STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,684

EXAMINER HEARING

IN THE MATTER OF:

Application of SDX Resources, Inc., for approval of a waterflood project, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

ORIGINAL

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 8, 1993

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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I N D E X

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E X H I B I T S

APPLICANT'S EXHIBITS:

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WHEREUPON, the following proceedings were had at 9:37 a.m.:

EXAMINER CATANACH: At this time we'll call Case 10,684.

MR. STOVALL: Application of SDX Resources, Inc., for approval of a waterflood project, Eddy County, New Mexico.

EXAMINER CATANACH: Are there appearances in this case?

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 one witness to be sworn.

EXAMINER CATANACH: Any other appearances?

Will the witness please stand and be sworn in?

(Thereupon, the witness was sworn.)

MR. STOVALL: Now you can ask him any question you want to.

CHUCK MORGAN,

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. Morgan, for the record would you please

state your name and occupation?

A. My name is Chuck Morgan and I'm an engineer with SDX Resources.

Q. On prior occasions have you testified as an engineer before the Oil Conservation Division?

A. No, sir.

Q. Summarize for us when and where you obtained your engineering degree.

A. I got my engineering degree at Las Cruces, at New Mexico State University.

Q. In what year?

A. In 1980.

Q. What are your current responsibilities insofar as this Application for SDX Resources, Inc., is concerned?

A. All right, on this Application I was responsible basically for submitting writing and submitting this Application and locating these injection wells and essentially putting together this project.

Q. As part of executing those duties, have you completed the C-108 and all the information, as best you know of, as required by the Division for purposes of this hearing?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Morgan as an expert petroleum engineer.

EXAMINER CATANACH: Mr. Morgan is so qualified.

Q. (By Mr. Kellahin) To orient the Examiner as to what you intend to accomplish, Mr. Morgan, let me direct your attention to Exhibit Number 1. On that display identify for us what you have indicated with the wells shown by the blue triangles.

A. Okay, the blue triangles are basically offset operators who have injection wells and water floods, basically all around us in the immediate area, in the same --

Q. What formation are they flooding?

A. They're the Grayburg/San Andres formations.

Q. And what do you propose to flood?

A. The Grayburg/San Andres.

Q. When we look at your project area, how is that identified and described on the display?

A. Okay, the project area there is outlined in yellow, basically in the north half of 33.

Q. North half of 33 and the north half of the southwest quarter of that same section?

A. Yes, sir.

Q. What is the ownership of that acreage? How

is it configured?

A. Okay, that acreage is owned by SDX Resources.

Q. And it consists of what types of leases?

A. Basically oil and gas leases.

Q. With federal, state or fee?

A. Basically federal leases.

Q. Okay, this consists of two federal leases?

A. Yes, sir.

Q. In order to consolidate waterflood operations for a lease cooperative project, have you contacted the Bureau of Land Management to obtain their approval for a cooperative lease waterflood project for this project?

A. Yes, I have.

Q. And from what individual at the BLM did you obtain your approval?

A. I visited with Armando Lopez.

Q. And he has approved the consolidation of these leases for the waterflood?

A. Yes, sir, he indicated to me that there should be no problem.

Q. Use this display and summarize for Mr. Catanach what it is that you propose to do.

A. Basically what we propose to do is put in a small pilot here with two injection wells.

SDX has recently drilled a new well in the area, the Leonard "B" Number 5, which is spotted on Exhibit 1.

Basically -- Let's see, it's 990 from the north, 2310 from the east.

Q. Is the producer approximately equidistant between the two proposed injectors?

A. Yes, sir, and the two proposed injectors there are the Leonard "B" Number 1, located in Unit B as marked on your map there, and the Leonard Number 3 located in Unit F.

Q. What is the status of those two wells?

A. Those two wells are currently active producers.

Q. And what do you propose to do?

A. Basically, as indicated in the C-108, we propose to convert those to injection in the Premier and, if possible, down in the San Andres.

Q. Have you made a forecast or an engineering projection of the volume of additional oil that may be recovered if the Division approves your Application?

A. Yes, sir, we have. Basically we think that the Leonard "B" portion of the lease will contribute an additional 140,000 barrels, if we get a good response, and the Leonard -- the Leonard portion of the lease,

probably 340,000 barrels.

Q. Let's turn now to Exhibit Number 2, Mr. Morgan. There is a large copy of that display on the hearing room wall. There are reduced copies of that same information before the Examiner. It's marked as Exhibit Number 3. Exhibit Number 2 -- Let's identify that for the record. Exhibit Number 2 is the C-108?

A. C-108, yes, sir.

Q. And that constitutes the filing that you've made in this case?

A. Yes, sir.

Q. Let's come back to that, and let's go now to Exhibit Number 3, which is the cross-section.

As indicated, you have put a larger copy of that same display on the wall of the hearing room. And so the Examiner can see what you propose to do in terms of the actual portion of the pool to be flooded, would you tell us what that plan is?

A. Would you --

Q. Yes, sir. Where do you want to put the injection fluids?

A. Okay, the injection fluids, basically, we would -- we kind of have a two-phase plan that we would like to get approved here today.

We have one problem well that is indicated on

the cross-section there. It's the Tenneco 33 Number 2. It's spotted essentially halfway between -- well, I can't read it.

Q. Well, let's do this again. Hang on a minute.

A. All right.

Q. Let's go back to Exhibit Number 1.

A. All right.

Q. The problem well that we will address on Exhibit 1 is located where and identified how?

A. Okay, it's the Tenneco 33 Number 2, and it's located midway between the Leonard Number 4 and the new well, the Leonard "B" Number 5.

Q. Is it the dryhole symbol or is it the gas well symbol in that location?

A. It's the dryhole symbol.

Q. All right. The dryhole symbol is the old Tenneco 33 Number 2?

A. Yes, sir.

Q. Immediately adjacent to it, slightly to the north and east, is the old Tenneco 33 Number 1?

A. Yes, sir.

Q. And in your opinion, the 33 Number 1 has been properly plugged and abandoned and cemented?

A. The 33 Number 1 basically has surface casing -- or intermediate casing down to 3200 feet,

which is well below any depth that we propose to inject in, so it's no problem. I don't believe that it's -- I believe it's an active producer.

Q. Okay, but it's not the problem well that you've identified?

A. No, sir.

Q. All right. The problem well, then, is the dryhole symbol shown on Exhibit Number 1?

A. Yes, sir.

Q. All right. Keeping that point in mind, go back now to Exhibit Number 3 and tell us the injection zones.

A. Okay, the injection zones that we propose to inject in are basically the Premier, which is in the neighborhood of from 2600 feet down to about 2750, and we would also like to inject into the "A" zone of the San Andres. We feel like we can recover additional reserves by injecting into the "A" zone of the San Andres.

Q. All right. In order to accomplish that, identify for us what you perceive as an engineer to be the problem with the problem well.

A. Okay, the problem that we have run into, the 33 Number 2 well has intermediate casing set to 2800 feet and cemented.

If we stay strictly in the Premier zone, our injection interval will be 2600 to probably 2700 plus. That should not create any problems if we --

Q. So in the Premier zone the well is not a problem; it's covered and protected?

A. Yes, sir.

Q. When you move into the San Andres portion of the project --

A. Yes, sir.

Q. -- that wellbore poses a potential risk?

A. Yes, sir, this wellbore is basically temporarily abandoned, and the top of cement is indicated by a cement bond log at 6800, approximately, and you have 5 1/2 casing exposed from 6800 to the surface.

Q. All right. Now, what is your recommendation to the Examiner as a solution to that issue?

A. What we would like to do, basically, is begin this project with permission to inject into the Premier, and we'd like to adjust our two injection wells accordingly to where we're injecting only in the Premier.

And we would like to in the future, if we're able to gain access to this well and correct this problem, essentially raise the cement top in it.

And we're in the process of negotiations to do that now. If we get that done, we'd like to have permission to go ahead and inject into the "A" zone of the San Andres.

Q. What is your proposal to the Examiner as to how you'll keep the injection wells separated between the Premier and the San Andres until you fix the San Andres intervals in the old Tenneco well?

A. What I'd like to do is set retrievable bridge plugs in the two injection wells right below the Premier.

Q. Have you identified those wells and determined that you have enough vertical space between those two intervals to appropriately fit and locate a retrievable plug?

A. Yes, sir, I have. I can run through those depths if you'd like me to.

Q. All right. In part of your research, have you identified any other problem well within the half-mile radius?

A. No, sir, I have not. There's one indicated in the C-108, the American Republic well.

Q. Yes, sir.

A. And it is -- It was incorrectly reported, and it is actually in Section 35 and not Section 34.

Q. All right. So when we go through all the information you've presented today, we come back to the point that you find only this Tenneco well that we've been describing to be a problem well for you?

A. Yes, sir.

Q. All right. As part of your preparation of the C-108, did you identify and locate any offset operators that might be affected by your project?

A. Probably the one offset operator that would be immediately affected would be Mack Energy.

Q. Okay. And where would their interests be located, Mr. Morgan?

A. Okay, they're located basically in the south half of Section 28.

Q. And have you received any objection or comments from them concerning your Application?

A. No, sir, no objections. I have visited with a couple of them on previous occasions. They're aware of what we're doing and have made no objections.

Q. Let's turn now to -- I believe it's Exhibit Number 4. That should be the two-page exhibit that shows the proposed conversion to injection.

Would you identify those for the record, please?

A. These are basically two approved Sundry

Notices. As part of the procedure, we submitted Sundry Notices to the BLM detailing what we plan to do to these two federal wells in the process of converting them to injectors, and these were approved by the BLM.

Q. All right, sir. And Exhibit Number 5 is what, sir?

A. Exhibit Number 5 basically is a compensated neutron lithodensity log of the Leonard "B" Number 5, which is the new well located between the injectors.

Q. As part of your effort as an engineer, did you make calculations of all the cement tops within the half-mile radius of investigation?

A. Yes, I did.

Q. Let me show you Exhibit Number 6 and ask you to identify that exhibit.

A. Yes, sir, that's my calculations of all the cement tops of the wells identified in the C-108.

Q. Without going through it in detail, give us an understanding of how to read the spreadsheet and what calculations you've used.

A. Okay, basically the wells are listed by name and operator in the same order as they're listed in tabular form in the C-108, listed the depth the casing was set, casing sizes, the hole sizes and the amount of cement used, used the -- the cement yield factors are

listed that I used, and the height, total height to the cement column, and basically cement top, 100-percent efficiency, 70-percent efficiency and 50-percent efficiency.

Q. If you use the safety factor of a 50-percent efficiency, will you have adequate protection on all wells with the exception of the Tenneco well that we've discussed?

A. Yes, sir, I feel like we will.

Q. Okay. Direct your attention now to Exhibit Number 7. Would you identify and describe that exhibit?

A. Yes, sir, this is a -- basically a -- one of the early reporting forms for an S.P. Yates well, the Leonard Number 1, which is located -- If you'll look back on your map, it's located in Unit letter D of Section 34.

Basically, there are no records that I can find anywhere that detail the plugs set, when this well was plugged.

This well lies exactly one-half mile away from the nearest proposed injector.

And this report was filed in 1948, and basically just says P-and-A'd, 12-31-1948.

That's the extent of our records.

Q. In between your nearest injector and that well, are there any producing wells in the pool?

A. Yes, sir, we have the Leonard "B" Number 3, located in Unit A of Section 33.

Q. While this well is right on the half-mile-radius-of-investigation circle?

A. Yes, sir.

Q. If the Examiner chose to identify this well as an issue well, would your project expose this wellbore to any risk?

A. I don't feel like it would.

Q. And why not?

A. I think it's far enough away that it won't create any problems.

Q. And you have producers in this area --

A. Yes, sir.

Q. -- that would bleed any pressure that would be generated from the injection well?

A. Yes, sir.

Q. Let's go now to Exhibit Number 8. Let me have you identify and describe that.

A. Yes, sir, we discussed this previously. This well was covered in the C-108 application. It's the Robinson 3A.

The records at the OCD in Artesia, the

completion records, indicated this well to be in Section 35 -- or excuse me, Section 34, 660 from the north and the west, which essentially puts it right there where another producer is located. Further research revealed that in fact it was located in Section 35.

Q. And it's well beyond, then, the half-mile radius of investigation?

A. Yes, sir.

Q. All right. In compiling the C-102 and preparing your Application --

MR. STOVALL: C-108, Mr. Kellahin?

Q. (By Mr. Kellahin) I'm sorry, C-108, Mr. Morgan, in preparing for your Application, did you determine that you could stay at least initially within the pressure limitations of the Division using .2 p.s.i. per foot of depth?

A. Yes, sir, we feel like that that's where we would like to begin our operations at. And if necessary in the future we would -- after we begin injection, we would do some step rates if we want that increased and apply for an increase at a later date.

Q. In your opinion would approval of this Application be such that it would protect any potential contamination of fresh water sources in the area?

A. Yes, sir.

Q. Approval of this Application would give you and your company an opportunity to recover oil that might not otherwise be recovered?

A. Yes, sir.

Q. The last exhibit, Mr. Examiner, is Exhibit 9, which is my certificate of mailing, notice of hearing to the owner at the surface of the injection wells, Bogle Farms, and the offset operators identified to us in the C-108.

With that exhibit, that concludes our direct presentation, and we move the introduction of Exhibits 1 through 9.

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

(Off the record)

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Morgan, identify for me, would you, which lease is which, and which -- what lands encompass which lease?

A. Okay, the Leonard "B" lease --

Q. Uh-huh.

A. -- is essentially the northeast quarter of Section 33, 17 South, 29 East.

The Leonard lease is the northwest quarter and the north half of the southwest quarter of Section 33.

Q. Okay. Is the Leonard "B" Federal Number 1 -- Do you recall the location of that well?

A. Yes, sir. The Leonard "B" Federal Number 1 is located in Unit B, 330 from the north line, 1650 from the east.

Q. Okay. On my exhibit there's some acreage in Section 4 that's outlined in yellow. Does that have any significance?

A. No, sir. That's a totally separate lease. Those belong to SDX Resources, but it is not part of this project.

Q. Okay. Are there several different waterfloods that offset your proposed waterflood?

A. Yes, sir, there are. The primary one -- primary one, their offsets will be Mack Energy.

Incidentally, on your C-108 you'll notice that Marbob and Mack Energy at the time were basically in the process of filing their paperwork, splitting their operations, so some of those that show Marbob are in fact Mack Energy.

Q. Okay. With regards to Exhibit Number 6 on your calculated cement tops --

A. Yes, sir.

Q. -- did any of the wells that you examined, did they have any cement-bond logs or other data which would substantiate your calculations?

A. Basically two of them have cement-bond logs: the problem well that we discussed, and the new well that SDX has drilled, the Leonard "B" 5.

Those are the only two that I remember seeing bond logs on.

Q. How did the bond logs compare with your calculations, and what kind of efficiency would you use if you --

A. Normally in this area, I use an 80-percent efficiency, and it seems to jibe really well with cement tops.

Q. That is substantiated by the bond logs on these two wells, more or less?

A. Well, yes, sir. The Leonard "B" Number 5 circulated cement --

Q. Okay.

A. -- and I would say, yes, sir, that it jibes real well with the problem well.

Once you reach the salt section, your calculations tend to -- you need to use about 100 percent efficiency -- or 200 percent in that -- excess

in that section.

But none of the wells circulated cement except the Leonard "B" Number 5.

Q. If you use a 50-percent efficiency, it looks like some of these wells are -- the cement tops would be relatively close to the injection zone.

A. Most of them are more than 100 feet from it.

Q. With the quality of the cement at the top being probably poorer than it would be anywhere else?

A. Yes, sir. Basically, as I said earlier, I'm comfortable that this will not create any problems, and basically I stand by my number there of 80 percent efficiency, especially with these older wells that were cable-tooled wells. They had pretty good boreholes with their cable tools, and 80 percent is a pretty well proven number that stands up well.

Q. Okay. Besides the one P-and-A'd well that we talked about, are there any other P-and-A'd wells?

A. Yes, sir, if we can go back to the C-108, the Empire South Deep Com Number 8, which is the first one shown in your C-108 --

MR. KELLAHIN: It appears on page 15, Mr. Examiner.

EXAMINER CATANACH: Okay.

THE WITNESS: -- it has intermediate set

through the zones of interest there, and it's properly P-and-A'd.

EXAMINER CATANACH: Okay.

THE WITNESS: The next one shown is the Federal 33 C Number 2, which was basically a P-and-A'd well, and it's the problem well that we have discussed.

The Leonard State "B" Number 4 is the next one shown, also again, properly P-and-A'd well.

And then the Leonard State Number 4, which is the one of S.P. Yates's wells that essentially has no records.

Those are the only P-and-A'd wells that I identified.

Q. (By Examiner Catanach) And you searched Division records to try and find some plug-in data on that?

A. Yes, sir, sure did.

Q. Okay.

A. More than once.

Q. Mr. Morgan, are you familiar with any of the offset waterflood operations?

A. In a limited capacity, yes, sir.

Q. Specifically, to your knowledge, do you know of any out-of-zone water problems in any of these offset floods?

A. There are some water flows in the surrounding areas encountered when drilling. Basically I don't know of any problem wells that have pressure on the annulus or anything of that nature.

Most of these waterflood -- or water flows come from the Queen formation, could be the result of water floods, could be naturally occurring or -- really don't know.

Q. Any specific interval in the Queen?

A. No, sir. It's kind of erratic in that area. There was none encountered on that Leonard Number 5, to my knowledge. So sometimes you run into it, sometimes you don't.

Q. Okay, it's my understanding you are negotiating with the operator of the Tenneco 33?

A. Yes, sir, that would be Central Resources. We would like to essentially buy that wellbore and do recompletion on it, if possible, and I know they have contacted Central Resources, SDX has, and that's as far as -- that's the extent of my knowledge on that.

Q. Okay. You cited earlier some additional recoveries. That's beyond what you will recover with primary production on these two leases?

A. Yes, sir, that's secondary recovery numbers.

Q. About 480,000 barrels?

A. If everything works and we get full one-to-one secondary and primary.

Q. Do you plan at this time on converting any other additional wells to injection on these leases?

A. Not at this time. However, we feel like if we were to achieve that number that you just cited, that we probably would need another injector on the Leonard lease itself.

Now, whether we did a conversion or we drilled an injector -- We probably would need to drill that injector. But we have not -- have not discussed that at this time.

Q. This area that we're talking about has never really been under flood except from offset acreage?

A. Not to my knowledge. It's one of the reasons for the project. We see pretty depleted pressures in our new well.

Q. Is the primary producing zone -- Is that the Premier?

A. Both the Premier and the San Andres "A".

Q. About equally, would you say?

A. Oh, I'd hate to say, really. Most of these were open-hole and both done at the same time, very difficult to segregate.

Q. Is your additional recovery based on flooding

both of these zones?

A. Yes, sir.

EXAMINER CATANACH: I think that's all I have.

EXAMINATION

BY MR. STOVALL:

Q. I need to ask something here. Are you interested in getting the enhanced oil recovery tax credit?

A. I imagine we are.

Q. You hadn't much thought about it before, have you?

A. Every little bit helps for stripper operators, it sure does.

Q. A couple questions and as much by way of explanation -- It appears to me that you have not researched this thoroughly and --

A. No, I have not, sure haven't. Not on the tax-credit situation, no.

Q. Let me ask you, now, your project area is outlined there with the yellow, right?

A. Yes, sir.

Q. Are you going to effectively going to enhance production throughout the area with these two injectors, do you think?

A. With these two we feel like cost-effectively we're going to get our best shot, without adding a third injector, which we discussed earlier would probably be necessary for the full effect.

Q. Now, are you aware of the -- again, I'm going to guess you probably aren't -- but aware of the requirements to qualify for the credit?

A. No, I'm not. Not completely, no, sir.

Q. Okay, let's run that real quickly so you know what you've got to do.

The first thing is, you've got a new project, and I assume it's -- you don't -- obviously you don't consider premature; I think your testimony indicates that.

A. Yes, sir.

Q. How soon do you intend to begin injection?

A. Probably relatively soon after we get approved.

Q. So you're not looking at any lengthy delay?

A. No, sir.

Q. The way the process works is, after the Division approves the project and certifies it to you as an EOR-qualified project, you have five days from that date -- this is -- being a secondary recovery project -- in which to apply for certification of a

positive production response.

What that means is that you're going to have to come in and, because we don't have decline curves here or baseline production, you're going to have to demonstrate -- and it's something you'll need to do at the start of the waterflood --

A. Yes, sir.

Q. -- is what is your baseline decline, what is your production?

And then at some point, as soon as you get a positive response and establish that as a -- over a period of time, not just, you know, one month's production but --

A. Yes, sir.

Q. -- a couple months --

A. Right.

Q. -- you must actually apply to us within five years from the date of the certificate, and the certificate will have a date specific on it.

A. Okay.

Q. Within five years from that date you must apply to us and come back and prove that positive production response, prove that you have, in fact -- recovering more oil than you would have without the secondary recovery efforts.

At that time we'll certify the project to Taxation and Revenue. We may reserve the right at that time to identify only that area which has actually shown a benefit from the waterflood, so it may not be the entire project area.

A. Yes, sir.

Q. Okay. From that time, actually, you'll be entitled to the reduced tax rate, retroactive to the date that we determine as the initial positive production response date --

A. Okay.

Q. -- and it's about 50 percent of the tax on all of the oil produced from that time, so it's worth a few cents.

A. Sure is.

Q. So assuming from what you're saying that you're ready to begin flooding fairly quickly --

A. Yes, sir.

Q. -- it appeared to me that we can certify it as of the date the Order approving the project is issued, rather than delay certification.

A. All right, we'll get some baseline information to --

Q. Some baseline numbers for production.

And then just as I say, your next critical

thing is to make sure you don't forget that five-year date, because if you miss that, you're -- That's not get a response within then, but to actually have had an application in to us by --

A. Within five years you need to come back and demonstrate your positive response; is that correct?

Q. Right.

A. Okay.

Q. But you should do it -- Obviously, it's in your interest to do it as soon as you get a good established positive production.

If you get it in a year or two, you can begin getting the credit at that time. Don't wait the five years.

A. Yes, sir. I'll relay that on. I'm sure SDX will be very interested in that.

MR. KELLAHIN: Mr. Examiner, is it possible to have those appropriate findings included in this Order without amending or re-advertising our Application?

MR. STOVALL: I'm not sure that -- I'm not -- I mean, this came in as an administrative Application. It was docketed by the Commission.

I'm not sure that there's any real notice requirement, because it doesn't affect anybody else's

interest, it has no effect on correlative rights, so we're -- It has some effect on waste, obviously; it's to encourage prevention of.

MR. KELLAHIN: You occasionally see it noticed on the docket, but I'm not aware that that's required.

MR. STOVALL: If it's included in an application, we usually put it in the notice and on the docket, but I don't think it's a critical element to this -- to granting that Application, because there are -- it has no effect on anybody else.

MR. KELLAHIN: In point of procedure, do we need to request for administrative findings as to that issue, or can they be incorporated into the waterflood order?

MR. STOVALL: It may incorporate it into the -- What we do is, the way we've done it now is, we incorporate the findings that it qualifies into the Order, and then we issue a separate certificate that says this project is qualified, and then it identifies the project area.

MR. KELLAHIN: On behalf of the Applicant, we would so request that that be accomplished in this case.

Thank you, Mr. Examiner.

MR. STOVALL: And then at the time we get the positive production response we'll actually identify the specific wells which qualify for the credit, as well as the area.

MR. KELLAHIN: All right, I understand how that process works, and I can tell Mr. Morgan how to accomplish that.

We had simply overlooked the fact that we could findings in this flood order that would raise the issue and satisfy the prerequisites for the enhanced oil recovery benefits.

MR. STOVALL: Yeah, I think there's no requirement for an additional hearing or any additional -- The basic evidence required here is what's needed.

FURTHER EXAMINATION

BY EXAMINER CATANACH:

Q. Let me just ask you, Mr. Morgan, the ownership of the two leases in question --

A. Yes, sir.

Q. -- is that common?

A. Yes, sir, to my knowledge it is.

Q. Working interest?

A. Yes, sir.

Q. And royalty interest is probably the same also --

A. I believe so.

Q. -- in these two federal leases?

A. Yes, sir, I believe so.

EXAMINER CATANACH: Okay, that's all I have.

Anything further, Mr. Kellahin?

MR. KELLAHIN: No, sir, not from this witness.

EXAMINER CATANACH: There being nothing further, Case 10,684 will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:16 a.m.)

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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 April 14, 1993.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10684, heard by me on April 8, 1993.

David R. Catanach, Examiner
Oil Conservation Division