

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
COMMISSION FOR THE PURPOSE OF)
CONSIDERING:)
APPLICATION OF ROBERT L. BAYLESS)

CASE NO. 10,831

ORIGINALREPORTER'S TRANSCRIPT OF PROCEEDINGSCOMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

FEB 11 1994

January 13, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Commission on Thursday, January 13, 1994, at
Morgan Hall, State Land Office Building, 310 Old Santa Fe
Trail, Santa Fe, New Mexico, before Steven T. Brenner,
Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

January 13, 1994
Commission Hearing
CASE NO. 10,831

PAGE

APPLICANT'S WITNESSES:

KEVIN H. McCORD

Direct Examination by Mr. Roberts	6
Examination by Commissioner Bailey	19
Examination by Commissioner Weiss	21
Examination by Chairman LeMay	22
REPORTER'S CERTIFICATE	25

* * *

E X H I B I T S

	Identified	Admitted
Exhibit 1	9	19
Exhibit 2	9	19
Exhibit 3	11	19
Exhibit 4	12	19
Exhibit 5	13	19
Exhibit 6	15	19

* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 3:55 p.m.:

3 CHAIRMAN LEMAY: We will now call Case Number
4 10,831, which is the Application of Robert L. Bayless for
5 downhole commingling, Rio Arriba County, New Mexico.

6 And I understand you have -- Is it one witness?

7 MR. ROBERTS: Just one.

8 CHAIRMAN LEMAY: Okay. Appearances in the case?

9 MR. ROBERTS: Mr. Chairman, my name is Tommy
10 Roberts and I'm with the law firm of Tansey, Rosebrough,
11 Gerding and Strother in Farmington, New Mexico.

12 I'm appearing on behalf of the Applicant, and I
13 have one witness to be sworn.

14 CHAIRMAN LEMAY: All right. Are there any other
15 appearances in the case? I don't see any.

16 (Thereupon, the witness was sworn.)

17 CHAIRMAN LEMAY: You may proceed, Mr. Roberts.

18 MR. ROBERTS: Mr. Chairman, I would appreciate
19 the opportunity just to make a brief opening statement --

20 CHAIRMAN LEMAY: Please do.

21 MR. ROBERTS: -- by way of background
22 information.

23 This case comes before the Commission at the
24 request of Robert L. Bayless for a *de novo* hearing on its
25 Application for authority to commingle Gallup-Pictured

1 Cliffs gas production in the wellbore of the Simms Com
2 Number 1 well, which is located in the southeast quarter of
3 Section 13, Township 30 North, Range 4 West, in Rio Arriba
4 County.

5 The case was heard by the Division on September
6 23rd, 1993. The Application was unopposed.

7 One witness testified on behalf of Bayless at
8 that time, Kevin McCord, whose qualifications as an expert
9 in the field of petroleum engineering were accepted and
10 made a matter of record.

11 Mr. McCord submitted testimony regarding
12 economics, reservoir characteristics, pressure data,
13 ownership of production, and a proposed allocation formula.

14 And based on his review and study of these
15 particular matters, Mr. McCord concluded that, one, it
16 would be uneconomical and unfeasible to produce the two
17 zones separately within the wellbore.

18 Number two, that the reservoir characteristics of
19 the two zones are such that underground waste would not be
20 caused by the proposed commingling.

21 Number three, that the proposed commingling may
22 result in the recovery of additional hydrocarbons, thereby
23 preventing waste.

24 And number four, that correlative rights would
25 not be violated.

1 The Division entered its order in this case on
2 November 2nd, 1993, thereby denying the Application. The
3 basis for the Order was the disparity in bottomhole
4 pressures between the Gallup and Pictured Cliffs zone,
5 approximately 2.5 times greater in the Gallup formation as
6 compared to the Pictured Cliffs formation.

7 The Division in its order noted that potentially
8 damaging cross-flow between zones could occur, given the
9 pressure differential, notwithstanding the testimony of Mr.
10 McCord that under the factual circumstances that exist in
11 this case, cross-flow would not result in damage to the
12 reservoirs, would not result in underground waste and would
13 not violate correlative rights.

14 With that background, I'd like to go ahead and
15 commence the testimony of Mr. McCord.

16 CHAIRMAN LEMAY: All right, please do.

17 KEVIN H. McCORD,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. ROBERTS:

22 Q. Would you state your name and your place of
23 residence for the record?

24 A. My name is Kevin McCord, and I live in
25 Farmington, New Mexico.

1 Q. And what is your occupation?

2 A. I'm a petroleum engineer.

3 Q. How long have you been employed in that field?

4 A. Approximately 16 years.

5 Q. What is your relationship to the Applicant in
6 this case?

7 A. He -- Robert L. Bayless is a client of mine. I
8 have a consulting engineering business, and he's a client.

9 Q. Are you familiar with the Application in this
10 case?

11 A. Yes, I am.

12 Q. Have you testified before the Oil Conservation
13 Division or Commission on prior occasions?

14 A. Yes, I have.

15 Q. In what capacity?

16 A. As a petroleum engineer.

17 Q. And were your qualifications as an expert in the
18 field of petroleum engineering accepted and made a matter
19 of record?

20 A. They were.

21 Q. Have you prepared certain exhibits in conjunction
22 with the testimony that you will give today?

23 A. Yes, I have.

24 MR. ROBERTS: Mr. Chairman, I would tender Mr.
25 McCord as an expert in the field of petroleum engineering.

1 CHAIRMAN LEMAY: His qualifications are
2 acceptable.

3 Q. (By Mr. Roberts) Mr. McCord, would you briefly
4 describe the purpose of this Application?

5 A. Robert L. Bayless requests approval to commingle
6 production from the Gallup and Pictured Cliffs formations
7 within the wellbore of the Simms Com Number 1 well. This
8 well is located in the northwest of the southeast of
9 Section 13, Township 30 North, Range 4 West, in Rio Arriba,
10 New Mexico.

11 Q. What Gallup and Pictured Cliffs formations are we
12 -- or pools are we dealing with?

13 A. The Gallup is termed as the Cabresto-Gallup, and
14 Pictured Cliffs is East Blanco Pictured Cliffs.

15 Q. Are they both gas pools?

16 A. Yes, they are.

17 Q. What is the spacing for these pools?

18 A. 160-acre spacing.

19 Q. For each of these pools?

20 A. Yes.

21 Q. Are either of these pools subject to proration?

22 A. No.

23 Q. Is the location of the Simms Com Number 1 well a
24 standard location for both pools?

25 A. Yes, it is.

1 Q. And would you tell us the status of the well at
2 this time?

3 A. It's currently shut in, waiting on proceedings
4 here to decide how we will sell the gas from the well.

5 Q. Had you previously submitted a written request
6 for administrative approval for downhole commingling in the
7 wellbore of this well?

8 A. Yes, I did. I presented that as Exhibit Number
9 1. It's a letter to Mr. LeMay dated July 22nd, 1993,
10 requesting administrative approval to downhole commingle
11 this well.

12 Q. And what was the disposition of that request?

13 A. We were required to go to hearing because of this
14 discrepancy between the difference of the pressure of the
15 Gallup and the Pictured Cliffs formation, Pictured Cliffs
16 being less than 50 percent of the shut-in pressure of the
17 Gallup.

18 Q. Now, turn to what you have marked as the
19 Applicant's Exhibit Number 2 and identify that exhibit.

20 A. Exhibit Number 2 is a lease and ownership plat of
21 the area around the Simms Com Number 1 well. The Simms Com
22 Number 1, the 160-acre spacing that goes with that well is
23 in the southeast quarter of Section 13, and it's shown
24 cross-hatched.

25 Q. Does this also identify the fee and federal

1 leases that are applicable to this particular geographic
2 area?

3 A. Yes, it does. The ownership of these leases is
4 also shown, and as you can see, the 160-acre tracts
5 surrounding this particular well are all owned or
6 controlled by Bayless.

7 Q. Now, the location of the Simms Com Number 1 is
8 also depicted on this map, is it not?

9 A. Yes, it is.

10 Q. And how is that depicted?

11 A. It's shown as a black dot in the square
12 associated with the 160 acres in the southeast of 13.

13 Q. Are you familiar with the notice requirements of
14 the Oil Conservation Division regarding applications of
15 this type, applications for downhole commingling?

16 A. Yes, I am.

17 Q. Based on your understanding of those
18 requirements, was any party entitled to receive prior
19 notice of this Application?

20 A. No, they were not.

21 Q. And in your opinion, has the Applicant complied
22 with the requirements of the notice rule?

23 A. Yes, he has.

24 Q. Did the Applicant notify the Bureau of Land
25 Management of this Application for downhole commingling?

1 A. Yes, he did. A copy of the letter I alluded to
2 earlier as Exhibit Number 1 was sent to the BLM on the same
3 date, giving them notice that we were going to go for an
4 administrative approval on this, and we've heard nothing in
5 response from them.

6 Q. Would you briefly summarize the operational
7 history of the Simms Com Number 1 well?

8 A. The Simms Com Number 1 was drilled by Southland
9 Royalty Company in July of 1981. Five-and-a-half-inch
10 production casing was set and cemented at 8731 feet, which
11 is the total depth of the well.

12 The Dakota interval, which is from 8367 to 8683,
13 was tested and abandoned by setting a cast-iron bridge plug
14 at 8300 feet.

15 The Gallup interval, which is from 7541 to 7634,
16 was perforated and fracture-stimulated with 87,630 gallons
17 of 30-pound crosslinked gelled fluid, containing 65,000
18 pounds of 20-40 sand. Southland tested this zone in
19 September of 1981 by conducting a three-hour flow test,
20 which resulted in an AOF test of 1251 MCFD, and this AOF
21 test is shown as Exhibit 3.

22 Southland also tested the Pictured Cliffs
23 potential in the well.

24 In October of 1983, a drillable bridge plug was
25 set at 4150 feet, and the Pictured Cliffs interval 3709 to

1 3715 was perforated and fracture-stimulated with 31,710
2 gallons of 30-pound crosslinked gelled fluid containing
3 25,000 pounds of 20-40 sand.

4 Bayless tested this zone in July of 1993 by
5 conducting a three-hour flow test, which resulted in an AOF
6 of 508 MCFD, and this AOF test is presented as Exhibit
7 Number 4.

8 The flow test results from each zone indicate
9 that both have marginal gas production capability. The
10 actual gas sales rate from each zone that we can expect
11 will be substantially lower than these AOF tests due to
12 sales line pressure in the area, which averages around 300
13 p.s.i. In fact, we may need a compressor in the area to
14 produce the well at all.

15 If commingling is granted in this wellbore, the
16 combined rates from these two zones will make the economics
17 of the well much better.

18 Q. Is there any significance to the fact that the
19 flow test on the Gallup formation was conducted in 1993 and
20 that the flow test on the Pictured Cliffs -- I'm sorry, the
21 flow test on the Gallup was conducted in 1981 and the flow
22 test on the Pictured Cliffs was conducted in 1993?

23 A. I don't believe so in that since no production
24 has really come from this well, they both represent initial
25 potential of each zone. So they're virtually an IP from

1 each zone and should be comparable rates.

2 Q. Are you able to quantify anticipated future
3 production from each zone?

4 A. I just -- In an overall sense, I don't feel that
5 it will -- just from the experience in the area, I don't
6 feel that we'll get a great amount of gas from either zone.
7 And that's part of our reason for being here. The cost of
8 producing them separately makes it such that the downhole
9 commingling makes more economic sense in our opinion.

10 Q. Would you describe the quality of the gas you
11 expect to be produced from each zone?

12 A. The quality of the gas produced from the Gallup
13 and the Pictured Cliffs formations is very similar. The
14 average gas gravity for the Pictured Cliffs zone is .652
15 with an average BTU value of 1154, while the average gas
16 gravity for the Gallup interval is .628 with an average BTU
17 of 1072.

18 The gas gravities used for each zone were taken
19 from the closest offsetting wells having this data
20 available, and a summary of this data is presented in
21 Exhibit Number 5.

22 The small differences seen in gas gravity and BTU
23 content from these surrounding wells indicate that the gas
24 produced from both zones is very similar and should not
25 cause any damage should cross-flow occur between the zones.

1 Q. How do bottomhole pressures from each zone
2 compare?

3 A. From the AOS tests just presented, the 10,065
4 p.s.i. surface shut-in pressure taken on the Pictured
5 Cliffs zone corresponds to a calculated bottomhole pressure
6 of 1176 p.s.i. at 3712 feet, which is the mid-perf of the
7 PC zone.

8 The 2431 p.s.i. surface shut-in pressure taken on
9 the Gallup zone corresponds to a calculated bottomhole
10 pressure of 2955 p.s.i. at 7588 feet, which is the mid-perf
11 of the Gallup zone.

12 Even though the Pictured Cliff bottomhole
13 pressure is less than 50 percent of the Gallup bottomhole
14 pressure, the gas from both wells is very similar, and any
15 cross-flow occurring between the zones would not likely
16 cause damage to the PC formation.

17 Q. Let's talk about the likelihood that cross-flow
18 would occur, given the disparity in bottomhole pressures.
19 What is your opinion with regard to the potential for
20 cross-flow?

21 A. There certainly is potential there. There's not
22 an awful lot we can do about the differences there, but our
23 feeling is, should the cross-flow occur, ultimately that
24 gas would be produced out of the Pictured Cliffs formation
25 anyway.

1 And since the ownership is common to the area, we
2 don't see that cross-flow occurring as being a problem
3 economically. We'll recover gas at some point in time.

4 And since the gas is very similar, no formation
5 damage should take effect, so we really don't feel that
6 cross-flow will be a problem.

7 Q. If both zones were tested today, would you expect
8 to see the same pressure data as was derived from the
9 initial bottomhole tests?

10 A. I have nothing to believe -- or nothing to state
11 that it would be anything different than that. It should
12 be very, very similar.

13 Q. Correlation between zones would basically be
14 similar?

15 A. Basically be the same, yes.

16 Q. Do you propose a method by which commingled
17 production can be fairly allocated between zones?

18 A. Yes. Exhibit Number 6 could be used, which
19 Exhibit 6 demonstrates the AOF of both zones and then
20 proportions that total flow to come up with allocation
21 factors.

22 And the 508 MCFD experienced by the East Blanco-
23 Pictured Cliffs zone, compared to the 1251 MCFD in the
24 Cabresto-Gallup zone, would indicate that we could allocate
25 29 percent of the flow from the Pictured Cliffs and 71

1 percent of the flow from the Gallup formation.

2 Q. Now, you had previously stated that the ownership
3 of the zones was common. Does that extend to the working
4 interests, the royalty interests and any burdens on -- any
5 other burdens on production?

6 A. That is correct.

7 Q. In other words, the total array of net revenue
8 interests are common between zones?

9 A. Yes, they're all the same.

10 Q. How do you propose to mechanically accomplish the
11 downhole commingling?

12 A. We propose to drill a bridge plug that's
13 currently existing in the hole, run a string of 2-3/8-inch
14 tubing and set that tubing in the interval of the Gallup
15 perforations and produce gas through the tubing.

16 In effect, the Pictured Cliffs and Gallup zones
17 will both be open, and they will both contribute somewhat
18 to the production of the well.

19 Q. Is there any other alternative means by which you
20 can accomplish that downhole commingling?

21 A. That's the only way of downhole commingling.

22 Q. How would the economics of that means of downhole
23 commingling compare with the economics of a conventional
24 dual completion?

25 A. There are two ways to dually complete the well.

1 One would be to strictly run a packer in the
2 hole, with the tubing I just described, and set that packer
3 between the two zones, and the Gallup could then be
4 produced up the tubing and the Pictured Cliffs up the
5 annular space. And I've estimated the cost of that
6 operation to be approximately \$12,500 above the proposed
7 downhole commingling.

8 The other, more common method, which gives you
9 more options in producing the well, is to run a separate
10 string of tubing at the Pictured Cliffs level, along with
11 the Gallup tubing with a packer in between, which involves
12 another set of tubing, obviously, and a dual wellhead. And
13 I anticipate this cost to be approximately \$25,000 above
14 the downhole commingling case.

15 Q. Are you familiar with any other wells in the area
16 of the Simms Com Number 1 well which have been approved for
17 downhole commingling by the Division, dealing with Gallup
18 and Pictured Cliffs gas production?

19 A. Yes, Robert L. Bayless in 1987 came before the
20 Commission with our Jicarilla 519 Number 1 well, which is
21 an identical case to this, meaning it's a Gallup and
22 Pictured Cliffs downhole commingled situation. And that
23 was brought before the OCD, which was Case Number 9190 and
24 Order Number R-8501.

25 Q. Were you involved in that case?

1 A. Yes, I presented the case.

2 Q. What was the magnitude of the pressure disparity
3 between the Gallup zone and the Pictured Cliffs zone in
4 that particular case?

5 A. In that particular case, using downhole
6 calculated pressures, the downhole calculated pressure of
7 the Gallup zone was 3600 p.s.i., and the downhole
8 calculated pressure of the Pictured Cliffs was 1176 p.s.i.,
9 which is a little over a three-to-one ratio.

10 MR. ROBERTS: Mr. Chairman, I would ask that the
11 Commission take administrative notice of Case Number 9190
12 and Division Order Number R-8501 issued in that case.

13 CHAIRMAN LEMAY: Okay.

14 Q. (By Mr. Roberts) Mr. McCord, by way of summary
15 why should this Application be granted?

16 A. The production tests taken on the Pictured Cliffs
17 and Gallup zones indicate that gas production from the well
18 will be low, resulting in marginal gas reserves and
19 economics for the well.

20 Further completion and operational costs on this
21 well could be substantially reduced by approval of the
22 downhole commingling in this well.

23 Q. Would downhole commingling, in your opinion,
24 result in underground waste?

25 A. In my opinion, there would be no underground

1 waste, no.

2 Q. And would downhole commingling, in your opinion,
3 violate correlative rights in this case?

4 A. In my opinion it would not.

5 Q. Mr. Chairman -- Or Mr. McCord, were Exhibits 1
6 through 6 either prepared by you or at your direction and
7 under your supervision?

8 A. Yes, they were.

9 MR. ROBERTS: Mr. Chairman, I would move the
10 admission of Exhibit Numbers 1 through 6.

11 CHAIRMAN LEMAY: Without objection, Exhibits 1
12 through 6 will be admitted into the record.

13 MR. ROBERTS: I have no other questions on
14 direct.

15 CHAIRMAN LEMAY: Thank you, Mr. Roberts.
16 Commissioner Bailey?

17 EXAMINATION

18 BY COMMISSIONER BAILEY:

19 Q. With the cross-flow into the PC, can you
20 visualize any negative impacts on that increasing pressure
21 throughout that formation, as far as any wells in the two-
22 mile radius?

23 A. Any negative impact from the increase in pressure
24 in the Pictured Cliffs?

25 Q. Uh-huh.

1 A. No, I can't envision any negative impact, no.

2 COMMISSIONER BAILEY: That's all I have.

3 CHAIRMAN LEMAY: Commissioner Weiss?

4 EXAMINATION

5 BY COMMISSIONER WEISS:

6 Q. Yes, sir, Mr. McCord, on Exhibit Number 2, your
7 map, plat, are there any other producing wells that produce
8 from either the Pictured Cliffs or the Gallup that are not
9 illustrated, other than the one you've talked about here?

10 A. There are no other Gallup producing wells in the
11 area.

12 There are several Pictured Cliffs wells in
13 Sections -- in Township 30 North, Range 3 West, in Sections
14 7, 18 and 19.

15 There are several Pictured Cliffs wells operated
16 by Robert L. Bayless.

17 There's also a Pictured Cliffs well in Township
18 30 North, Range 4 West, in the southeast quarter of 12.

19 Q. Is that why there's a pressure difference there?
20 The drainage -- Is the PC -- I'm mixed up here. Now, the
21 1000 pounds bottomhole pressure on this one, on the back
22 pressure test, that's the PC?

23 A. Yes, sir.

24 Q. And the other one is the Gallup at 2500 pounds?

25 A. Yes, sir.

1 Q. And the reason for that would be drainage; is
2 that right? Pressure difference?

3 A. The pressure difference between the Gallup well
4 and the Pictured Cliffs well has an awful lot to do with
5 depth. That's what -- I guess I'm not following your
6 question.

7 Q. I can't see -- What's the difference in depth --

8 A. The Pictured Cliffs at 3000 --

9 Q. -- between the two zones?

10 A. The Pictured Cliffs is from 3709 to 3715. The
11 Gallup is 7541 to 7634.

12 Q. So it's 4000 feet?

13 A. (Nods)

14 Q. Okay, you think that that's hydrostatic head or
15 something, is the difference in the pressure?

16 A. Well, and anything else that we can think of in
17 the area, but it's certainly not drainage.

18 Q. You don't think your PC well is draining the
19 Pictured Cliffs?

20 A. No, sir, I don't. And my reasoning for that is,
21 they're very low marginal wells to begin with. I would be
22 very surprised if their drainage area could exceed 160
23 acres. The actual --

24 Q. Well, over nine years or whatever it is --

25 A. Well, no, sir, the actual virgin Pictured Cliffs

1 pressures in the wells drilled in Sections 7, 18 and 19
2 were in the 1000-to-1100-pound range, so the shut-in
3 pressure on the Simms Com Number 1 in the Pictured cliffs
4 falls right in line with the virgin pressures we've seen to
5 the east.

6 Q. So if there is a loss of production from the
7 Gallup to the Pictured Cliffs by this process, should it
8 occur, the only person that's going to be affected is
9 Bayless, huh?

10 A. Yes, sir.

11 COMMISSIONER WEISS: I have no other questions.
12 Thank you.

13 EXAMINATION

14 BY CHAIRMAN LEMAY:

15 Q. Mr. McCord, in the Gallup formation have you had
16 much experience? Does it tend to produce at that pressure
17 and then fall off? Or is it kind of like the PC: hangs in
18 there for a while at the current pressure without having
19 any fallout?

20 A. Generally it will produce, it will have high
21 shut-in pressures, which is what we're seeing for very low
22 production rates. Very tight reservoir, very difficult to
23 get a lot of gas out of it.

24 This current well, the 519 Number 1, we just
25 recently plugged and abandoned it. We had had about a

1 four-year life, and we were very disappointed in the
2 results with it.

3 Q. Do you know what pressure -- when you abandoned
4 it, what the pressure in the Gallup was? Do you have any
5 idea?

6 A. Not off the top of my head, but definitely our
7 production rates were very low from that well.

8 Q. The reason for my question -- Another possibility
9 would be to produce the Gallup, wouldn't it, until the
10 pressure was within 50 percent of the PC pressure, and then
11 commingle?

12 A. Yes, sir, that would be possible.

13 We see right now that we're -- Especially in this
14 area with the high cost of getting your gas to market, we'd
15 sure like to get as much to market as possible to make it
16 an economical venture.

17 Q. But you have no idea how long it would take by
18 producing the Gallup alone to have that pressure fall
19 within 50 percent of the pressure of the PC?

20 A. I don't know the answer to that. I would suspect
21 a couple of years.

22 CHAIRMAN LEMAY: Are there additional questions
23 of the witness?

24 If not, he may be excused.

25 We'll take the case under advisement. Thank you,

1 Mr. McCord.

2 Anything else, Mr. Roberts?

3 MR. ROBERTS: No, thank you.

4 CHAIRMAN LEMAY: Thank you very much.

5 (Thereupon, these proceedings were concluded at
6 4:22 p.m.)

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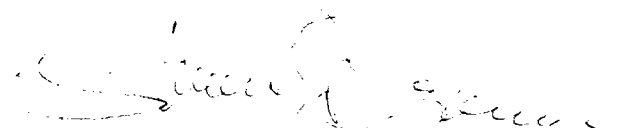
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Steven T. Brenner, Certified Court Reporter
7 and Notary Public, HEREBY CERTIFY that the foregoing
8 transcript of proceedings before the Oil Conservation
9 Commission was reported by me; that I transcribed my notes;
10 and that the foregoing is a true and accurate record of the
11 proceedings.

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

16 WITNESS MY HAND AND SEAL February 6th, 1994.

17
18 
19 STEVEN T. BRENNER
CCR No. 7

20
21 My commission expires: October 14, 1994
22
23
24
25