

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

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )  
APPLICATION OF CHESAPEAKE OPERATING, )  
INC., FOR COMPULSORY POOLING, )  
LEA COUNTY, NEW MEXICO )

CASE NO. 12,669

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 31st, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV  
01 JUN 14 AM 8:34

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 31st, 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.

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## I N D E X

May 31st, 2001  
Examiner Hearing  
CASE NO. 12,669

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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## FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

## FOR NORTH CENTRAL OIL CORPORATION:

JAMES G. BRUCE, Attorney at Law  
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Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## ALSO PRESENT:

RICHARD EZEANYIM  
NMOCD Chief Engineer

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:05 a.m.:

3  
4  
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6  
7           EXAMINER STOGNER: At this time I will call Case  
8   Number 12,669, which is the Application of Chesapeake  
9   Operating, Inc., for compulsory pooling, Lea County, New  
10   Mexico.

11           Call for appearances.

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

16           EXAMINER STOGNER: Any other appearances?

17           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.  
18   I'm representing North Central Oil Corporation. I have no  
19   witnesses.

20           EXAMINER STOGNER: Other appearances?

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

23           (Thereupon, the witnesses were sworn.)

24           MR. KELLAHIN: Mr. Examiner, our first witness is  
25   Mrs. Lynda Townsend.

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LYNDA F. TOWNSEND,

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

EXAMINATION

BY MR. KELLAHIN:

Q. For the record, ma'am, would you please state  
your name and occupation?

A. Yes, my name is Lynda Townsend, I'm a landman  
with Chesapeake Operating in Oklahoma City, I have been  
with them for four and a half years, I have approximately  
30 years' experience as a landman, and I'm a certified  
professional landman.

Q. On prior occasions have you testified before the  
Division in compulsory pooling cases and had your  
qualifications as a professional petroleum landman accepted  
and made a part of the record?

A. Yes, I have.

Q. Are all of the land details involved in this  
compulsory pooling case for your Alice 13-1 well your  
responsibility?

A. Yes, sir.

Q. Are you also the custodian of the business  
records of Chesapeake Operating concerning the land matters  
and the negotiation with the parties in order to form a  
voluntary spacing unit?

1           A.    Yes, sir.

2                   MR. KELLAHIN:  Mr. Stogner, we tender Mrs.

3 Townsend as an expert petroleum landman.

4                   EXAMINER STOGNER:  Ms. Townsend is so qualified.

5           Q.    (By Mr. Kellahin)  Are the land exhibits we're  
6 about to look at prepared by you or prepared under your  
7 direction and supervision?

8           A.    Yes, sir.

9           Q.    Was there a consulting landman that you  
10 supervised and hired to do certain portions of the work  
11 involved in this case?

12          A.    Yes, there was.

13          Q.    Let's turn to Exhibit 1 and have you identify  
14 that for me.

15          A.    This is the land plat for the unit for the Alice  
16 13-1 well.  We propose the south half of Section 13, 15  
17 South, 35 East, as a deep gas well unit.  This is located  
18 in either the deep -- it's a wildcat Mississippian that is  
19 under statewide rules, or there's a well up in Section 11  
20 that was designated in the Southwest Austin-Mississippi Gas  
21 Pool, which is also under statewide rules, I believe.

22          Q.    In preparing and researching the land ownership,  
23 let me direct you to the south half of Section 5.  Are you  
24 dealing with state, federal or fee lands?

25          A.    These are fee lands.

1 Q. Entirely fee lands?

2 A. Entirely fee lands.

3 Q. Is the south half of 5 subdivided into tracts in  
4 any type of configuration?

5 A. No, it is common ownership as to the south half  
6 and as to all depths.

7 Q. All right. If we look at the various  
8 combinations of potential spacing units for the deep gas  
9 below the top of the Wolfcamp down through the  
10 Mississippian, your understanding, it's 320-acre statewide  
11 gas spacing?

12 A. Yes, sir.

13 Q. How did you make that determination?

14 A. You researched that for me.

15 Q. If the spacing is 160 acres, you would dedicate  
16 the southeast quarter of 5?

17 A. Yes, sir.

18 Q. All right, did you find any current pools for  
19 which that acreage would be subject?

20 A. For gas it would be subject to the Southwest  
21 Austin-Wolfcamp Gas field, and also the Austin-Wolfcamp Oil  
22 field.

23 Q. All right, the Southwest Austin-Mississippian Gas  
24 Pool is the 320 gas pool, correct?

25 A. Yes.



1 Q. The Southwest Austin-Wolfcamp is an oil pool?

2 A. Yes, sir.

3 Q. And that would be on what spacing?

4 A. 40-acre spacing.

5 Q. So regardless of whether it's 40, 160 or 320, the  
6 interests to be pooled are the same and their percentage  
7 would be the same; is that not true?

8 A. Yes, sir.

9 Q. Let's look at those parties. If you'll set aside  
10 Exhibit 1, let me direct your attention to Exhibit 2. What  
11 are we looking at?

12 A. You're looking at the ownership in the south half  
13 of Section 13.

14 Q. When we look down this ownership list, is there a  
15 way to identify as of today what parties you're seeking to  
16 have pooled?

17 A. Yes, there are asterisks beside the parties we  
18 are seeking to have pooled, and they are totaled at the  
19 bottom. The individual parties come to a total of 13.5484  
20 percent.

21 Q. The balance of the acreage, then, has been  
22 consolidated by obtaining leases?

23 A. Yes, it has.

24 Q. There is no joint operating agreement that would  
25 be applicable to the spacing unit?

1 A. No, sir.

2 Q. Turn to Exhibit 3 for me and identify that.

3 A. Exhibit 3 is the working interest ownership of  
4 the south half of Section 13. Chesapeake Operating has  
5 acquired 86.4516 percent, the unleased mineral owners are  
6 13.5484 percent, which is in conjunction with the parties  
7 we are going to pool.

8 Q. All right. When did Chesapeake cause the first  
9 formal written well proposal --

10 A. The first --

11 Q. -- for this well --

12 A. The first --

13 Q. -- to be issued?

14 A. -- formal written well proposal was on April the  
15 2nd, followed by another one on April the 5th.

16 Q. On April 2nd, did you cause a letter to be issued  
17 to all the parties with whom you had not yet obtained  
18 leases?

19 A. Yes, sir.

20 Q. And how many were in that category? Did you have  
21 any leases at that time?

22 A. We had a very minimal amount, maybe two percent  
23 of the unit.

24 Q. Subsequent to April 2nd, then, you've obtained  
25 the additional leases from all these parties except for the

1 ones shown with the asterisk?

2 A. Yes, sir.

3 Q. Did that formal letter include an estimate of the  
4 well cost?

5 A. Yes, it did.

6 Q. And was that letter issued under your direction?

7 A. Yes, it was.

8 Q. Let me direct your attention to Exhibit 4 and ask  
9 you to identify that.

10 A. This is the letter that was sent out under my  
11 direction by Chalfant Properties, who does a lot of our  
12 land work in New Mexico, and it was sent to all the  
13 unleased mineral owners.

14 Q. This is the April 2nd letter?

15 A. Yes.

16 Q. Did you satisfy yourself that you had in your  
17 possession what you understood to believe correct and  
18 accurate information about the ownership in the spacing  
19 unit?

20 A. Yes, sir.

21 Q. You mentioned a while ago an April 5th letter.  
22 Let me direct your attention to Exhibit 5 and ask you to  
23 identify that letter.

24 A. After further research, we sent out a second  
25 letter. Chalfant Properties did this also under my

1 direction. It was a second letter to some of the parties  
2 that we had since found due to probates, deaths, what have  
3 you.

4 Q. Attached to the letter is an estimate of well  
5 costs?

6 A. Yes, sir.

7 Q. Is that document prepared in the regular course  
8 of Chesapeake's business?

9 A. It is.

10 Q. It's prepared by expert drilling engineers and  
11 petroleum engineers?

12 A. Yes, it is.

13 Q. In your opinion, is this a fair and reasonable  
14 estimate of what we believe to be the costs of the well?

15 A. Yes, sir.

16 Q. Do you have a recommendation to Mr. Stogner for  
17 some overhead rates to be applied in the pooling case?

18 A. Yes, we do.

19 Q. And what's that recommendation?

20 A. The recommendation is \$600 for the monthly  
21 producing well rate and \$6000 for the monthly drilling well  
22 rate.

23 Q. What's the basis of that recommendation?

24 A. It would be the Ernst and Young publication.

25 This is Exhibit, I believe -- is it 7?

1 Q. No, ma'am, it wasn't introduced as an exhibit --

2 A. Oh, okay.

3 Q. -- it was simply a handout --

4 A. All right.

5 Q. -- and I'll provide it to Mr. Stogner.

6 EXAMINER STOGNER: I'll take administrative  
7 notice of the Ernst and Young fixed rate overhead surveys,  
8 and I'm assuming this is from 2000-2001; is that right?

9 MR. KELLAHIN: That's correct, Mr. Stogner.

10 Q. (By Mr. Kellahin) Let me ask you to turn your  
11 attention to Exhibit 9. We'll take this out of order. It  
12 was a certificate. I'd like you to turn through Exhibit 9  
13 and find the third page, which represents a list of the  
14 parties to whom notice was sent.

15 A. Yes.

16 Q. Have you satisfied yourself that this represents  
17 a current and correct list of those parties for whom  
18 they're entitled to notice pursuant to the force-pooling  
19 procedures?

20 A. Yes.

21 MR. KELLAHIN: Mr. Stogner, that concludes my  
22 examination of Ms. Townsend. We move the introduction of  
23 her exhibits. They're going to be Exhibits 1 through 6,  
24 plus Exhibit 9.

25 EXAMINER STOGNER: Any objection?

1 MR. BRUCE: No objection.

2 EXAMINER STOGNER: Exhibits 1 through 6 and  
3 Exhibit Number 9 will be admitted into evidence at this  
4 time. Thank you, Mr. Kellahin.

5 Mr. Bruce, your witness.

6 MR. BRUCE: Just a couple of things.

7 EXAMINATION

8 BY MR. BRUCE:

9 Q. On Exhibit 1, Ms. Townsend, I'm a little  
10 confused. It is Section 13 --

11 A. Yes, uh-huh.

12 Q. -- that we're talking about?

13 A. Yes, it is.

14 Q. Okay. And Mr. Examiner, just one other item,  
15 just for clarification. North Central Oil Corporation is  
16 the owner of the interest. It's a wholly owned subsidiary  
17 of Pogo Producing Company, so -- but it's still the owner  
18 of the interest?

19 A. Yes.

20 MR. BRUCE: That's it.

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. Ms. Townsend, I want to make clear on the record,  
24 I think I heard you say that an independent subcontractor  
25 had done the land research and found records that this is

1 the true and correct ownership of the --

2 A. Yes, sir, it's Chalfant properties.

3 Q. Subsequent to the April 2nd letter, have you had  
4 any phone conversations or answers to any of your letters?

5 A. Subsequent to that we have leased to everyone --  
6 I've had several phone conversations with these people that  
7 we have not.

8 Q. Okay, let me rephrase that. Of the people that  
9 are being force-pooled today --

10 A. Uh-huh.

11 Q. -- what conversations or letters have you  
12 received from any of these parties?

13 A. I've had conversations with Republic Royalty,  
14 Maecenas, and we have also talked with North Central Oil.  
15 I think probably we're going to work out something with  
16 North Central Oil, we just did not have time before the  
17 pooling date.

18 Republic and Maecenas, we have not been able to  
19 any agreement and probably will not be able to.

20 Q. And how do you base that? I mean, from  
21 conversations?

22 A. Yes, Maecenas at one time verbally agreed to  
23 lease to us and then decided not to and decided to do  
24 whatever Republic had done.

25 Q. Okay. Now, how about the parties that are

1 unknown? Have you gotten the return receipts  
2 undeliverable?

3 A. Yes.

4 Q. And which ones were those?

5 A. Deborah Holt, which is the first one listed here,  
6 she is in Germany and we have not been able to locate her.  
7 Everything that has gone to address -- and it's her only  
8 known address -- has come back to us.

9 The second, Paul Heard, they are both deceased.  
10 They're reputed to have a son who is listed as an  
11 incompetent, who we cannot locate.

12 Homer Andrews is also deceased. He has a  
13 daughter, Zula Lambert. There are no wills or probate, and  
14 we have sent everything to Zula's last address and not been  
15 able to locate any relatives that have any idea where she  
16 may be right now.

17 Q. Okay, where did you obtain these addresses, and  
18 what other search mechanisms did you utilize?

19 A. Of course we've used everything that we can on  
20 the computer as far as addresses, phone numbers, et cetera.  
21 We've researched the tax records, we've researched -- If we  
22 have found out in any county or state that they have  
23 resided, where they have passed away, if there's a probate,  
24 et cetera. So we've gone to all the court records.

25 EXAMINER STOGNER: Any other questions of this



1 witness, gentlemen?

2 There being none, you may be excused. Thank you.

3 MR. KELLAHIN: Mr. Examiner, we would call at  
4 this time Mr. Robert Hefner. Mr. Hefner is a petroleum  
5 geologist.

6 ROBERT A. HEFNER, IV,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Mr. Hefner, would you please state your name and  
12 occupation?

13 A. Yes, my name is Robert Hefner, and I'm a  
14 geologist with Chesapeake in Oklahoma City.

15 Q. On prior occasions, Mr. Hefner, have you  
16 testified before the Oil Conservation Division in  
17 compulsory pooling cases?

18 A. I have.

19 Q. Does the work product we're about to see,  
20 identified as Exhibit 7 and 8, represent your work product?

21 A. Yes, it does.

22 Q. Is the recommendation to your management about  
23 locating this particular well your recommendation?

24 A. It is.

25 Q. Are you also the geologist that's formed an

1 opinion about the appropriate risk factor penalty to  
2 recommend to Examiner Stogner to be issued in this case?

3 A. Yes.

4 MR. KELLAHIN: We tender Mr. Hefner as an expert  
5 petroleum geologist.

6 EXAMINER STOGNER: Are there any objections?

7 MR. BRUCE: No, sir.

8 EXAMINER STOGNER: Mr. Hefner is so qualified.

9 Q. (By Mr. Kellahin) Mr. Hefner, let's take a  
10 moment and unfold your first display. It's marked Exhibit  
11 7.

12 EXAMINER STOGNER: I'm sorry, what exhibit?

13 MR. KELLAHIN: Exhibit 7.

14 EXAMINER STOGNER: Exhibit 7, thank you.

15 Q. (By Mr. Kellahin) You have a nine-section plat,  
16 Mr. Hefner, with Section 13 in the center of the display?

17 A. Yes.

18 Q. What are you indicating by the blue line? What  
19 is that?

20 A. That blue line is a cross-section that's being  
21 submitted as Exhibit 8, the well control that we do have  
22 for the Morrow.

23 Q. Within the nine-section area, have you identified  
24 all wells?

25 A. Yes, I have.

1           Q.    How far do we have to go from your location in 13  
2 to find the nearest Morrow gas well?

3           A.    About a township, six miles or so.

4           Q.    How far do we have to go to find any production?

5           A.    There was some limited production in Section 11  
6 of 15 South, 35 East, but it is not active currently and  
7 was subcommercial.

8           Q.    Identify those wells for us.

9           A.    There are two wells that were drilled in Section  
10 11, one that was in the northwest quarter that's also on  
11 the cross-section. A completion attempt was made in the  
12 Wolfcamp. They pumped about 57 barrels of oil a day and  
13 about 75 barrels of water, but it was never produced.

14                   And then the second well is in the southeast  
15 quarter of that same section. A completion attempt was  
16 made in what I'm designating as the Mississippian section.  
17 It was completed for a little over a million cubic feet a  
18 day and has a cumulative production of 38 million cubic  
19 feet and has been inactive since March of 1998.

20           Q.    All right, let's look at your proposed Alice 1-13  
21 well. You propose to drill that well from the surface to  
22 the base of the Mississippian?

23           A.    Yes.

24           Q.    What's the purpose of doing that?

25           A.    To the base of the Morrow.

1 Q. To the base of the Morrow?

2 A. Yes.

3 Q. You'll penetrate at least some portion of the  
4 Mississippian to satisfy yourself that you've, in fact,  
5 penetrated all the Morrow intervals?

6 A. That's correct. There are several  
7 unconformities, and so what we normally would do is look  
8 for the lower Mississippian marker to confirm that we have  
9 penetrated the entire section that we're wanting to look  
10 at.

11 Q. Of all the possible formations to be penetrated  
12 by the well, what is your primary objective?

13 A. The primary objective of this wildcat is the  
14 Morrow section.

15 Q. Are there any secondary opportunities?

16 A. I guess there's the possibility of some  
17 Mississippian production and the possibility of Wolfcamp.

18 Q. All those secondary objectives would represent a  
19 risk greater or less than the Morrow?

20 A. It would still be just as risky, hasn't really  
21 been established in this area.

22 Q. Do you have sufficient enough data to prepare an  
23 isopach of the Morrow?

24 A. No, we don't. We just have the three wells, and  
25 so that doesn't give you enough control to generate an

1 isopach.

2 Q. You understand the Division is authorized by  
3 statute to issue a maximum risk factor penalty of cost plus  
4 200 percent?

5 A. Yes.

6 Q. In relation to that statutory range, what is your  
7 recommendation for a penalty factor to be assessed in this  
8 case?

9 A. The full amount.

10 Q. And give us the reasons for that opinion.

11 A. In this nine-section area, there has not been  
12 established any commercial production.

13 Q. Let's look at the cross-section where you've put  
14 the logs of the two wells in the area. Let's take a moment  
15 and unfold Exhibit Number 8, which is that cross-section.

16 A. Yes.

17 Q. Give us a short summary of the reasons that you  
18 can illustrate with this display that support your opinion  
19 about the risk factor penalty.

20 A. This is a structural cross-section, and it shows  
21 the -- starts in the lower Atoka, at the top of the  
22 stratigraphic section and goes down through the deepest  
23 formation penetrated. The well that was drilled in the  
24 southwest southwest of Section 12 actually did penetrate  
25 the Devonian, as well as the well that's in the northwest

1 of 11, showing the entire section.

2 The color-coding on this cross-section, the  
3 yellow represents the Morrow. Then the light purple, which  
4 on the cross-section is denoted as the Austin cycle, in  
5 which completion attempts were made in the two wells in  
6 Section that were noncommercial. And then you go on down  
7 into the lower Mississippian and Devonian.

8 And what is shown in the Morrow section as you  
9 come across Section 11 and Section 12, you start to see a  
10 little bit of thickening in the Morrow, as you come off the  
11 structure. And from, for example, the second well in the  
12 cross-section to the third well in the cross-section, you  
13 see a total of 35 feet of thickening between those two  
14 wells that are approximately 3000 feet apart, and at the  
15 location that we're proposing, we're hoping to see that  
16 continue and that we would develop some more accommodation  
17 for some clastics in the Morrow section.

18 Q. South and southeast of Section 13, there are  
19 wells, but they were not deep enough to give you data upon  
20 which to assess the Morrow?

21 A. That's correct.

22 MR. KELLAHIN: That concludes my examination of  
23 Mr. Hefner, Mr. Stogner. We move the introduction of his  
24 Exhibits 7 and 8.

25 EXAMINER STOGNER: Any objections?

1 MR. BRUCE: No, sir.

2 EXAMINER STOGNER: Exhibits 7 and 8 will be  
3 admitted into evidence. Thank you, Mr. Kellahin.

4 Mr. Bruce, your witness.

5 EXAMINATION

6 BY MR. BRUCE:

7 Q. Mr. Hefner, on your Exhibit 7, what is the  
8 significance of the red line and the green line?

9 A. These are just some form lines. That black line  
10 that you see on the west extreme is down to the west fault,  
11 so the sections, 11, 14 and 23, which that red line goes  
12 down, suggest a structural plunge that's plunging to the  
13 north, and the green line is just a structural form line  
14 showing relative dip.

15 Q. And then on your -- also on that exhibit, the  
16 well that you have in Section 19 in the southeast quarter  
17 of that map, what does the TRBR stand for?

18 A. That's Three Brothers, it's a Wolfcamp  
19 nomenclature.

20 Q. What caused you to select this location as  
21 opposed to some other location in the south half of 13?  
22 Was it based on structure or what?

23 A. Well, it was based on structure. Regionally, you  
24 have, as you go further to the east, a feature that's known  
25 as the Caudill field. It's a Devonian high. And so we're

1 in between these two highs, and we're wanting to get off  
2 the structure from where these two wells in Section 11 were  
3 drilled.

4 Q. You want to be lower --

5 A. Structurally downdip --

6 Q. -- on structure?

7 A. Yes, sir.

8 MR. BRUCE: Thank you. That's all I have, Mr.  
9 Examiner.

10 EXAMINER STOGNER: Thank you, Mr. Bruce. Any  
11 questions of this witness?

12 Thank you, sir, you may be excused.

13 THE WITNESS: Thank you.

14 EXAMINER STOGNER: Mr. Kellahin, do you have  
15 anything further?

16 MR. KELLAHIN: No, sir.

17 EXAMINER STOGNER: Mr. Bruce, do you have  
18 anything further in this matter?

19 MR. BRUCE: No, sir.

20 EXAMINER STOGNER: If there's nothing further in  
21 Case Number 12,669, this matter will be taken under  
22 advisement.

23 (Thereupon, these proceedings were concluded at  
24 9:30 a.m.)

25 I hereby certify that the foregoing is  
a complete record of the proceedings in  
Examiner hearing of Case No. 12669  
\* Held by me on 31 May 2001

STEVEN T. BRENNER, Jr., Examiner  
Division  
(505) 989-9317



## 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 June 2nd, 2001.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002