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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION RECOGNIZED SPECIALIST IN THE AREA OF NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

February 26, 2001

HAND DELIVERED

Mr. Michael E. Stogner, Hearing Examiner
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87504

Re: ***NMOCD Case No. 12589***
Application of H. L. Brown, Jr. for compulsory pooling, a non-standard proration unit and an unorthodox well location, Roosevelt County, New Mexico

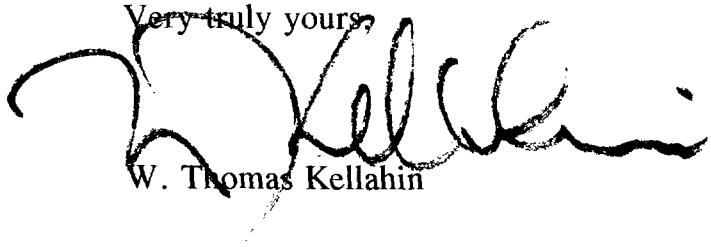
Dear Mr. Stogner:

On behalf of H. L. Brown, Jr., please find enclosed a proposed order for entry in the referenced case heard on February 8, 2001.

I have also enclosed a wordperfect 5.1 diskette which contains a copy of the draft order.

Finally, as you requested, enclosed is Brown's Exhibit 7 which sets forth the royalty rates for the various leases.

Very truly yours,



W. Thomas Kellahin

cc: ***H. L. Brown, Jr.***
Attn: J. Peter Courtney

T7S-R36E Section 8: N/2 NE/4

HLB/R Lease No.	Lessor	Lease Date	Lease Expiration	Gross Acres	Net Acres	Base Royalty
1912-01	Faye French Wagner	11/3/98	11/3/08	80	1.903	12.50%
1912-03	Malcomb D. Cauthorn	11/24/98	11/24/08	80	0.557	12.50%
1912-08	Wyno Lee Murphy	11/9/98	11/9/08	80	3.810	12.50%
1912-10	Robert C. Williamson	11/29/98	11/29/08	80	0.375	12.50%
1912-12	James & Pauline Loerke	12/8/98	12/8/08	80	0.833	12.50%
1912-18	Robert Marks	9/2/98	9/2/08	80	1.667	12.50%
1912-22	Betty Williamson	9/2/98	9/2/08	80	3.333	12.50%
1912-24	Jim Williamson	9/2/98	9/2/08	80	3.333	12.50%
1912-25	Jack Williamson	10/1/97	10/1/02	80	3.333	12.50%
1912-26	Wanda Hoover	10/1/97	10/1/02	80	0.741	12.50%
1912-27	United Methodist Church	10/1/97	10/1/02	80	0.014	12.50%
1912-28	Blanche W. Feely	10/1/97	10/1/02	80	0.278	12.50%
1912-29	Mitchell Allmon	10/1/97	10/1/02	80	1.481	12.50%
1912-30	Irene W. Fee	10/1/97	10/1/02	80	0.278	12.50%
1912-31	Dona Matkason	5/28/98	5/28/03	80	0.833	12.50%
1912-32	American Cancer Society	10/1/97	10/1/02	80	0.056	12.50%
1912-33	Halsey-Shedd Fire Protection	5/20/98	5/20/03	80	0.028	12.50%
1912-34	Marjorie Sewell/Lynn Sewell	11/9/98	11/9/08	80	0.634	12.50%
1912-35	American Heart Assoc.	9/23/98	9/23/03	80	0.028	12.50%
1912-36	Greg Heyne	12/21/98	12/21/08	80	0.278	12.50%
1912-37	Phillip Glen Adams	6/3/98	6/3/03	80	4.443	12.50%
1912-38	Roy L. French	11/9/98	11/9/08	80	0.634	12.50%
1912-39	Virginia Williamson Cruz	11/7/98	11/7/08	80	0.740	12.50%
1912-40	Francis Williamson Snipes	10/27/98	10/27/03	80	2.222	12.50%
1912-41	Alfred Adams	11/11/98	11/11/08	80	2.222	12.50%
1912-42	Ethel F. Metz	12/21/98	12/21/08	80	1.905	12.50%
1912-43	Esther Ruth Robertson	11/17/98	11/17/08	80	2.222	12.50%
1912-44	John & Hazel Stratton	11/7/98	11/7/08	80	0.833	12.50%
1912-45	Ruth August	11/7/98	11/7/08	80	0.740	12.50%
1912-46	Linda Adams	11/7/98	11/7/08	80	0.740	12.50%
1912-47	Roger D. Williamson	2/3/99	2/3/09	80	0.317	12.50%
1912-48	Robert P. Williamson	2/3/99	2/3/09	80	0.317	12.50%
1912-49	Mary Nelson	2/3/99	2/3/09	80	0.317	12.50%
1912-50	Anna Williamson	5/20/98	5/20/03	80	0.278	12.50%
1912-51	Estate of Katie Littlefield	6/4/98	6/4/03	80	3.333	12.50%
1912-52	Pauline Schweda	6/3/98	6/3/03	80	1.667	12.50%
1912-53	A.E. Williamson	6/17/98	6/17/01	80	8.890	12.50%
1912-54	Faye Whalen	5/21/98	5/21/03	80	0.741	12.50%
1912-55	Edward Williamson	5/21/98	5/21/03	80	0.741	12.50%
1912-56	Dode Hasbrouck	5/28/98	5/28/03	80	0.833	12.50%
1912-57	Marjorie Ruth Williamson	6/17/98	6/17/01	80	2.223	12.50%
1912-58	Marjorie Ruth Williamson, Tr.	6/17/98	6/17/01	80	2.223	12.50%
1912-59	Richard P. Cauthorn	6/3/98	6/3/03	80	0.557	12.50%
1912-61	Frederick Romtvedt	10/8/99	10/8/04	80	1.667	12.50%
1912-62	Pearl Boyster	2/3/99	2/3/09	80	0.317	12.50%
1912-63	Modean Warren	2/3/99	2/3/09	80	0.317	12.50%
1912-64	Darrel Williamson	2/3/99	2/3/09	80	0.317	12.50%
1912-65	James Clayton Cauthorn	5/24/00	5/24/05	80	0.185	12.50%
1912-66	Henry Adams	6/9/00	6/9/05	80	2.222	12.50%
1912 67	Charles Dunn	12/18/00	12/18/05	80	1.482	12.50%
1912-68	Helen Ruth Williamson	2/3/99	2/3/09	80	0.318	12.50%
1912-69	Johnnie Allmon	1/12/01	1/12/06	80	1.482	12.50%
			Total	80	71.241	

T7S-R36E Section 8: S/2 NE/4

HLB/R Lease No.	Lessor	Lease Date	Lease Expiration	Gross Acres		
2231-00	Jones Robinson Ltd	3/20/98	3/20/08	80	40	20%
2251-00	Ellen Farmers Drysdale	4/6/99	4/6/04	80	10	12.50%
2251-01	Samuel Foster Semple	9/14/99	9/14/04	80	10	12.50%
2251-02	Robert Merrick Semple	9/14/99	9/14/04	80	10	12.50%
2251-03	Ireland Farmers Bank	10/5/99	10/5/04	80	10	12.50%
			Total	80	80	

Grand Total NE/4 Section 8 **151.241**

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12589 Exhibit No. 7
Submitted By:
H.L. Brown
Hearing Date: February 8, 2001

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. 12589
ORDER NO. R-__

APPLICATION OF H. L. BROWN, JR. FOR COMPULSORY POOLING, AN UNORTHODOX OIL WELL LOCATION AND A NON-STANDARD OIL PRORATION AND SPACING UNIT ROOSEVELT COUNTY, NEW MEXICO

H. L. BROWN, JR.'S
PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 8, 2001 at Santa Fe, New Mexico, before Examiner Michael E. Stogner

NOW, on this _____ day of February, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction over the parties, of this cause and the subject matter thereof.

(2) The applicant, H. L. Brown, Jr. ("Brown"), seeks:

(a) approval of a 160-acre non-standard oil proration and spacing unit for any production from the Devonian formation consisting of the NE/4 of Section 8, T7S, R36E, ("Section 8") Roosevelt County, New Mexico;

(b) approval for the Devonian formation of an unorthodox oil well location 1550 feet from the north line and 1400 feet from the east line of Section 8;

(c) an order pooling eight (8) uncommitted mineral interest owners in the N/2NE/4 of Section 8 (with a total proportionate interest in the NE/4 of Section 8 of 5.47%) who have failed to agree to voluntarily commit their interests in the NE/4 of Section 8 in the following manner:

(i) for any Devonian oil production from the proposed 160-acre non-standard proration and spacing unit; and

(ii) any gas production from the surface to the top of the Wolfcamp formation to be dedicated to a standard 160-acre gas spacing and proration unit consisting of the NE/4 of Section 8

(3) Applicant has the right to develop the proposed units and produce any hydrocarbons underlying the same, however, as of January 16, 2001, the date this application was filed, the following unleased mineral owners in the above described 320-acre spacing and proration units have not agreed to pool their interests:

George Fench	1.19%
Velma Keith	1.39%
Irene French Braswell	1.19%
Earl N. French	3.95%
Marvin Anthony Cauthorn	0.11573%
Betty Jean Hockey	0.11573%
Grace Bible Fellowship Church	0.03472%
Dorothy Jean Lander	1.04165%

(4) Section 70-2-17.C NMSA (1978) provides, in part, that:

> "Where, however, such owner or owners have not agreed to pool their interests,....the Division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste shall pool all or any part of such lands or interest or both in the spacing unit or proration unit as a unit."

(5) Section 70-2-12 NMSA (1978) provides the Division has the authority to "(10" To fix the spacing of wells."

(6) Section 70-2-17.B NMSA (1978) provides in part that:

> "The Division may establish a proration unit for each pool, such being an area that can be efficiently and economically drained and developed by one well...."

(7) Division Rule 70.----defines a Unit of Proration for Oil: shall consists of one 40-acre tract or such multiplies of 40-acre tracts as may be prescribed by special pool rules issued by the Division

(8) The terms "spacing unit" and "proration unit" are not synonymous and the Division has the power to create a spacing unit without first creating proration units. See Rutter & Wilbanks Corp. Oil Conservation Commission, 87 NM 286 (1975)

(9) That in order to prevent waste and protect correlative rights, the Division has the statutory authority to create a non-standard proration unit and to issue a compulsory pooling order involuntarily committing the mineral interest owners in the non-standard proration unit to a well. See Section 70-2-18.C NMSA (1978) and Rutter & Wilbanks, supra.

(10) Division Rule 104.H provides that "In order to prevent waste, the Division may, after hearing, set different spacing requirements and require different acreage for drilling tracts in any defined oil or gas pool.

(11) The proposed unorthodox well location is 80 feet from the east line and 230 feet from the north line of the SW/4NE/4 (Unit G)

(12) **Notifications:**

(A) Applicant submitted a sworn affidavit verifying that each and every compulsory pooled party either (i) received actual notice of this hearing or (ii) was sent notice in accordance with Division Rule 1207 and after a good faith search, could not be located, and the Division finds that each party has been afforded a fair and reasonable opportunity to appear and participate.

(B) Brown has complied with Division notification rules, by sending notice, certified mail, return receipt, to all of the interest owners in the NE/4 of Section 8.

(13) **Technical evidence:**

In support of its application, Brown submitted the following evidence through its exhibits and the testimony of its witnesses which the Division finds to be substantial:

(a) **technical data submitted:**

Brown's geophysicist:

(i) presented all available seismic data including three seismic profile lines, time depth map, time depth map converted to actual depth in feet;

(ii) demonstrated that the data was accurate to within 3 traces (165 feet per trace) and a depth accuracy of 100 feet(+/-);

(iii) integrated all prior conventional geologic and geophysical interpretations;

(iv) utilized three (3) 2-D seismic lines and well log data from the only two (2) wells which penetrated the Devonian within a 12 section area;

(v) reprocessed the seismic data to optimize its accuracy;

(vi) used all available data from the North Bluitt Pool which is the nearest Devonian pool some 8 miles to the southeast of North Todd

(b) **additional data:**

Brown's geophysicist testified that a complete 3-D seismic study of the area would cost at least $100,000 and the prospect could not support the additional cost.

(c) **identified prospect:**

Based on the foregoing, Brown's geophysicist has identified the probability of a small Devonian structural feature within the highest point of maximum closure of approximately 70 feet ("North Todd Prospect") which is substantially contained within the NE/4 of Section 8 and which is bounded on the north by a fault located at shot point 230, Line 16 and on the south by a presumed oil/water contact at -3870 feet.

(d) **justification for unorthodox well location:**

Brown's geophysicist has concluded that:

(i) there is no standard location in any of the four 40-acre tracts in the NE/4 of Section 8 which is better than the proposed unorthodox well location;

(ii) the optimum location is at shot point 232, Line 16 because it is on a known control point, any location east or west moves away from this control and substantially increases the risk of drilling a dry hole;

(iii) any location farther north is too close to the north fault line and any location farther south moves down structure towards the oil/water contact

(e) **justification for 160-acre non-standard unit:**

Brown's geophysicist concluded that while the well would be located in Unit G, each of the four 40-acre tracts in the NE/4 of Section 8 would contribute Devonian oil reserves to the well;

(f) **justification for a single well:**

Brown's geophysicist, in conjunction with Brown's petroleum engineer, concluded that (i) the pool is estimated to contain approximately 300,000 barrels of recoverable oil; (ii) one well is estimated to recover approximately 300,000 barrels of oil plus condensate and (ii) economic waste would be caused by drilling more than one well because one well is likely to drain the entire pool and the economics preclude the probability that two wells can be drilled at standard well locations.

(g) **Risk factor penalty:**

Brown geophysicist testified that based solely on the geologic risk, including the absence of commercial Devonian production within 8 miles, the maximum statutory penalty of 200% was justified.

(15) **petroleum land evidence:**

Brown's landman testified that:

(A) the NE/4 of Section 8 consists of two fee tracts of differing ownership between the N/2 and the S/2:

(B) the S/2 consists of 5 different owners all of whom have issued leases to Brown;

(C) the N/2 consists of in excess of 60 different owners with Brown holding leases from 57 of these owners each of which is subject to a 12.5% (1/8th) royalty;

(D) Since 1989, Brown has been attempting to consolidate the leases on a voluntary basis;

(E) On December 8, 2000, Brown proposed this well, its location and its proposed non-standard spacing and proration unit to all interest owners in the NE/4 of Section 8

(F) the proposed well when completed is estimated to costs approximately $580,800.

(G) Brown's proposed overhead rates on a monthly basis are $5,500 drilling and $550 producing.

(H) the only uncommitted interest owners are located in the N/2NE/4 and have a total of 5.47% in the proposed 160-acre non-standard proration unit.

(I) Brown has obtained the voluntary agreement of 94.64% of the interest owners in the proposed 160-acre spacing unit

(J) no interest owner appeared to object to this proposal.

(16) The Division finds that:

(A) Brown has made all reasonable efforts to acquire and analyze all available data;

(B) This Devonian formation structural feature is substantially located within the NE/4 of Section 8 and apportioned between the N/2 and S/2 of the quarter section;

(C) the proposed unorthodox well location is necessary in order to have the optimum location at which to drill this well in order to use a single wellbore to test the Devonian formation within this structural feature;

(D) approval of the unorthodox location will increase the likelihood of intersecting commercial grade oil bearing zones within the Devonian formation;

(E) the applicant has proposed the subject well and its appropriate spacing units to the uncommitted owners in the spacing units as identified in Finding ( ) above.

(F) Despite its good faith efforts, applicant has been unable to obtain a written voluntarily agreement from all of these uncommitted owners voluntarily pooling their interests.

(G) Applicant's witness testified in support of the approval of an Authority for Expenditure ("AFE") for a total completed well costing and estimated $580,800.00 and to use of its 1982-Joint Operating Agreement with overhead rates of $5,500/month drilling and $550/month producing.

(H) while the unorthodox location is superior to the closest standard location, it does not reduce the risk to less than the maximum 200%;

(I) Since risk of an unsuccessful completion is very high, the risk penalty to be applied to the compulsory pooled parties who elect to be carried should be set at 200% of their proportionate share of actual total completed well costs.

Special Procedures:

(17) The normal Division practice is to require a well to be drilled pursuant to it statewide spacing and well location requirements and then after a discovery to establish a pool and, when appropriate, special rules.

(18) However, in order to prevent waste and protect correlative rights, this application presents a unique circumstance which requires establishing a special procedure as follows:

(a) a special non-standard 160-acre spacing unit consisting of the NE/4 of Section 8 should be established;

(b) a compulsory pooling order should be entered pooling all eight (8) uncommitted mineral interest owners in the N/2NE/4 of Section 8 (with a total proportionate interest in the NE/4 of Section 8 of 5.47%) in the following manner:

(i) for any Devonian oil production from the proposed 160-acre non-standard proration and spacing unit; and

(ii) any gas production from the surface to the top of the Wolfcamp formation to be dedicated to a standard 160-acre gas spacing and proration unit consisting of the NE/4 of Section 8

(c) Brown should be authorized to drill its well at the requested unorthodox well location and dedicate it to the proposed 160-acre non-standard spacing unit;

(d) a special depth bracket allowable should be assigned to the 160-acre non-standard spacing unit of not more than ____ barrels of oil per day;

(e) that no additional wells shall be drilled to the Devonian formation within the 160-acre non-standard spacing unit, except after notice and hearing;

(f) within 6 months after the date of first production, Brown shall file an application with the Division for the creation of a new pool and the adoption of special rules and regulations including the establishment of proration units in accordance with Section 70-2-17.B NMSA (1978); limiting well density ("infill drilling") and setting production allowables.

(19) to avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owners of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of hydrocarbon production in any pool, the subject application should be approved by compulsory pooling of any working interest owner and/or mineral owner who owned an interest not

voluntarily committed to the drilling of this well as of January 16, 2001 (date the application was filed) and any said party's successors, grantees, or assignees.

(20) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in these formations/pools, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

(21) Pursuant to Section 70-2-17(C) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, the applicant should be granted an order by the Division pooling the identified and described mineral and/or working interest owners set forth in Finding (4) above (hereinafter "compulsory pooled parties") so as to prevent waste and protect correlative rights for the drilling of the subject well at an unorthodox surface and subsurface location upon terms and conditions which include:

(a) H. L. Brown be named operator;

(b) Provisions for all compulsory pooled parties to participate in the costs of drilling, completing, equipping and operating the well;

(c) In the event a compulsory pooled party fails to timely elect to voluntarily commit its interest and participate pursuant to this order, then said compulsory pooled party's interest is hereby involuntarily committed to participation pursuant to the terms and conditions of the compulsory pooling provisions of this order and shall be deemed a non-consenting owner whose interest shall be carried so the carrying parties can recover out that compulsory pooled party's share of production, that compulsory pooled party's share of the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;

(d) Provisions for a compulsory pooled party to pay his share of overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

(22) Approval as set forth above and in the following order will avoid the drilling unnecessary wells, protect correlative rights, prevent waste and afford the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool resulting from this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of H. L. Brown, Jr. in this case is hereby **GRANTED** and H. L. Brown, Jr. is hereby designated operator of the subject well and the corresponding spacing units.

(2) Effective as of the date of the filing of the application in this case, the interests of the working interest and/or mineral owners ("compulsory pooled parties") identified in Finding ( ) above, including, if any, their assignees, successor and grantees, from the surface to the base of the Devonian formation underlying the following described acreage in Section 8, Township 7 South, Range 25 East, NMPM, Roosevelt County, New Mexico, **are hereby pooled** for purposes of involuntary commitment to participate in applicant's Robinson "8" Well No. 1 and in the following manner:

(i) for any Devonian oil production from the proposed 160-acre non-standard proration and spacing unit; and

(ii) any gas production from the surface to the top of the Wolfcamp formation to be dedicated to a standard 160-acre gas spacing and proration unit consisting of the NE/4 of Section 8

(3) Brown **is authorized** to drill its well at the requested unorthodox well location and dedicate it to the proposed 160-acre non-standard spacing unit;

(4) A special non-standard 160-acre spacing unit consisting of the NE/4 of Section 8 is **hereby approved and** established **subject to the following:**

(a) a special depth bracket allowable is hereby assigned to the 160-acre non-standard spacing unit of not more than 470 barrels of oil per day pursuant to Rule 505 (depth bracket allowables);

(b) no additional wells shall be drilled to the Devonian formation within the 160-acre non-standard spacing unit, except after notice and hearing;

(c) within 6 months after the date of first production, Brown shall file an application with the Division for the creation of

a new pool and the adoption of special rules and regulations including the establishment of proration units in accordance with Section 70-2-17.B NMSA (1978); limiting well density ("infill drilling") and setting production allowables.

(5) Each and every compulsory pooled party received actual notice of this hearing in accordance with Division Rule 1207 which the Division finds to have afforded each said party a fair and reasonable opportunity to appear and participate and that none of the compulsory pooled parties appeared and they have waived their rights to object and are **hereby compulsory pooled as set forth herein.**

PROVIDED HOWEVER THAT:

(6) Applicant's proposed drilling-completion program and the corresponding Authority for Expenditures ("AFE") is hereby **APPROVED.**

(7) The terms and conditions of the AAPL Form 610-1982 Model Form Operating Agreement are incorporated herein by reference and shall be binding upon all compulsory pooled parties, **subject to the following:**

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the _____th day of _____, 2001, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test both the Devonian formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the ___th day of _____, 2001, Decretory Paragraph No. (___) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(8) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each compulsory pooled party in the subject unit an itemized schedule of estimated well costs.

(9) Within 30 days from the date the schedule of estimated well costs is furnished to him, any compulsory pooled party shall have the right to pay his share of estimated completed well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such compulsory pooled party who prepays his share of estimated completed well costs as provided above shall remain liable for operating costs but shall not be liable for risk factor penalty charges.

(10) The operator shall furnish the Division and each compulsory pooled party with an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well cost is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any compulsory pooled party who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(12) The operator is hereby authorized to withhold from the compulsory pooled party the following costs and charges from production:

A. The pro rata share of reasonable well costs attributable to each compulsory pooled party who has not paid his share of estimated well costs within 30 days from the date of schedule of estimated well costs is furnished to him; and

B. As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each compulsory pooled party who has not paid his share of estimated total completed well costs within 30 days from the date the schedule of estimated costs is furnished to him.

(13) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(14) $6,000 per month while drilling and $600 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each compulsory pooled party, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each compulsory pooled party's interest.

(15) The operator shall furnish the Division and each compulsory pooled party with an itemized schedule of actual **operating** well costs to be charged on a monthly basis in the form of a joint interest billing within 90 days following completion of the well; if no objection to the actual operating well cost or the joint interest billing is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(16) Any unleased mineral interest who is a compulsory pooled party shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(17) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(18) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Roosevelt County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership, the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(19) Should all the compulsory pooled parties reach voluntary agreement with the applicant subsequent to the entry of this order, this order shall thereafter be of no further effect.

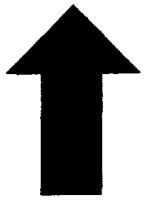
(20) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(21) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE, at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY,
Director



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NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date FEBRUARY 8, 2001 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
William F. Carr	Holland and Hart, LLP	Santa Fe
W. T. Kellahin	Kellahin + Kellahin	Santa Fe
Phil White	Blanco	SF
Q. Peter Cartney	H. L. Brown, Jr.	Midland, Tx.
William C. Rollinson	H L Brown, Jr	Midland, Tx
Stephen M. Guillot	Texaco	Midland TX
Larry J. Cabrera	TEXACO	MIDLAND, TX
Britton McQuien	Texaco	Midland, TX
Robert Boomer	Texaco	Midland, TX
Lucian J. French	Texaco	Midland, TX

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. 12,589
APPLICATION OF H.L. BROWN, JR., FOR COMPULSORY POOLING, A NONSTANDARD OIL SPACING AND PRORATION UNIT AND AN UNORTHODOX OIL WELL LOCATION, ROOSEVELT COUNTY, NEW MEXICO	)	

ORIGINAL

OIL CONSERVATION DIV.
01 FEB 22 AM 8:01

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 8th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 8th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

February 8th, 2001
Examiner Hearing
CASE NO. 12,589

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	20
Exhibit 2	14	20
Exhibit 3	15	20
Exhibit 4	16	20
Exhibit 5	19	20
Exhibit 6	33	45

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 8:28 a.m.:

EXAMINER STOGNER: With that, I believe we're ready to proceed to Case Number 12,589, which is the Application of H.L. Brown, Jr., for compulsory pooling, a nonstandard oil spacing and proration unit and an unorthodox oil well location, Roosevelt County, New Mexico.

At this time I'll call for appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the Applicant, and I have two witnesses to be sworn.

EXAMINER STOGNER: Any other appearances?

Will the witnesses please stand to be sworn at this time?

(Thereupon, the witnesses were sworn.)

EXAMINER STOGNER: Mr. Kellahin?

MR. KELLAHIN: Mr. Examiner, let me give you a brief preview of this case. I have two witnesses to present to you this morning on behalf of Mr. Brown. We have a petroleum landman and a geophysicist that's a consultant for Mr. Brown.

If you'll look at the notice of hearing, you will find that we are asking for compulsory pooling for from the surface to the base of the Devonian formation. You also

see that this acreage is in the northeast quarter of Section 8. The primary objective is the Devonian formation.

We have examined with the geophysicist the opportunity for shallow production, and I'm here to advise you this morning that we believe it is unnecessary to consider any other formations except as follows: That would be the Devonian formation, that would be any shallow gas production on 160 acres in the northeast quarter, and any oil production on 40 acres, other than the Devonian.

We believe we have an unusual circumstance, Mr. Examiner, where this particular prospect does not fit the general statewide rules concerning spacing and well location. You're going to find that the optimum location is a position in Unit Letter G which is 80 feet off the eastern boundary and 230 feet off the north boundary of that 40-acre tract.

The circumstances are such that you're going to see in a moment a fee tract -- the northeast quarter of 8 is fee acreage, it is subdivided north half-south half, and the ownership is different in each of those two 80-acre tracts.

The circumstances are such that the Devonian is a very small feature. We believe the optimum location is towards the center of the northeast quarter, and we're

asking you to consider creating for us a nonstandard proration unit for the Devonian, based upon 160 acres.

With that introduction, Mr. Examiner, we're going to call Mr. Peter Courtney as our first witness.

MR. COURTNEY: Good morning.

PETER COURTNEY,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Courtney, for the record, sir, would you please state your name and occupation?

A. My name is Peter Courtney. I'm a petroleum landman with H.L. Brown, Jr., in Midland, Texas.

Q. Are you familiar with what we've described as Mr. Brown's North Todd Prospect?

A. Yes, sir, I am.

Q. And what is that, sir?

A. Our consulting geophysicist has identified a potential Devonian structure in the northeast quarter of Section 8 of Township 7 South, Range 36 East, in Roosevelt.

Q. Is it your responsibility as a landman for Mr. Brown to identify the ownership within that particular quarter section?

A. Yes, sir, it is.

Q. In addition, has it been your responsibility to attempt on a voluntary basis to propose this prospect to the various owners?

A. Yes, sir, it has.

Q. Is this the kind of thing that you do in the normal course of your business, Mr. Courtney?

A. Yes, sir.

MR. KELLAHIN: Mr. Examiner, we tender Mr. Courtney as an expert petroleum landman.

EXAMINER STOGNER: Mr. Courtney is so qualified.

Q. (By Mr. Kellahin) We're going to come to Exhibit 1 in just a moment, Mr. Courtney. Let me ask you some questions concerning the Devonian.

Have you been involved in any other Devonian prospects on behalf of Mr. Brown?

A. Yes, sir, I have.

Q. And where will they be in relation to this property?

A. Approximately eight miles to the southeast of this prospect, we have our North Bluitt-Devonian Pool, which was presented and approved by the Division by Order R-8586 in January of 1988 for pooling on 80 acres for the Devonian.

Q. And that's the North Bluitt?

A. North Bluitt, yes, sir.

Q. All right. Now, what is Mr. Brown proposing for what we're looking at today, which is this North Todd Prospect?

A. Our geophysicist has identified a potential Devonian structure which covers the northeast quarter of Section 8, centered primarily at the corners of the four quarter quarters, and this was identified by 2-D seismic.

Q. Has your geophysicist recommended to you any particular location within the northeast quarter for the Devonian test?

A. Yes, sir, the proposed location is in Unit G, approximately 80 feet off the east boundary and 230 feet off the north boundary of Unit G.

Q. All right. Let's take a moment and look at Exhibit Number 1.

A. Okay.

Q. Is this a plat and a display that you prepared, Mr. Courtney?

A. Yes, sir, I did.

Q. What is the significance of the yellow-shaded area on the display?

A. Okay, the yellow-shaded area is our leasehold within the prospect, and particularly the northeast quarter of Section 8, in which I've showed the acreage we own.

Q. Let's look, then, at the northeast quarter of 8.

What kind of lands are we dealing with concerning the minerals within that quarter section?

A. These are totally fee lands, both in the north half and the south half of the northeast quarter.

Q. Is the ownership arranged in such a fashion that you have a different set of owners for the north half as opposed to the south half of the quarter section?

A. Yes, sir, the ownership is different in the two 80-acre tracts, and there are no common owners.

Q. You've got some percentages and information coded on the display that applies to the northeast quarter, do you not?

A. Yes, sir, I do.

Q. All right, let's follow the arrow. Do you see the black arrow?

A. Yes, sir.

Q. And it goes down and it says, "Proposed 160 acre unit".

A. Yes, sir.

Q. And what do the numbers mean?

A. Comprising the northeast quarter, we have approximately 151 acres, which is 94.6 percent working interest, and approximately 8.75 acres or 5 percent of that northeast quarter being unleased or open.

Q. When we apportion that between the north half and

the south half, what is the status of percentage that Mr. Brown has under lease for the south half?

A. Under lease in the south half would be approximately 89 percent.

Q. All right, and then the --

A. -- I mean, excuse me, 100 percent in the south half.

Q. That's right, and in the north half what's that percent?

A. 89 percent.

Q. All right. So Mr. Courtney, what's the problem?

A. The problem is, under standard Division Rules and R-104, the Devonian Pool would be based on 40-acre spacing.

Q. And where would you be required to place wells under the standard statewide rules?

A. 330 from the boundary line of Unit G.

Q. All right. And so in considering how to process this and establish a spacing unit and a well location consistent with the technical position, what were your options?

A. Our first option is, we could file for an unorthodox location and, if approved, proceed with drilling the well.

Q. All right. And you would do so based upon the statewide rule for a 40-acre tract, which would be Unit G?

A. Yes, sir.

Q. And then the well would be encroaching towards the north half of the quarter section and towards the east side of the quarter section?

A. Yes, sir.

Q. All right. So why have you not done that in this case, Mr. Courtney?

A. This is a very risky well. Our technical people have advised me that with the level of risk with such a small feature, that one well appears to be able to drain the structure. And if that's right, the well appears to be able to drain not only the south half but also the north half of the northeast quarter, and both 80s should share in the well if that's the case.

The north half, again, is a fee tract, of which we have approximately 89 percent of the ownership. The south half, we have 100 percent of the ownership and numerous owners.

Q. How long have you been trying to consolidate on a voluntary basis all of the working interest ownership in the northeast quarter?

A. I've personally been working on this prospect since about 1989, trying to track down the various owners in these lands.

Q. Can you give us a general estimate of the total

number of different interest owners that you have been dealing with over this period of time?

A. In the north half of the northeast there are approximately 70 to 75 owners, which we, of course, leased approximately 68 to 70 of them.

In the south half of the northeast, there are five or six owners, if I remember correctly, which we did locate and lease.

Q. Having considered the general solution to the statewide rules for 40-acre oil spacing in the Devonian and standard well locations, and finding that the technical people consider this a high-risk well and that there's probably the probability of only one well for the small feature, what then did you do?

A. I came to you and asked for assistance in finding out what my options were.

Q. All right, and what did I suggest to you, Mr. Courtney?

A. You suggested my two options were to, one, proceed and apply for the unorthodox location in Unit G and, if approved, drill a well; or that we attempt to form a voluntary agreement in the northeast quarter, and if I was able to get 100 percent agreement -- if I was not, excuse me -- we would file an Application for a 160-acre nonstandard unit and a pooling order for the unit and an

unorthodox location.

Q. All right, sir, why are you seeking this second option as opposed to the standard solution for Devonian exploration?

A. I believe it's more equitable for the owners in the north half of the northeast to share in this well for two reasons. One, the cost involved and the risk involved with such a small feature, we'd have to -- it's better to drill one well rather than two. And secondly, if we were to drill only one well at this location, I would then open myself to possible demands for drainage from the owners in the north half of the northeast.

Q. All right. You were involved in the North Bluitt where the discovery well was drilled on the feature. And then after the well was drilled, you came back and established 80-acre spacing. You know that process?

A. Yes, sir.

Q. All right. Why are you not proposing to drill this well first and then come back and try to establish 160-acre oil spacing in the conventional way?

A. Unlike the North Bluitt area where we had one owner, being the federal government, here we have two tracts with fee owners. And if we were to drill a well without the order and we were successful in making a discovery, we have, in fact -- being Mr. Brown who's taken

upon himself the risk and proved the location for the north half, northeast owners.

Q. All right, let's talk about the group that is not yet committed that represents approximately 8 1/2 percent or 8.75 percent.

A. Yes, sir.

Q. Those group of owners, then, would have the opportunity, if you pooled their acreage after the well is drilled, to make an election based upon the results of the well, knowing what happened?

A. Yes, sir.

Q. And therefore the risk is entirely on Mr. Brown and is not apportioned to the 8 percent that are not yet committed?

A. That's correct.

Q. Let's look at your tabulation of ownerships, Mr. Courtney. If you'll set aside Exhibit Number 1 for a moment, let's look at Exhibit Number 2. Identify that for us.

A. This is a list of the leases and owners that we have leased in the northeast quarter, and it's divided by the north half of the northeast and the south half of the northeast.

Q. All right. So the bottom portion of the display shows the south half, and that's a 100-percent lease to Mr.

Brown using these various lessor identification numbers?

A. Yes, sir.

Q. And then we look at the top portion of the display, and this is the portion of ownership in the north half for which Brown has been -- or you on behalf of Mr. Brown have been successful in obtaining the leases?

A. Yes, sir.

Q. Let's turn to Exhibit 3 and have you identify for us those owners that you have not been able to obtain a lease from. Have you identified those for us?

A. Yes, sir, I have, on Exhibit 3.

Q. All right, let's look at that for a moment. The individuals in this exhibit represent ownership in the north half of the quarter section?

A. In the north half of the northeast, that's correct.

Q. All right. Prior to initiating the pooling Application, did you propose this well to all interest owners?

A. Yes, sir, I did.

Q. Did you specifically include the unleased mineral owners that are shown on Exhibit 3?

A. Yes.

Q. Did you also make this proposal about the nonstandard proration unit and this well location to every

interest owner in the northeast quarter, including those from whom you had already obtained leases?

A. Yes, sir, I did.

Q. Do you have any objection from any of those people for whom you have made this proposal?

A. No, sir, I don't.

Q. Subsequent to filing the compulsory pooling Application proposing this nonstandard proration unit and the well's location, have you received any objection from any of these interest owners?

A. No, sir, I have not.

Q. Let's look at the sample of the type of letter that you sent to all the parties. If you'll turn to Exhibit 4, Mr. Courtney, identify for us what we're looking at.

A. This is the form letter, so to speak, that I sent to the owners in the northeast quarter, which set forth what we're planning to do. And I included with it an estimated cost to drill and complete the well, asking for their agreement.

Q. All right, you're dealing with a small group of fee owners that have a small interest in the spacing unit, correct?

A. Yes, sir.

Q. These people are generally expected not to be

knowledgeable about this process?

A. No, they're not.

Q. Did you propose to acquire leases from there?

A. Yes, sir.

Q. And did you respond to their inquiries when any of these people called you and asked for further information?

A. Sure.

Q. Subsequent to that, have you been successful in obtaining some of the leases?

A. A few, yes, sir, I have.

Q. And the interest owners in Exhibit 3, then, are those that either you cannot find or that you have located and have not been able to obtain a lease from?

A. That's correct.

Q. And none of the individuals notified have proposed to participate in the well?

A. No, sir.

Q. Okay, and you've advised them of the location, you've told them of the degree of risk involved, and you've told them of the proposed nonstandard spacing unit consisting of the northeast quarter?

A. That's correct.

Q. All right. Have you reached the point, Mr. Courtney, where you need the Division Examiner's assistance

in order to form a spacing unit, commit the uncommitted interest, so you can continue with your project?

A. Yes, sir, I do.

Q. What is the general time frame in which you have remaining in which to have some regulatory solution to your dilemmas?

A. At this time, we're -- of course, along with everybody else in the industry -- in line for a drilling rig. We're looking at the possibility of having a rig available to drill this prospect within 45 days or so.

Q. If you re-organize the rig schedule and this property is not drilled under the current plan, when is the date on which you start losing the first of the leases that you spent so much effort to acquire?

A. In June of this year.

Q. In June of this year, you start losing your leases?

A. Yes, sir.

Q. Do you have a recommendation for the Examiner as to what would be an appropriate overhead rate to apply to the force pooling order on a drilling and producing well basis, using a monthly calculation?

A. Yes, sir, based on -- Ernst and Young, I believe, is the survey we've used. Based on this depth, we are looking at a $5500-per-month drilling rate and a $550-per-

month producing rate.

Q. Is it typical for you as it is for others to take the Ernst and Young overhead rates and to have them accelerated on an annual basis or a periodic basis?

A. Yes, sir.

Q. And you would ask that the Examiner include an acceleration basis in your --

A. Yes, sir.

Q. Let me ask you to identify for the record what is marked as Exhibit Number 5, is my certificate of notification for the hearing. If you'll turn to -- Past the certificate there's the notice letter, and if you'll turn past that, there's a series of tabulations, three of them. What do these represent, Mr. Courtney?

A. Are you talking about the third page?

Q. Yes, sir, it says Exhibit B, and then the next one says Exhibit C. What are these?

A. These are the owners, the various owners as reflected on Exhibits 3 and 4, which were the unleased interests in the north half, northeast, and then the remaining owners in the northeast quarter.

Q. All right. These were lists that you provided to me?

A. Yes, sir, I did.

Q. For those individuals that you have identified

that you cannot locate, did you make additional efforts to find where they might be located, other than the addresses shown here?

A. Yes, sir.

Q. And how did you do that?

A. I have, of course, checked the county records for any probates for deceased mineral owners. I've used the Internet, which you can search owners now by Social Security Number and so forth. And I've even gone to the extent of having a private investigator help me in locating some of them.

Q. All right, sir. At this point, Mr. Courtney, in your opinion have you exhausted all good-faith efforts to attempt to find these people and, if found, make a well proposal to them?

A. Yes, sir.

Q. You're at the point now where you need the Examiner's assistance; is that not true?

A. Yes, sir, I do.

MR. KELLAHIN: Mr. Stogner, we move the introduction of Mr. Courtney's Exhibits 1 through 5.

EXAMINER STOGNER: Exhibits 1 through 5 will be admitted into evidence.

Well, I don't need to mention that this is somewhat of a precedent-setting matter, although it's not

totally unknown.

I known of another instance, Mr. Kellahin, where a proration unit was quadrupled in size, and that was the Jalmat Pool. That's no a very good example, is it?

MR. KELLAHIN: No, sir, it sure isn't. Mr. Courtney and I have been struggling with this problem since last September, Mr. Stogner, and we've gotten to the point where we decided to share our problem with you. We recognize we're asking you for an unusual solution for an unusual circumstance, but frankly we don't know what else to do.

We've explored some other choices. You may recall that I was successful with OXY some time ago, where they had the good fortune of being able to reach a written contract with all the adjoining spacing units, and so you could approve a 40-acre unit with an encroaching well location that was extremely unorthodox.

The equities were solved for correlative-rights purposes, because outside of your order you recognized that we had an agreement to pay the other interest owners. Mr. Courtney and I could not do that in this case, because we can't find or get the agreement of the remaining 8 1/2 percent. So that didn't work.

And we explored all the options I could think of, and this is what we chose as the option to have you

consider.

EXAMINER STOGNER: Mr. Kellahin, I have a sort of a question. It's not a question to you as an expert witness, but to help me kind of interpret what the statute says on this matter, 70-2-18, spacing and proration units with divided mineral interests. In there it says, "whenever the operator of any oil and gas well shall dedicate lands comprising a standard spacing or proration unit..."

Is there some provisions in here which will allow me to quadruple in a special instance such as this?

MR. KELLAHIN: I rationalized it this way, Mr. Stogner, that I was concerned about whether you could use the police powers of the state under the compulsory pooling statute to pool something other than a standard spacing unit, and I found examples where we have had the Division approve a nonstandard proration unit. And after that was done then we could, in fact, pool the interest owners for the nonstandard unit.

And it makes sense. If you decide in your judgment that in order to prevent waste and protect correlative rights the nonstandard proration unit is appropriate, then it frustrates the purposes of the act if you can't correspondingly pool the interest for that purpose. So I think you would look to another portion of

the Act, decide it's in the best interest to have the nonstandard proration unit, and then accordingly act to pool those parties for which there is no agreement.

EXAMINER STOGNER: Kind of laying a foundation. With this in mind, let's keep this in perspective today. Perhaps there can be something. But there is so much at risk if this is allowed to go past, I believe, Mr. Kellahin, you can foresee this, setting some sort of a precedent where, how should I say, the less conscientious operator -- and there may be a few out there -- would utilize this kind of police action just to hold acreage.

With that in mind, I want to try to establish some -- make sure I have clear in my mind here.

EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, Mr. Courtney --

A. Yes, sir.

Q. I'm going to refer to Exhibit Number 2 just for reference at this point. Now, these are all undivided fee lessors or leasees in the north half of the north half; is that correct? The first portion of it at least?

A. Yes, sir.

Q. Okay. And these are the ones you have reached an agreement or have leased?

A. Yes, sir.

Q. Okay. What percentage -- or what is their individuals' royalty interest under this agreement? What do they retain as royalty?

A. I would -- Now, we're talking numerous leases here, but I would gather to say that predominantly most of them are one-eighth leases with some being one-six or slightly higher. But they're predominantly one-eighth leases.

Q. So they're not all one-eighth; is that correct?

A. No, there are two or three within there, there might be a one-sixth lease.

Q. And you said there might be some higher than a one-sixth?

A. No, not in the north half of the northeast.

Q. Okay, how about in the south half of the northeast?

A. In the south half of the northeast, those again are predominantly one-eighth leases, with one of those being higher, being a one-sixth or higher.

Q. When you say "or higher", be more specific.

A. Well, I can't recall off the top of my head, being it's so numerous of leases, but I believe it was one-sixth and one-eighth leases only taken in this whole prospect.

MR. KELLAHIN: We can provide you a tabulation of

that, Mr. Examiner.

EXAMINER STOGNER: I would like to see that, yes, because the standard compulsory pooling order provides when an unleased mineral interest is pooled that they receive a standard one-eighth.

MR. KELLAHIN: Yes, sir, that's right.

EXAMINER STOGNER: Do you know of anywhere in the statutes that would allow me to increase that, in all fairness? Because I'm understanding -- that's one of the things I understand H.L. Brown is concerned about these unleased parties, is the fairness for everybody.

MR. KELLAHIN: And that's a default. It says you'll split it seven-eighths and one-eighth. And I don't see there's any problem in having you stipulate in the order some kind of other solution to provide the equity.

EXAMINER STOGNER: If you would provide for each of these what is the percentage --

MR. KELLAHIN: We'll do that.

EXAMINER STOGNER: -- and bear that in mind. And if you think there is a way for me to adjust that, if need be, then could you sort of brief me on that, just that aspect alone?

MR. KELLAHIN: All right, sir.

Q. (By Examiner Stogner) I'm going to mention something now too, and bear in mind this, since we're

looking at the fairness, I understand he's already said this is a risky operation, but the parties to be force-pooled, as I understand, are all royalty-type fee interest owners; is that correct?

A. Yes, sir.

Q. And their whole percentage in this proposed 160 amounts to 8.75787 percent?

A. No, sir, that's 8.75 net acres, which calculates to 5.47 percent.

Q. Not a whole bunch, but still enough to be significant.

A. Yes, sir.

EXAMINER STOGNER: And if you are looking at these parties' best interest, then perhaps bear in mind that maybe the risk penalty should reflect H.L. Brown's concern that they get a fair deal out of this.

MR. KELLAHIN: Well, maybe we can carry their interest or something like that. It's a small interest, but let us think of exploring ways to satisfy you it's equitable.

EXAMINER STOGNER: Carry it or perhaps charge whatever is a fair interest rate for a CD or other kind of investments. Just thinking out loud, bringing that up.

MR. KELLAHIN: Well, we did that when we respaced the Gavilan-Mancos in the San Juan Basin and there were

existing wellbores. There was a value attached to the wellbore, and so the Commission years ago used some different ways to establish equity that were not the conventional solution. So Mr. Courtney and I will explore those options, and we'll give you as many as we think that are appropriate.

EXAMINER STOGNER: And what I want -- One of the reasons of bringing that up, I want to remove this as far away as for a normal compulsory pooling, just in case some of these less conscientious operators see this as an opportunity.

MR. KELLAHIN: Well, I understand, this could be a very unique solution, that the facts would dictate it highly improbable that others could afford themselves of this solution.

EXAMINER STOGNER: Oh, but I'm sure some of them will sure try. Just to hold acreage, mind you.

MR. KELLAHIN: Yes, sir, I understand the problem.

Q. (By Examiner Stogner) Now as I understand, you say that you started contacting people or getting this all together in June of last year?

A. Actually, I started acquiring leases as far back as 1989 and renewed leases over the years. But seriously putting this together to drill a well back a year ago.

Q. But you at least, as I understand it, at least since 1989, started acquiring the knowledge of the complicated ownership issues up here; is that correct?

A. Yes, sir.

Q. So it sounds like to me you have a very good handle, even on the parties that you could not contact, more so, I dare say, than a lot of others that I've seen pass through this office.

There again, that leads to the uniqueness on this.

A. Right.

Q. Do you have an idea why this got so convoluted? Are these all family members?

A. Why title did?

Q. Pardon?

A. You mean the title?

Q. Yes.

A. Title goes way back, and it was divided between several families. Title started really getting bad back in the 1940s when we would have heirs die, numerous heirs. No probates were filed of record, and these individuals were scattered all over the United States. That's the problem with not being able to locate probates or any kind of link to who heirs are. But we went to some extent to try to find them.

Q. Now, on Exhibit Number 1, just to make sure in my mind, whenever I look at the north half, north half of Section 8, you have H.L. Brown, Jr., and a number across there --

A. Yes, sir.

Q. -- and that 89.05 percent. What is this number representing?

A. 89 percent represents our percentage leasehold working interest in that tract, as represented on Exhibit 2 by the various leases.

Q. And what does that 10.95 percent represent?

A. That represents the ownership unleased in the north half, north half.

Q. Just in the north half, north half?

A. Yes, sir, and of course it's hooked to ownership in the south half of the southwest quarter.

Q. Okay, that's what I was getting at. Now, this number represents just the north half, north half, that's represented on Exhibit Number 1, and not the proration unit that you're looking for today?

A. That's correct, the proration unit ownership that I'm looking for today is connected to the arrow.

Q. Ah, and that's what I was getting at.

A. That is actually the calculated ownership in the northeast quarter, which is at the bottom of the arrow.

Q. Who was the last one in the south half of this proration unit to join? Which of these parties?

A. I guess it was Jones Robinson.

Q. Joan Robinson?

A. Jones Rob- -- In the south half of the northeast? Is that what you're --

Q. Yeah, because you say you have a hundred percent in there, right?

MR. KELLAHIN: Look at Exhibit Number 2, Mr. Courtney. At the bottom it will give you your lease date. Do you see that? Which is the last lease you took?

THE WITNESS: The last lease I actually took in the south half of the northeast would have been, I believe, from Jones Robinson.

MR. KELLAHIN: That says 1998, and the others are 1999.

Q. (By Examiner Stogner) Yeah, when was the last one?

A. Oh, okay, I'm sorry, I misunderstood.

MR. KELLAHIN: What's your newest lease?

THE WITNESS: I misunderstood the question.

MR. KELLAHIN: Yeah, newest lease?

THE WITNESS: My newest lease would have been Inalind Farmere Bane.

Q. (By Examiner Stogner) Okay, how about your

newest lease up in the north half?

A. That would be Johnnie Allmon, which is the last name on the list.

EXAMINER STOGNER: I have no other questions of this witness at this time. I may find it necessary after hearing the technical evidence.

You may be excused. Thank you, Mr. Courtney.

THE WITNESS: Thank you.

MR. KELLAHIN: My next witness, Mr. Examiner, is Mr. Bill Robinson.

WILLIAM C. ROBINSON,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Robinson, for the record, sir, would you please state your name and occupation?

A. I'm William C. Robinson of Midland, Texas. My occupation is consulting geophysicist.

Q. When and where did you obtain your degree, Mr. Robinson?

A. I have a degree from the University of Texas at Arlington, a master's in geology, in 1982, and a bachelor's of physics from Texas A&M in 1969.

Q. As part of your consulting duties to Mr. Brown

and others, do you on a regular basis evaluate and analyze and reach conclusions about seismic data?

A. Yes, I do. That's my standard business.

Q. When did you first become engaged on behalf of Mr. Brown concerning what he has called his North Todd Prospect?

A. I began working on the North Todd Prospect in December of 1999, which is just over a year ago.

Q. Prior to that, did Mr. Brown have geologic assistance in evaluating the North Tubb [*sic*] Prospect Area?

A. Yes, the prospect had been ongoing for quite some time and had been worked on by geologists.

Q. Have you reviewed the work and the data from the other geologists that were involved prior to your participation in the North Todd Prospect?

A. Yes, I reworked it personally and have also reprocessed the seismic data that was used initially.

Q. Before we look at Exhibit 6, which is your montage of your technical work, Mr. Robinson, have you satisfied yourself that you have sufficient data upon which to recommend to Mr. Brown the drilling of this Devonian well?

A. I do. We have purchased all of the seismic data available on the data market and reprocessed it and

utilized it, and at this time I feel like the recommendation can be made.

Q. The recommendations to Mr. Brown about the well location is your recommendation?

A. That's correct.

Q. The opinions concerning the size and the shape of the Devonian feature are your opinions, are they not, Mr. Robinson?

A. That's correct too.

MR. KELLAHIN: Mr. Stogner, at this time we tender Mr. Robinson as an expert geophysicist.

EXAMINER STOGNER: Are you any kin to the Jones Robinson mentioned in the south half of this section?

THE WITNESS: No, sir.

EXAMINER STOGNER: Okay, you're so qualified.

Q. (By Mr. Kellahin) Before we look at the display, let's talk about the general conclusions you have about the prospect. Describe for us what kind of feature we're about to look at.

A. On the montage display that's submitted in evidence, the lower part of the montage contains three maps. The middle map is a map of the structure of the top of the Pennsylvanian, which is a couple of hundred feet above the Devonian objective. I'm able to map from my seismic data that horizon, and so that's why it's depicted,

rather than the Devonian, which is a much more complicated seismic event and is not a reliable seismic even to map.

The structure you see is a fault-bounded horst block or a structural anticline where we expect or hope to find Devonian reservoir present.

Q. Before we talk about the details of your conclusion, have you satisfied yourself that there is not a standard location within the northeast quarter in which to place this Devonian well?

A. The location we have chosen is the optimum based on the seismic data that we have, and any other location would increase the risk to the prospect.

Q. It's your understanding, is it not, that under general Devonian spacing the Division has 40-acre tracts as spacing units and that wells, to be standard, would be 330 from the side boundaries of that tract, true?

A. I understand.

Q. When you've looked at your displays and information, do you see a standard location within that system which is preferable to your proposed unorthodox location?

A. I've tested each standard location against the data we have, and each of those standards would increase the risk over the location directly on the data set.

Q. All right. Before we talk about the other

details, let's go to the one display on the montage that is the conclusion display from which you can illustrate and discuss your opinions. Which one will that be?

A. That would be the structure map of the Pennsylvanian, the middle map.

Q. Is that middle map a time map, or has this been converted to actual depth in terms of feet?

A. The map is a depth map, utilizing well control north and south of the prospect. The time map would be immediately to the right of that map for your reference.

Q. Let's look at the depth map, then, and the first issue is justification of the unorthodox well location. I see on this display that there is a large orange dot. What does that represent, Mr. Robinson?

A. That dot is the approximate location for our proposed well site.

Q. It's just to give the Examiner a visual illustration of where, approximately, that point would be on this map.

Is there any significance to you that that well location is on the north-south seismic line which is identified as NT-16? What's the significance of having it on that line?

A. The significance is that the structural complexity and the reservoir presence or absence is defined

at the optimum on that line, and that any move away from that data set would increase the risk of our success.

Q. The shot point on which the well is located is shot point 232 for that line?

A. That's correct.

Q. What happens if you move north on that line towards shot point 230?

A. Moving north towards 230 would be indicated by the data to move too close to a fault without an appropriate safety factor. The fault is the bounding fault for the reservoir, and being on the wrong side of that fault, the downthrown side, would probably cause failure.

Q. Do we have any well within the area shown on this display which penetrated to or through the Devonian?

A. Yes, on the map that's used in evidence to the south, there's a well marked ERG, and that well did penetrate the Devonian reservoir.

Q. That's the closest control to the south in terms of a wellbore?

A. That is the closest control with Devonian penetration. There's another well to the north where the Devonian was absent.

Q. Where is that well in relation to the northeast quarter of 8?

A. It's about a mile and a quarter to the north,

along Line 16, just at the very top of the map, and it's identified by the word "CULLEN".

Q. Your conclusion is that it's too risky to go north along the line because you increase the probability of encountering the fault or being on the wrong side of the Devonian fault line?

A. That is correct, yes.

Q. What happens if you go south on that line?

A. Going south, the data indicate that we lose structural advantage through dip or the proximity to another fault that is not as large but still indicates that the structural elevation is lower.

Q. Okay, let's talk about the justification for using the northeast quarter as the nonstandard proration unit, as opposed to subdividing this in a conventional way with 40-acre units.

A. All right.

Q. All right, why are you proposing the reasonableness of a nonstandard 160-acre unit for the well?

A. The reason for the proposed location is again to place the location in the least risked position for our prospect's success.

Q. If you're required to place this well anywhere else in the northeast quarter, what would you recommend to Mr. Brown?

A. Any other location would increase the risk to Mr. Brown, and it would just get us to the point where we have a problem as far as justifying whether we want to drill the well or not with that increased risk.

Q. Have you, Mr. Robinson, worked with Mr. Brown's petroleum engineer to identify the volume of potential oil that would be contained within the size and the shape of this feature that you have interpreted to determine whether that is sufficient oil to justify a single well?

A. That is correct. The engineer and I have worked together. I have provided him with the volumetric information he needed for the North Bluitt Field, which we've used very -- integrated with this prospect, both from the production potential and from the structural layout.

The volumetrics and the oil in place from -- I'm sorry, the estimated ultimate recovery from North Bluitt give this prospect the likelihood of a 364,000-barrel ultimate recovery for the North Todd Prospect. So that's what we would expect to receive from one well here.

Q. Have you discussed with the engineer and evaluated your geologic study to determine whether you could justify and support the drilling of two wells in this feature?

A. Yes, we have, and his opinion is that we would probably recover this much oil from a single wellbore.

Q. When you look at the geology, does it appear to you reasonable to expect that there will be contributions of hydrocarbons from the north half of the northeast quarter?

A. This map indicates that that is likely.

Q. And from a well in this position there will be a contribution of hydrocarbons from the Devonian in the south half of the northeast quarter?

A. That is also correct.

Q. Let's go and look at the analogy now. Let's unfold the montage, and if you'll look at the center portion of the montage at the top side of the map, you have your analog to the North Bluitt. Draw your comparison from North Bluitt to North Todd for us.

A. I've shown on the analog, the producing analog display, the map of the top of the Pennsylvanian in dept again at North Bluitt, and the comparison is that the fault on the north side is a bounding fault, and there's a fault also on the west and the south side of the field. These faults control the limits of production within North Bluitt and show that the dip of the field is essentially to the east, as a tilted fault block to the east.

Q. How many wells were drilled in North Bluitt?

A. In North Bluitt there are a number of wells. The wells that produce from the Devonian are four in number.

There are two in the highest part of the structure, which are the main contributors of the oil. There's a well just to the northeast of them, which is significantly lower and produced about one-sixth of the total production, and one additional well to the southwest of that, near the fault -- I'm sorry, it's about the center of Section of 27, and its contribution was less than 20,000 barrels.

So the main contribution of the field was from the two wells that are within that contour circle.

Q. Did you and Brown's petroleum engineer utilize the North Bluitt data in order to form your opinions about the number of wells that could be supported in North Todd?

A. That is correct, yes.

Q. Let's look back at the depth map again, and find out more about the faults. Let's start with the fault north of the well location, 230, and identify for us on the montage the vertical profile display that helps the Examiner visualize the structural feature and the location of a fault to the well.

A. On the montage, on the right-hand side, there's a seismic profile identified as NT-16. In the middle of that profile is -- you'll notice another orange dot, which is representing the position of the proposed well site. There's also the letter "A" below that. The blue seismic horizon is the top of the Pennsylvanian lime, the green is

the approximate position where the Devonian would be, and the red is the basement reflector.

And so what we're observing here is that in the structural high it is bounded on the left-hand side of that structural high by a fault, and that fault is the fault that is on the north side of the prospect which runs through the northeast part of Section 8.

The green line is a tie line, it shows the tie position for the east-west seismic line. There are three seismic lines involved here. The other line that runs west to east is downdip or slightly structurally lower than the wellsite line.

So that you can see that if you move north, which is the direction to the left, that -- from that line, the proposed-location line, that you'll get very close to the fault. And if you move to the right, which is south, you'll move downstructure.

Q. While we're on this display, if you'll also look at the next panel down, which is the locator map in the color code, it shows Roosevelt County. Show for the Examiner the relationship between North Bluitt and where the North Todd prospect is.

A. There is a gray oval just about centered on that map, the colored map, that has "North Todd Prospect" mentioned. And then if you'll go about eight miles to the

east southeast, you'll see that North Bluitt -- or "Bluitt, North oil field" is marked. It's also referenced as the Prairie 59.

Q. Let's go to the next issue, Mr. Robinson, and that has to do with the size, the horizontal size of the reservoir. The Examiner displayed concern with Mr. Courtney that if he grants Brown a unique solution that he has not created a substantial problem for the Division to administer because he has a larger pool and he has to deal with this on repeated occasions. So let's talk about the size and the shape of the pool. What do you see?

A. The pool is oriented, or the structure itself that would contain the pool, is oriented diagonally to the section-line orientation, such that it encompasses the north half of the north half and the south half of the north half and does cross the line of lease division.

Q. Do you see any reasonable probability that there would be development wells drilled outside of the northeast quarter of 8?

A. On the current map, I would think that would be unlikely.

Q. Let's talk about the confidence you have in the data set that was used to derive your opinion. Identify for us the three lines so the Examiner sees where they are, and let's talk about that data set.

A. There are three lines on the map. They're displayed as thin blue lines with both seismic shot-point numbers and also depth values from the time converted to depth. One, of course, is the profile that goes through the drill site. Another is the east-west line just on the southern edge of the structure and downdip. And then to the east, about one mile or slightly less than a mile east of the structure is a third line designated "NT-D14". And all three of these lines have profiles represented on the montage itself so that you can reference them.

Q. Considering the risk involved, the size of the potential Devonian Pool, the calculated estimated reserves, have you examined the practicality of trying to obtain additional seismic data to further review for this prospect?

A. We have. We have bid letters from contractors related to a prospect nearby, and we have used this as a consideration for acquiring any additional data not already available on the open market. The two-dimensional seismic data would cost $35,000 to obtain, and any 3-D survey would be at a cost of approximately $25,000 per square mile. We would need a minimum of six square miles to adequately evaluate this area, technically, properly.

Q. All right. If you want to re-evaluate this prospect using 3-D seismic data, the minimum data set for

that process is a six-mile grid, is it?

A. That's what we expect, yes.

Q. And the cost associated with that level of effort is approximately how many dollars, Mr. Robinson?

A. That's on the order of $150,000.

Q. All right. Will this prospect support the acquisition of 3-D seismic data in order to drill the well?

A. As far as the economics go, I would think it would be a breaking point for the prospect.

Q. Summarize for us your conclusions about the prospect, Mr. Robinson, so that Mr. Stogner has a concise statement about you concerning your opinion.

A. The prospect itself is a fairly risky one because of the question of the presence of reservoir, Devonian reservoir.

The well to the south, the ERG well, has a substantial amount of Devonian, and the well to the north, the Cullen well, has no Devonian. And so we are in between the two and have made our assessment based on the appearance of the seismic data.

The fault locations have an error of roughly a zone of about 500 feet, so they're not precisely located, but the structural uncertainty is probably less than the risk of reservoir.

Q. Let's talk about the degree of accuracy of the

area. If the fault has got a degree of error of 500 feet, that still provides that under either extreme the reservoir is going to stay positioned in the northeast quarter of 8?

A. That is correct, yes.

Q. Apart from Mr. Stogner's discussion with me about adjusting the risk factor penalty to accommodate this unique circumstance in the conventional way, what is the geologic risk associated with this prospect in terms of the risk factor penalty associated in pooling cases?

A. It would be the maximum risk.

Q. If you're just looking at the geologic risk involved?

A. Yeah. There's -- Because of the size and the quality of the data, what we're able to get from it is a very high risk.

MR. KELLAHIN: That concludes my examination of Mr. Robinson, Mr. Stogner.

We move the introduction of his Exhibit Number 6.

EXAMINER STOGNER: Exhibit Number 6 will be admitted into evidence.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Robinson, were you involved in picking the seismic lines, or did you just get handed the data?

A. I was involved originally in reviewing the data,

and then I recommended that we reprocess the data. I took firsthand involvement with the reprocessing, and then of course I did the interpretation following that. So I've been intimately involved with the seismic data.

Q. So did you choose to pick NT-16, -14 and -17 as they're depicted on this map?

A. Yes, the interpretive horizons, that's correct.

Q. Okay, what previous process got you or your involvement into pinpointing this area? I mean, this is a rank wild- -- Well, first of all, let's go back.

What is the nearest Devonian production in this area?

A. The nearest production is the North Bluitt Field, and that is where I did get my introduction to this area for Mr. Brown. I've worked this area for other companies many times in the past.

My original efforts back in December of 1999 were to do a field study on the North Bluitt Field, and I reprocessed the seismic data there also and made maps for that field. And then this, being a long-standing project at Mr. Brown's company, was a natural extension of the use of that field study.

Q. From that North Bluitt area, how far did you extend your interest out? Did you just go to the north, east, west, or did you say, Well, here's my central known

area, and I want to extend my review of the Devonian to ten mile? I'm trying to find out --

A. Right.

Q. -- how you pointed this area -- or pinpointed it.

A. The data at North Bluitt, the seismic data that were existing there when I started the project, were the main guide for the field study.

Of course, I utilized well control that was relevant to the north and to the south, but the extent of the distribution of the 2-D seismic data in the North Bluitt Field was basically my limitation. But I did use the wells that showed different geologic scenarios that were slightly beyond that extent.

And the North Todd, of course, was one of Mr. Brown's projects that had not been mapped at the Devonian level. It had been mapped at a shallower level. And so I took the techniques I used at North Bluitt and applied them here.

Q. Now, when you say "shallower level", what --

A. The Wolfcamp, maybe, which is 600 feet above the Devonian.

EXAMINER STOGNER: Have you evaluated -- Well, let me go back just for a second.

Mr. Kellahin, I believe when we first started today you had mentioned, if I remember right, the primary

objective is the Devonian --

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: -- and that no other formations are to be considered at this point?

MR. KELLAHIN: Let me re-explain that. This is so complicated for us that we were devoting our energy to the Devonian. We recognize that if there is gas production below the top of the Wolfcamp, that's 320-acre spacing, and if this wellbore fails in the Devonian, and in the unlikely event there is behind-the-pipe Wolfcamp, we're going to have to come back. We're going to have to come back for pooling for that spacing configuration.

In addition, if there is oil on 40 acres in other formations than the Devonian, which is also unlikely, then we're going to have to come back and get the location accepted.

What we would like to accomplish, though, is on shallow gas, if -- in the unlikely event there is any, we have got the northeast quarter pooled for a standard shallow gas spacing unit, and we don't have to come back and repeat that.

So that's our checklist.

EXAMINER STOGNER: Okay, then I want to steer away from anything in the shallower realm.

Q. (By Examiner Stogner) Mr. Robinson, when I look

at this information, me being an engineer, can I utilize this data to figure out where maybe an oil-water contact could be?

A. We've established that in the North Bluitt Field, and the estimate I would have for North Todd would be that it would be relevant to the closure, which is about 70 feet of closure on this map.

Q. Which would put it on what contour line?

A. It would probably be between the minus 3860 and the minus 3880. That's where those contours intersect the southern fault, and that's what I based our reserves on, the minus 3870.

Q. Will this information also allow me to determine, possibly, or predict what my porosity and permeability in this structure would be?

A. The display at the upper right of the montage contains a log from the Energy Reserves well, the ERG well to the south, and the yellow shown on that is the pay section which we hope to encounter.

There is a lot of pre-Pennsylvanian limestone above that, and depending on how much of that is eroded or missing will help to set the stage for our actual porosity of our reservoir. We do not know what that will be at this time.

EXAMINER STOGNER: Mr. Kellahin, I have no other

questions of either witness.

I'm going to call for about a five-minute recess at this time. Mr. Kellahin, can I speak to you off the record?

(Thereupon, a recess was taken at 9:40 a.m.)

(The following proceedings had at 9:55 a.m.)

EXAMINER STOGNER: Let's continue, if we can.

It's been brought to my attention, whenever we first brought this case forward, I understand there's somebody in the audience, I'd like for them to recognize themselves, state your name, your address, your interest in this, and if you have a statement...

MR. ADAMS: Mr. Stogner, I'm Phillip Glen Adams. I've lived in Santa Fe ten years and worked with you all before.

I want to affirm that our family -- which there are many of them here in the list, but not here -- as far as I know, they're all for this, and would like to go on record stating that we would appreciate anything you could do to protect our family interest and to see some well drilled on this acreage.

My grandmother came from Rice County, Minnesota, after her farm home burned in 1865, to central Texas and, after her husband died in 1914, sold the 20 sections where Fort Hood is and Killeen, and moved out here and

homesteaded this country, real inhospitable country. In fact, it's where the -- they called it N-i-g-e-r Hills was, where the colored Buffalo Soldiers chased those Indians from Oklahoma until they both died, nearly, and the Indians voluntarily went back to Oklahoma, and very few of the Indians, the Buffalo Soldiers survived.

And my grandmother is now buried in Portales, and many of her relatives appreciate her privations and what she did and what she provided for the family.

EXAMINER STOGNER: Thank you, Mr. Evans for --

MR. ADAMS: It's Adams --

EXAMINER STOGNER: I'm sorry --

MR. ADAMS: -- Phillip Adams.

EXAMINER STOGNER: Mr. Adams, do appreciate it. And again, thank you.

With that, is there anything further, Mr. Kellahin?

MR. KELLAHIN: Mr. Stogner, I understand the directions you've provided to me to address the issues we've discussed here on the record in a draft order, and I will provide that for you as soon as possible for you to consider this case.

We'd like you to take it under advisement at this time.

EXAMINER STOGNER: At this time I'm prepared to

take it under advisement.

And you were going to also provide not only a rough draft but a list of what the remaining royalty interests listed on Exhibit Number 2 is?

MR. KELLAHIN: Yes, sir, we will do that.

EXAMINER STOGNER: Okay. With that, then I will take Case Number 12,589 under advisement.

Thank you.

(Thereupon, these proceedings were concluded at 9:57 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12589 heard by me on 8 February 2001.

Examiner
Oil 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 February 10th, 2001.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002