q. And geologically, the west half makes sense for a
11 middle Morrow well?

12 A. That's correct.

13 Q. Have you seen, in any of your mapping, the lower
14 Morrow present in the west half of Section 16?

15 A. It is present, but it's not very well developed
16 and doesn't seem to be commercial at all.

17 Q. None of the prior operators out here have
18 produced from that lower Morrow?

19 A. No, there's been several tests, and in most cases
20 it's been wet.

21 Q. Mr. Siruta, in your opinion is the granting of
22 this Application in the interests of conservation and the
23 prevention of waste?

24 A. Yes.

25 Q. And were Exhibits 1 through 6 prepared by you or

1 compiled from company records?

2 A. Yes.

3 Q. In fact, Mr. Siruta, aren't these exhibits
4 exactly the same as those previously submitted to the
5 Division and the Commission?

6 A. That's correct, they are.

7 MR. BRUCE: Mr. Examiner, I'd move the admission
8 of KCS Exhibits 1 through 6.

9 EXAMINER CATANACH: Exhibits 1 through 6 will be
10 admitted as evidence.

11 Mr. Cooter, do you have questions of this
12 witness?

13 MR. COOTER: Yes, sir.

14 EXAMINATION

15 BY MR. COOTER:

16 Q. In your direct testimony, now, Mr. Siruta, I
17 believe you stated that the -- your proposed acreage was
18 probably, or was, drained from offset wells. Am I
19 remembering it correctly?

20 A. That's correct.

21 Q. And what wells drained your land?

22 A. I believe that we were partially drained by the
23 well in the southwest of 17, the well in the northeast of
24 17, and the well in the northwest of 16.

25 Q. You included in this -- in your testimony just

1 now, the Southwest Royalties well?

2 A. Yes.

3 Q. That's contrary to what you testified before, is
4 it not?

5 A. No, it's not. Not to my memory. Because I
6 believe we have been influenced, we have been partially
7 pressure-depleted by the Southwest Royalties well.

8 Q. If Mr. Beecham [sic] in his prior testimony
9 stated that in his opinion Southwest Royalties had not
10 drained your proposed unit, would you agree with that?

11 A. I believe that there's been pressure depletion.
12 I can't speak for Mr. Beauchamp.

13 Q. You were here when he testified --

14 A. Yes.

15 Q. -- before, were you not --

16 A. Yes, I was.

17 Q. -- at the *de novo* hearing before the Commission?

18 A. Let me direct your attention --

19 MR. CARROLL: Mr. Cooter, who's Mr. Beecham?

20 MR. COOTER: The next witness, the gentleman just
21 talking with --

22 THE WITNESS: Beauchamp.

23 MR. COOTER: Beauchamp? I'm sorry, I apologize.

24 MR. BEAUCHAMP: That's all right.

25 MR. COOTER: Anyone with the name of Cooter ought

1 to pronounce the name correctly.

2 Q. (By Mr. Cooter) I direct your attention to page
3 16 of the transcript of the *de novo* hearing, question asked
4 to Mr. Beauchamp, and you were here when he testified?

5 A. Yes.

6 Q. Line 14, commencing, Mr. Bruce:

7
8 And so it's -- Geologically speaking, the way you
9 look at it, the Southwest Royalties well would not be
10 draining much from that area of the reservoir?

11 Answer: That's correct.

12 Question: It would be more to the north and
13 east?

14 Answer: That's correct.

15

16 A. That's Mr. Beauchamp's testimony?

17 Q. Actually, I think that's your testimony. It is,
18 I'm sorry. I asked you those questions, and you gave that
19 answer.

20 A. That's right, I believe that most of the drainage
21 has come from that direction.

22 But I also believe that the only direction that
23 the Southwest Royalties well could drain is from the east.
24 That's the only direction they have sand. And if our well,
25 which the Southwest Royalties engineer agreed with our

1 engineer would be pressure-depleted, I'm not sure how you
2 could remove pressure from a reservoir without removing
3 gas. We both -- Both of our engineers agreed that the
4 pressure would be drawn down.

5 Q. Back to the previous Examiner Hearing in this
6 room, on February 19 of this year, on page 16, Mr. Bruce,
7 commencing at line 11, I asked you this question:

8
9 Based on the dryhole in the north half of Section
10 20 and the low permeability in the north half of
11 Section 21, from a geologic perspective, is the
12 Southwest Royalties well draining from the south?

13
14 Do you remember I asked you that question?

15 A. Yes, I do.

16 Q. Do you remember what your answer was?

17 A. I believe I said that it probably didn't drain
18 very much from the south.

19 Q. "Probably not to a great degree."

20 So if there has been drainage from this location,
21 from your proposed location, from the Southwest -- by the
22 Southwest Royalty well, in your opinion that would be very
23 small, if any?

24 A. Oh, I wouldn't say if any. I don't know to what
25 degree. I just believe there has been drainage.

1 Again, I repeat, you can't draw down pressure
2 without moving gas.

3 Q. There was the well drilled in the north half of
4 Section 16 by Burlington Resources, was there not?

5 A. Yes.

6 Q. And that was a Morrow well?

7 A. Yes.

8 Q. And it produced for how long?

9 A. I believe it produced from 1979 through 1995,
10 early 1979.

11 Q. Through December of 1995?

12 A. Yes.

13 Q. And at that time it was -- what? That zone was
14 abandoned?

15 A. Yes.

16 Q. It had produced?

17 A. That's correct.

18 Q. And that was a north-half unit?

19 A. I believe that's correct, yes.

20 Q. And in your opinion, did it drain the northwest
21 quarter of the section?

22 A. Yes, along with other areas.

23 Q. Other areas, but the northwest quarter in the
24 Morrow was drained by that well?

25 A. Yes.

1 Q. Now, then, there's a well in the southeast
2 quarter of Section 16 that you -- that was part of your
3 original proposed south-half unit?

4 A. That's correct.

5 Q. And it was noncommercial?

6 A. That's correct.

7 Q. And it was plugged and abandoned in November of
8 1986?

9 A. Yes.

10 Q. And then there is a well down in the north half
11 of Section 21. That penetrated the Morrow but was not
12 productive?

13 A. That's correct.

14 Q. And did you not state that you wanted to move
15 away from the Burlington well in the southeast quarter of
16 Section 16 because that well was noncommercial? You wanted
17 to stay as far away from that noncommercial well as you
18 could?

19 A. Yes.

20 Q. But now you seek to move closer to the
21 noncommercial well in the north half of Section 21. Your
22 proposed location is unorthodox as to that; you're moving
23 closer to it?

24 A. That's correct.

25 Q. And that was a non- --

1 A. Not closer than what we had previously wanted to
2 drill.

3 Q. Closer than a standard location, let me put it
4 that way --

5 A. That's correct.

6 Q. -- I don't want to --

7 A. That's correct.

8 Q. -- battle semantics with you. But you seek to
9 move closer to that noncommercial area, and in fact, you
10 just want to stay in the same proposed -- the location that
11 you first proposed?

12 A. We are not wanting to drill south to stay closer
13 to the zone or the well in Section 21, no, that's not
14 correct.

15 Q. Then why don't you go to a standard location from
16 the south line?

17 A. Because -- Two reasons, really. One reason is
18 that we believe we're going to suffer drainage from the
19 well in the northwest quarter.

20 And also it appears that the heart of the sand,
21 and for us to compete with Southwest Royalties and the well
22 in the northeast of 17, we need to get into thicker sands
23 to be able to compete and be commercial. And I think the
24 ideal place to do that is in closer to the south line, and
25 my isopachs illustrate that.

1 Q. Do they?

2 A. Yes, they do.

3 Q. Let's look at Exhibit 6, which is the C sand, I
4 believe.

5 Is your proposed location in a different
6 thickness than it would be at a standard location?

7 A. No.

8 Q. So as far as the C zone, it would make no
9 difference if you were at a standard location?

10 A. Probably not.

11 Q. Let's look at your Exhibit 5, which is the Morrow
12 B sand. Now, is there a difference there?

13 A. Yes, I believe if you move to the north, I think
14 that you will begin to thin up in the sand.

15 Q. How much?

16 A. Oh, it would be, you know, probably two to three
17 feet. You know, these are approximations, these maps that
18 we make.

19 Q. Sure. Sure, we recognize that. But it may turn
20 out to be that there's no difference?

21 A. That's true, or it may turn out to be that
22 there's no sand there at all in the B sand.

23 Q. But from what you have as Exhibit 5, you're right
24 on -- in your proposed location, unorthodox location,
25 you're right on the 15-foot mark. And if you moved up to a

1 standard location, where would you be?

2 A. Probably somewhere around 13 feet.

3 Q. Halfway between the 15 and the 10?

4 A. Yeah, somewhere in there. Maybe closer to the
5 15, maybe 14 feet.

6 Q. All right. Then let's look at the A sand, your
7 Exhibit Number 4. Let's move the well from the unorthodox
8 to the orthodox location. How much -- What would be your
9 footage then? Anticipated, recognizing that it may not
10 turn out to be that way, but --

11 A. Probably a foot or two less than the location
12 that we have chosen.

13 Q. Mr. Siruta, isn't your company's objective in
14 this Application the same as it was in the prior
15 application, that you seek to encroach as close as you can
16 to the land of Southwest Royalty which is being drained by
17 its own well?

18 A. No, that's not accurate.

19 Q. Okay, tell me where I'm wrong.

20 A. We seek to drill a legal location from the west
21 boundary of the section, and we seek to drill an unorthodox
22 location from the south boundary.

23 Q. In the prior case, you wanted to get as far away
24 as you could from the southeast quarter, which you thought
25 was nonproductive?

1 A. That's correct.

2 Q. In this case, you want to get closer than a
3 standard or an orthodox location to the unproductive
4 acreage to the south?

5 A. I don't believe that that acreage is unproductive
6 to the south. I believe that it's tight and possibly
7 unproductive to the southeast, but the heart of the channel
8 appears to be to the south, as we mapped, and as also your
9 geologist mapped.

10 Q. Who owns the lands to the south?

11 A. Ocean Petroleum or --

12 Q. Have you made a deal with them?

13 A. A deal in what sense?

14 Q. A farmout, any type of --

15 A. No. No, we haven't.

16 Q. If Mr. Beauchamp stated in his testimony to the
17 Commission that there are still remaining reserves in the
18 southwest quarter of Section 16, would you agree with that?

19 A. Yes.

20 Q. That's what your company really believes? The
21 northwest quarter and the southeast quarter are really
22 nonproductive?

23 A. Oh, no, I don't believe that entirely. I think
24 there are still remaining reserves in the northwest
25 quarter, there's just not a great deal, but there are still

1 remaining reserves.

2 Q. And what's the basis of that opinion?

3 A. Based on --

4 Q. It's not shared by -- Who was the operator after
5 Burlington?

6 A. Well, they plugged the well, but, you know, in a
7 well like this you cannot drain every last molecule of gas
8 out of a reservoir.

9 Q. But they concluded, and the figures support, that
10 it had reached a noncommercial state?

11 A. That's an assumption that I'm making because they
12 plugged the well, yes.

13 Q. Well, did you look at what the production was at
14 the time they plugged it?

15 A. Yes, it was very low. Very low.

16 Q. Again, not arguing semantics, but it had reached
17 a nonproductive state?

18 A. Yes -- Noncommercial, not nonproductive but
19 noncommercial.

20 Q. Noncommercial?

21 A. That's correct.

22 Q. And by now making the stance that by forming a
23 unit which encompasses that part of the noncommercial unit
24 to the north, you've really made it an orthodox location as
25 to Southwest Royalties, if you keep the well in the same

1 location?

2 A. Say that again.

3 Q. Let me reword it, because I don't think I can
4 remember where I wandered.

5 The point I'm trying to make is, before you
6 included in your 320-acre proration unit the southeast
7 quarter, which was certainly noncommercial, you wanted to
8 stay as far away from that noncommercial acreage as you
9 could, so you wanted to move your well to the west?

10 A. That's correct.

11 Q. Now, keeping your well at that same location but
12 going through the gymnastics of excluding the southeast
13 quarter and putting in your 320-acre unit the northwest
14 quarter, which was part of a commercial -- which was a
15 unit, part of a unit, and then abandoned by the operator as
16 being noncommercial, that there may be some small amount of
17 production remaining there that you want to get. But you
18 still, rather than moving closer to get that, what's left,
19 you're moving away from it and going to the noncommercial
20 acreage to the south?

21 A. Well, the acreage to the south is not
22 noncommercial, but yes, we are trying to move away from
23 that well to get away from some of the drainage that we
24 would experience, yes, that's correct.

25 MR. COOTER: That's all I have.

EXAMINATION

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BY EXAMINER CATANACH:

Q. Mr. Siruta, you said that the OXY well that's proposed to be drilled in the east half of Section 16 is targeting a lower Morrow?

A. Yes, I -- and you know, I don't know that for sure, because I'm not privileged to what they're thinking. But I believe that that's what they're looking for, because the well that they have producing in 9, I believe, is a lower Morrow producer.

Q. Have you mapped the lower Morrow in Section 16?

A. No, I have not.

Q. I believe you testified that you didn't think the lower Morrow was present in the west half?

A. Well, I think it's present, because it is in some of these wells, but it's not productive.

If -- You know, I haven't mapped it --

Q. Okay.

A. -- but I believe that it is present. There are wells here that have thick lower Morrow, but they're wet.

Q. So the lower interval wasn't tested in the Burlington well?

A. In the well in -- ?

Q. In the northwest of 16.

A. Well, let me find it here. No, it was not. But

1 there was one sand developed in there, and I believe if you
2 looked at the resistivity log, that would be wet.

3 Obviously, OXY has found a separate lower Morrow system.

4 Their well up in Section 8, I've taken a little
5 peek at the log; I swabbed it from someone. It -- in the
6 northeast of 8. It's also completed in the lower Morrow.
7 So they obviously think that trend comes across there into
8 16.

9 Q. Okay. The well in the southeast of 16 was never
10 tested in the A, B or C sand?

11 A. That's correct, it was shot in a stray zone above
12 the C, and then in another stray zone that was again just
13 above the C. And then there was one perforation in a real
14 thin little sand that's between the B and the C. And it
15 was also shot in the lower Morrow.

16 Q. Okay. Is it your opinion that the A, B and C
17 sand are not productive in that well, or would not be
18 productive?

19 A. You know, they would probably make some gas, but
20 I don't think it would be commercial. They're awful tight-
21 looking on the resistivity logs.

22 Q. So there are some gas reserves in the southeast
23 quarter, in the A, B and C sand?

24 A. Yes, I believe there are.

25 Q. You can't really quantify with the data available

1 which has more gas reserves present in those sands between
2 the northwest and the southeast quarter of that section,
3 can you?

4 A. You mean individually?

5 Q. Like -- I mean --

6 A. No.

7 Q. -- you can't say for sure which quarter section
8 has more gas reserves remaining?

9 A. No, they've all been shot together and completed
10 together, so it's...

11 Q. It's your opinion, though, according to the
12 geology, the way the Morrow trends in this area, that a
13 west-half dedication makes more sense?

14 A. Yes, I mean, because that's the trend of the
15 sand, and that's the direction we're really going to be
16 draining, is in a north-south direction, of any remaining
17 reserves, I believe.

18 Q. The 1 BCF that you've got estimated for recovery,
19 that's for all three A, B and C sands?

20 A. Yes.

21 Q. Did you quantify that per sand or --

22 A. Well, I'd have to let you address that to my
23 engineer. I'm not exactly sure how he did that.

24 EXAMINER CATANACH: Okay, I think that's all the
25 questions I have of this witness, Mr. Bruce.

FURTHER EXAMINATION

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BY MR. BRUCE:

Q. Just a follow up, Mr. Siruta, just to get it in a nutshell: Your location here is really almost a compromise location, isn't it? It's a reasonable location to stack all three sands, number one; is that correct?

A. That's correct.

Q. But it's also -- what -- Number one, you're moving away from a noncommercial well, correct?

A. That's correct.

Q. You're moving away from drained areas, correct?

A. That's correct.

Q. And you're moving away from a tight well; is that correct?

A. That's correct.

Q. And you're almost equidistant from all those areas?

A. That's correct.

MR. BRUCE: Thank you.

RICK DEFFENBAUGH,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

1 A. Yes, my name is Rick Deffenbaugh, Tulsa,
2 Oklahoma.

3 Q. Who do you work for and in what capacity?

4 A. I work for KCS Medallion Resources. I'm the land
5 manager for the western district.

6 Q. Have you previously testified before the
7 Division?

8 A. I have.

9 Q. And were your credentials as an expert petroleum
10 landman accepted as a matter of record?

11 A. They are.

12 Q. And are you familiar with the land matters
13 involved in this Application?

14 A. I am.

15 Q. First, Mr. Deffenbaugh, what is Exhibit 7?

16 A. Exhibit 7 is a nine-section land plat of the
17 area, which basically outlines the proposed well unit and
18 the offset operators. The only affected offset is shown as
19 UNC Petroleum, which is now Ocean Energy.

20 Q. And then to the west is Southwest Royalties?

21 A. That's correct.

22 Q. Does Ocean Energy object to the unorthodox
23 location?

24 A. No, they do not. Submitted as Exhibit 8 is a
25 letter from Ocean Energy waiving objection to this

1 Application.

2 Q. And was notification given as required by
3 Division rules?

4 A. Yes, it was. Submitted as Exhibit 9 is our
5 affidavit of notice, with copies of the notice letter and
6 certified return receipts attached.

7 Q. Mr. Deffenbaugh, why did KCS originally form a
8 south-half unit?

9 A. We formed a south-half unit originally because
10 the existing two wells, being the Burlington 116 and 116A,
11 were currently producing on north-half/south-half Atoka
12 basis.

13 Q. Okay, and there were com agreements in place with
14 those wells?

15 A. That's correct.

16 Q. So you were just simply -- It was almost easier
17 just to maintain that pattern?

18 A. That's correct.

19 Q. Is Section 16 subject to an operating agreement?

20 A. Yes, the entire section is covered by one
21 operating agreement dated back in August of 1978, prior to
22 the drilling of the first well.

23 Q. Okay. Have the interest owners voluntarily
24 agreed to form standup units?

25 A. Yes, they have.

1 Q. For zones other than the Atoka?

2 A. That's correct.

3 Q. Finally, Mr. Deffenbaugh, does KCS request that
4 the prior order on the laydown unit be vacated?

5 A. Yes, we do.

6 Q. Were Exhibits 7 through 9 prepared by you or
7 compiled from company business records?

8 A. Yes, they were.

9 Q. And in your opinion is the granting of the
10 Application in the interests of conservation and the
11 prevention of waste?

12 A. Yes, it is.

13 MR. BRUCE: Mr. Examiner, I'd move the admission
14 of KCS Exhibits 7 through 9.

15 EXAMINER CATANACH: Exhibits 7 through 9 will be
16 admitted as evidence.

17 Mr. Cooter?

18 EXAMINATION

19 BY MR. COOTER:

20 Q. You stated that Section 16 is subject to an
21 operating agreement?

22 A. Yes, sir, it is.

23 Q. Do you have a copy of that?

24 A. Yes, sir, I do.

25 Q. Rather than take the time now, perhaps during the

1 lunch hour -- Are you going to continue this till after
2 lunch? Or do you want to go ahead and wind it up?

3 EXAMINER CATANACH: Are you going to put your
4 last witness on, Mr. Bruce?

5 MR. BRUCE: Mr. Examiner, Mr. Deffenbaugh may be
6 my last witness.

7 MR. COOTER: If I may have just a couple minutes,
8 then I'll be through.

9 EXAMINER CATANACH: Sure. Let's take a five-
10 minute break here and let Mr. Cooter review that.

11 (Thereupon, a recess was taken at 12:25 p.m.)

12 (The following proceedings had at 12:30 p.m.)

13 EXAMINER CATANACH: Okay, let's resume.

14 Q. (By Mr. Cooter) Mr. Deffenbaugh, I have just a
15 couple of questions.

16 In looking at this operating agreement, I notice
17 that the north half of Section 16 was apparently force-
18 pooled for that 16-1 well; is that correct?

19 A. I can't -- I don't know that. As to -- Yes, I
20 do. I mean, you just reviewed the thing; I haven't
21 reviewed it recently --

22 Q. Sure.

23 A. -- but there's a -- on the Exhibit A there is a
24 -- there was a party that was that was supposed to go --
25 Southland, possibly, with Pennzoil. Yes, and that would be

1 the reason that there is some disparity in the ownership
2 between the north half and the south half with only one
3 party being involved, that being Mallon Resources.

4 Q. But the north half was apparently force-pooled
5 for that Morrow well?

6 A. Okay.

7 Q. Is that the way it appears to you on this --

8 A. Yes, sir, it appears.

9 Q. You have no independent knowledge of that?

10 A. Only from, you know, looking back through and
11 reviewing this. I have not -- I did not review this
12 operating agreement prior to our hearing today, and yes, I
13 do recall that this was force-pooled.

14 Q. Do your land files reflect that -- Well, first
15 let me back up.

16 From whom did Medallion Resources acquire its
17 interest?

18 A. We have essentially a trade with every owner in
19 the unit. I can go over those: Magnum-Hunter, who is the
20 current operator; Lauro Corporation, et al., which is
21 actually made up of Lauro Corp., SES Oil and Gas, Inc.,
22 Finwing Corporation, Manta Corporation, and Mike Patratis,
23 and then also including Summit Overseas Exploration and
24 Maralo, et al., which is now actually owned by Lowe
25 Partners.

1 Q. Do you have farmout agreements from those?

2 A. Yes. I have an agreement from all those parties,
3 with the exception of Mallon Resources, that I mentioned.
4 They would own a 7.8125 percent, and they are in process of
5 -- we're working out a deal.

6 Q. When you acquired your interests, when was that?

7 A. When we what?

8 Q. Acquired -- When did Medallion Resources
9 acquire --

10 A. We originally acquired these interests in the
11 first part of 1998.

12 Q. At that time, did you review to see whether or
13 not the north half of the section was subject to a force-
14 pooling order?

15 A. I did not at the time, no. At the time we were
16 acquiring these, we were acquiring our interest for the
17 south half.

18 Q. But now you've acquired their interests in the
19 north half as well?

20 A. In the northwest quarter, on a west-half basis.

21 Q. When --

22 A. The agreements have merely been amended from
23 south half to west half.

24 Q. When was that amendment done?

25 A. Various times. We actually -- The agreement we

1 reached with Maralo was not even culminated on anything
2 until July 10th of 1998.

3 The amendment from Summit was done on June 29th.

4 The -- Well, let's see. Yeah, that's right. And
5 the agreement with Lauro was on June 29th.

6 And the agreement with Magnum-Hunter is still
7 pending, but they've agreed to do whatever works. We have
8 had an original agreement with them, dated December 2nd of
9 1997.

10 Q. Is the north half -- What I'm trying to find out
11 from you, without just going through your whole land file,
12 is that north-half unit -- Your operating agreement would
13 indicate it's subject to a force-pooling order.

14 A. One party is subject, but I believe you'll find
15 that all the parties ended up reaching agreement. There is
16 an order issued, I see that.

17 I would have to go back and --

18 Q. Do you have a copy of that order in your file?

19 A. I do not.

20 Q. Was there a communitization agreement covering
21 the north half?

22 A. Yes, sir, I'm sure there was.

23 Q. Do you have that in your file?

24 A. I do not. The well has not produced since 1995.
25 It's expired.

1 Q. Correct me if I'm in error. I thought that
2 Burlington or whomever had that Summit went back in that
3 well and recompleted it in the Atoka.

4 A. They did. I'm not saying the communitization
5 agreement has expired in its entirety, I'm saying it's
6 expired as to the Morrow.

7 Q. Is there some provision in that communitization
8 agreement that affects expiration?

9 A. Yes, sir, it's my understanding that two years
10 beyond a well ceasing to produce in a given horizon, that
11 the communitization expires as to that particular horizon.

12 Q. Is that understanding taken from a review of the
13 document?

14 A. Not that specific document, no.

15 Q. Before you are able to commit the northwest
16 quarter to another communitization agreement, will there be
17 some effort made to determine whether or not the first one
18 has expired, or are you just assuming that?

19 A. No, we will make that effort.

20 Q. But that hasn't been done yet?

21 A. No, sir.

22 Q. You have not looked at any force-pooling order
23 that force-pooled the north half for that Morrow well?

24 A. Not the specific order, no, sir.

25 Q. We have --

1 Q. Have you --

2 A. We have voluntary joinder from all the parties
3 with rights to this horizon, with the exception of one
4 party. I didn't deem the pooling order at the time
5 relevant to the issue since we had joinder and agreement
6 with all parties.

7 Q. But if that northwest quarter is force-pooled
8 with the northeast quarter, what has negated that?

9 A. If voluntary joinder was reached, the order is of
10 no significance.

11 MR. COOTER: That's all the questions I have.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Deffenbaugh, can you explain to me what
15 changes have occurred in the interest ownership between a
16 south half and a west half? Are there actually differences
17 in the ownership in that?

18 A. Yes, sir, there is actually a difference. Mallon
19 Resources was apparently a party to this pooling, or
20 voluntary joinder. I believe it was actually a farmout
21 agreement that culminated as a result of that force
22 pooling. And therefore, their interest is limited to the
23 north half.

24 And what happens is, Magnum-Hunter has 31.25
25 percent of the well to the south, and therefore the south

1 half as to the Atoka, and only 15.625-percent interest in
2 the north half, as it applies to the north half, or the
3 well in the Atoka.

4 Mallon Resources owns the other 15.625 that
5 Magnum-Hunter doesn't own in the north half. Therefore, on
6 a west-half unit as we've proposed, Magnum-Hunter would
7 have a cumulation of those two, or 7.8125-percent interest
8 in our well.

9 Q. So Mallon -- With a south-half dedication, Mallon
10 had no interest in the well?

11 A. That's correct.

12 Q. And they're picking up an interest with a west-
13 half dedication?

14 A. That's correct.

15 Q. But Magnum-Hunter's interest is going to be
16 reduced --

17 A. That's correct.

18 Q. -- by the west half?

19 A. Yes, sir, that's correct.

20 Q. Is there any --

21 A. They actually will own a 23.4375, because it's
22 the cumulation of the two. They own 3125 south, 15625
23 north, and therefore the cum of that is the weighted
24 average, if you will, 24.4375.

25 Q. But their interest is still going to be reduced,

1 right?

2 A. Yes, sir, but they're in agreement with that, and
3 they understand that.

4 Q. Is there any other interest owner whose interest
5 is going to be reduced?

6 A. No, sir.

7 Q. They're the only ones affected?

8 A. That's correct. And as our geologist testified
9 earlier, it appears there will be -- OXY has indicated
10 their willingness to drill a well on an east-half basis,
11 and therefore these parties will own an interest in an
12 east-half well in addition.

13 Q. There is no interest owner that's being excluded
14 as a result of forming the west-half?

15 A. No, sir. Actually one being added, being Mallon.

16 Q. Okay. And all of the interest owners have agreed
17 now to form the west half?

18 A. Everyone except Mallon Resources. We have not
19 reached agreement with 7.8125 percent in our unit, but we
20 are working on it, and they indicate a full willingness to
21 work with us.

22 Q. And what happens if they don't voluntarily
23 commit? Is that covered under the JOA?

24 A. Yes, we can -- If we form this, then we will have
25 a legal location and we could propose under the JOA, and

1 they would have 30 days to elect to join or nonconsent.

2 Q. You wouldn't have to force-pool?

3 A. No, sir. No, they're subject to the agreement.

4 EXAMINER CATANACH: Okay. I think that's all the
5 questions I have of the witness.

6 MR. BRUCE: Mr. Examiner, I have nothing further
7 in this matter.

8 EXAMINER CATANACH: Would you like to make a
9 closing statement or --

10 MR. BRUCE: I've already -- Mr. Cooter can, he
11 can go ahead, but I've already made my statement, I think,
12 in my opening.

13 MR. COOTER: I would like to make a brief one,
14 and I recognize the hour, and everyone has probably heard
15 enough, but the thought -- Two thoughts, really.

16 We've traveled this road before. Medallion
17 Resources didn't appreciate where the road ended, where
18 they were, and not only in front of the Examiner, but in
19 front of the Commission on a *de novo* hearing.

20 So now they -- coming back to accomplish the same
21 thing that they tried to accomplish before. But this time
22 they say, Uh-huh, we'll make it a standup unit rather than
23 a laydown unit, and therefore, Southwest Royalties, you're
24 not affected. Well, we are.

25 Even though at 660 feet from the west line, by

1 moving it further to the south they not only encroach upon
2 Ocean, which has no productive acreage to object to, but
3 what that does, it places it in a better position to
4 encroach upon the Southwest Royalty land, as shown by the
5 exhibits in the prior case, the two hearings.

6 And so it really does have an adverse effect on
7 Southwest Royalties.

8 In addition to it, the -- What Medallion
9 Resources has here is a possible 160-acre productive tract.
10 That's what they said in their prior testimony. There are
11 reserves under that southwest quarter that they want to
12 capture, and that's a noble purpose.

13 But it flies in the face of -- This Commission
14 has established that 320 acres shall be a proration unit.

15 Now, if they want to cut it in half and say,
16 Well, give us half an allowable, for we only have half a
17 unit, that's one thing. That's being honest about it.

18 But no, they say they want the full 320 acres,
19 and instead of making it a south half, where they said they
20 wanted to move it over to the west was to avoid that
21 southeast quarter, which was not productive. Now, instead
22 of using the same logic they say, But we want to move it
23 further to the south, to that nonproductive acreage, so
24 Southwest Royalty can't complain.

25 The whole thing is putting form over substance,

1 and we respectfully submit that the Division ought to look
2 at it as to what they seek and what they have sought, and,
3 if they grant the Application, to affix the same penalty as
4 they did before; it's the same well.

5 If not, we respectfully submit that they affix
6 the same, or a similar penalty for its location to the
7 south, and I think that would be subject to something like
8 a 48- or 50-percent penalty, which isn't out of line
9 because all they're looking at is the southwest quarter.

10 That Burlington well to the north was in the
11 northwest quarter, and they operated it from 1978 or 1979
12 to 1995, through 1995.

13 And when production in that well, from this zone,
14 became noncommercial, But, says their geologist, there's
15 some still left there that would justify including that
16 drained 160 acres and a new 320-acre unit that includes
17 exactly that same formation. That's just folly.

18 And we ask the Division to look at it in
19 substance, what they seek, what they have sought, and grant
20 them the permission but attach some penalty to it that
21 protects our interests in the south half of 17.

22 And we offered -- and I didn't bring it back
23 because I wanted to just incorporate it by reference -- all
24 of those same drainage graphs that were done before, both
25 by us and by the Medallion Resource engineer. And their

1 people really said their well will drain Southwest
2 Royalties, but it won't drain it up until the year 2007, or
3 some such figure.

4 Thank you.

5 EXAMINER CATANACH: Okay, Mr. Cooter.

6 By the way, I will take administrative notice of
7 Case Number 11,925, subsequent *de novo* case.

8 MR. BRUCE: Mr. Examiner, I would just like to
9 point out one thing. You know, I can't shut up.

10 Mr. Cooter says we're moving toward nonproductive
11 acreage.

12 As a matter of fact, Southwest geologists at the
13 last hearing said that the north half of Section 21, which
14 is the Ocean Energy acreage, was productive and it wasn't
15 tight, and that the only reason it wasn't productive was
16 probably because there was well damage.

17 So in effect, if this well is drilled KCS may
18 well prove up Ocean Energy acreage.

19 And if truly there was well damage in the north
20 half of Section 21, well Ocean Energy is willing to allow
21 us to drill that well, and they see no problem with it
22 whatsoever. We don't think there should be any penalty,
23 because the only affected party does not object.

24 Thank you.

25 EXAMINER CATANACH: Thank you, Mr. Bruce.

1 Is there anything further in the case?

2 There being nothing further, Case Number 12,032
3 will be taken under advisement, and this hearing is
4 adjourned.

5 (Thereupon, these proceedings were concluded at
6 12:47 p.m.)

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13 I do hereby certify that the foregoing is
14 a true and correct copy of the proceedings in
the above hearing of Case No. 12032.
15 heard by me on August 20 1991.
16 David R. Gotal, Examiner
Off Conservation Division

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL September 1st, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998