

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
11 April 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Adobe Oil Company for) CASE
a unit agreement, Lea County, New) 6521
Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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State Land Office Bldg.
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For the Applicant:

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1 MR. NUTTER: Call now Case Number 6521.

2 MS. TESCHENDORF: Case 6521. Application
3 of Adobe Oil Company for a unit agreement, Lea County, New
4 Mexico.

5 MR. KELLAHIN: I'm Tom Kellahin, appearing
6 on behalf of Adobe Oil and Gas Corporation, and I have
7 three witnesses.

8
9 (Witnesses sworn.)

10
11 KELLY BARNES
12 being called as a witness and having been duly sworn upon
13 his oath, testified as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q Would you please state your name, by whom
18 you are employed, and in what capacity?

19 A My name is Kelly Barnes. I'm employed by
20 Adobe Oil and Gas Corporation, and I'm an area land man.

21 Q Mr. Barnes, as a petroleum land man have
22 you prepared certain exhibits with regards to this case
23 and the formation of a unit agreement in Lea County, New
24 Mexico?

25 A Yes, I have.

1 Q And have you brought those exhibits with
2 you here today?

3 A Yes, I have.

4 Q Let me refer to what we've marked as Exhibit
5 Number One and have you identify that for me, please.

6 A That is an acreage land plat of the proposed
7 East Tatum State Unit indicated in yellow stippling.

8 Q What is the sections involved and the town-
9 ship and range of the unit?

10 A Located in Township 12 South, Range 36 East,
11 New Mexico Prime Meridian, being Sections 25, 26, 35, and
12 36, inclusive.

13 Q What type of acreage is involved in this
14 four-section unit?

15 A State acreage being 2560 acres, 100 percent.

16 Q And there are no fee or Federal acres in-
17 volved, are there?

18 A None.

19 Q Are there any existing wells within any
20 of the sections to be included in this unit?

21 A None.

22 Q All right, are there any plugged and aban-
23 doned wells in the area?

24 A Yes.

25 Q And where is that well located?

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1 A. In the northwest quarter of Section 35.

2 Q. In the northeast quarter?

3 A. Northeast quarter, I'm corrected.

4 Q. And that's the old Phillips State 1-X
5 re-entry?

6 A. Hilliard Phillips State 1.

7 Q. All right.

8 Would you please refer to Exhibit Number
9 Two and identify that?

10 A. This is a tabulation of the tracts comprising
11 the unit, their description, number of acres in each tract,
12 State lease number and expiration date thereof, lessee of
13 record, and working interest ownership and percentage
14 therein owned.

15 Q. All right. Let's look at Exhibit Three
16 and have you identify that exhibit.

17 A. This is a recapitulation of the State unit
18 as proposed. The first indicates ownership, State of New
19 Mexico lands, being 2560 acres, comprised of 100 percent of
20 the unit.

21 The second is commitment to the unit by
22 working interest owner; indicates their percentage, their
23 status, unit participation, and all indicates 100 percent
24 committed to the unit, as indicated.

25 The final being the working interest of the

1 unit as it would be proposed for the development thereof.

2 Q All right. Will Adobe Oil and Gas Corpor-
3 ation be the operator of the unit?

4 A Yes, they will.

5 Q All right. Explain to us how, in general
6 terms, Adobe will earn any interest in the acreage involved
7 in the unit.

8 A Basically Adobe Oil and Gas Corporation has
9 received, or a party to a farm-out agreements with 87-1/2
10 percent of the working interest therein of the unit, 12-1/2
11 percent owned by Yates Petroleum Corporation, has indicated
12 they will join in the drilling of a test as a working in-
13 terest owner, and Adobe, through its farm-out agreement,
14 has acquired that interest.

15 Q Let's look at Exhibit Number Four and have
16 you tell me what that is.

17 A This is a plat of the State unit, indicating
18 the tracts numbered, the owner thereof, and the configura-
19 tion also.

20 Q All right. Would you turn to Exhibit Number
21 Five and tell us what that is?

22 A The proposed unit agreement for the develop-
23 ment and operation of the East Tatum State Unit as we've
24 indicated previously and is proposed.

25 Q Is the unit agreement identified as Exhibit

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1 Number Five the same unit agreement that was submitted to
2 the Commissioner of Public Lands, State of New Mexico?

3 A. Yes, it is.

4 Q. And is that a form of unit agreement ac-
5 ceptable to the Land Commissioner?

6 A. Yes, it is.

7 Q. Would you refer to what is marked as Exhibit
8 Number Six and identify that?

9 A. Exhibit Number Six is the proposed operating
10 agreement for the operation of the State unit, being the
11 East Tatum State Unit Number One, comprising those sections.

12 Q. Would you turn to Exhibit C attached to the
13 operating agreement?

14 And then turn to page three of Exhibit C
15 and direct your attention to the paragraph identified as
16 Overhead Charges.

17 What, if any, additions or corrections are
18 there with regards to the overhead charges?

19 A. There's been two alterations. The drilling
20 well rates has been changed, altered to \$3000 per month.

21 MR. NUTTER: Where is that, Mr. Kellahin,
22 what page?

23 MR. KELLAHIN: It's on page three.

24 A. Of the accounting procedures.

25 MR. KELLAHIN: Of the accounting procedures,

1 attached as Exhibit C to the operating agreement.

2 MR. NUTTER: Page two, page three, that's
3 that page called --

4 MR. KELLAHIN: Yes, sir, there's some blank
5 lines in the middle of that page.

6 MR. NUTTER: Anyway, the changes have been
7 made on the thing, is that right?

8 Okay, they haven't been made here. Okay,
9 so this \$2750 changes to what?

10 A. \$3000.

11 MR. NUTTER: And the \$350?

12 A. To \$300.

13 Q. (Mr. Kellahin continuing.) Are those
14 changes that have been approved by all the working interest
15 ownership?

16 A. Yes.

17 Q. All right. Let me refer you to the left
18 side of the package of exhibits and have you turn to the
19 second page under preliminary State approval, and have you
20 identify for me what has been marked as Exhibit Number
21 Seven.

22 A. Exhibit Number Seven is a letter from the
23 State of New Mexico, Commissioner of Public Lands, indi-
24 cating his approval and their approval to the content and
25 form of our unit operating and the unit agreement.

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1 Q What is the soonest expiration date of any
2 of the State leases to be committed to the unit?

3 A May 20, 1979.

4 Q And as of this date have you complied with
5 all the requirements of the Commissioner of Public Lands
6 with the exception of obtaining this order from the New
7 Mexico Oil Conservation Division?

8 A Yes, we have.

9 Q Were Exhibits One through Seven either pre-
10 pared by you directly or compiled under your direction and
11 supervision?

12 A Yes, sir, they were, with the exception of
13 the New Mexico letter.

14 Q And if I didn't ask you before, I ask you
15 again, who will be the operator?

16 A Adobe Oil and Gas Corporation.

17 MR. KELLAHIN: That concludes my examination
18 of Mr. Barnes.

19
20 CROSS EXAMINATION

21 BY MR. NUTTER:

22 Q Mr. Barnes, the well that you're proposing
23 to re-enter is this old well, is that right?

24 A Yes, sir.

25 Q And when it was drilled, to what total depth

1 was it drilled?

2 A. 1408, I believe.

3 Q And so you're going to re-enter it and go
4 down to a maximum depth of 13,4, so the well has penetrated
5 the formations --

6 A. Yes, sir.

7 Q -- that you're going to test. Why do you
8 think that you could make a well now that they couldn't?

9 MR. KELLAHIN: Mr. Examiner, we have two
10 other witnesses that are going to direct their attention
11 to the recompleting of this old well.

12 MR. NUTTER: I'll defer that question until
13 later, then.

14 MR. KELLAHIN: We have an engineer and a
15 geologist.

16 MR. NUTTER: Are there any other questions
17 of this witness? Oh, now you said that Adobe had acquired
18 all but 12-1/2 percent of the --

19 A. Through a farm-out agreement.

20 Q Through farm-out.

21 A. The 12-1/2 percent is a committed working
22 interest, being Yates Petroleum Corporation.

23 Q So they will -- that's going to be the only
24 operator in the unit besides yourself.

25 A. They will be the only other non -- we will

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1 be the operator; they will be a non-operator --

2 Q Right.

3 A -- in the unit and have committed to the
4 drilling of that test.

5 Q Right, so you control 87.5 percent of the
6 unit, 12-1/2 percent remaining working interest is commit-
7 ted.

8 A Yes, sir.

9 Q So you've got 100 percent committment
10 working interest.

11 A Right.

12 Q Then the royalty is all State land and the
13 State Land Commissioner has agreed to it.

14 A Yes, sir.

15 Q Okay.

16 MR. NUTTER: Any other questions of this
17 witness?

18 MR. KELLAHIN: No, sir.

19 MR. NUTTER: He may be excused.

20
21 DAVID JEWELL

22 being called as a witness and having been duly sworn upon
23 his oath, testified as follows, to-wit:
24
25

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, by whom you're employed, and in what capacity?

A My name is David Jewell. I'm employed as a geologist by Adobe Oil and Gas Corporation.

Q Mr. Jewell, have you ever testified before the Oil Conservation Division of New Mexico?

A No, I have not.

Q Would you state for the Examiner when and where you obtained your degree in geology?

A I obtained my degree from the University of Kansas, 1950, Bachelor of Science degree.

Q Upon graduation what, if any, other degrees have you obtained?

A No other degrees.

Q All right. Upon graduation where have you been employed and in what general capacity?

A I've been employed as a geologist for Sinclair Oil and Gas, Geological Engineering Service Company, Anderson Pritchard, and as a consultant for about ten years, prior to joining Adobe Oil and Gas Corporation.

Q When did you join Adobe Oil?

A About 1974.

MR. NUTTER: One question, Mr. Jewell, do

1 you spell your name as in rubies and diamonds?

2 A. No, two L's.

3 MR. NUTTER: Two L's?

4 A. Yes, sir.

5 Q. Have you made a study of the geology in-
6 volved with regards to this particular unit operation,
7 which is the subject of this application?

8 A. Yes, I have.

9 MR. KELLAHIN: We tender Mr. Jewell as an
10 expert geologist.

11 MR. NUTTER: He is.

12 Q. (Mr. Kellahin continuing.) Mr. Jewell,
13 would you please refer to that portion of the exhibit
14 folders indicated geological reports, and commence your
15 testimony by looking at Exhibit Number Eight and tell us
16 what that is?

17 A. Exhibit Number Eight is a subsurface map
18 contoured on the top of the upper Mississippian pay zone,
19 which is found in the Austin Field and which is our pros-
20 pective pay zone in the unit that we're applying for today.

21 Q. All right. What does this plat tell me
22 with regards to the geology underlying the unit?

23 A. Well, it shows that structurally we should
24 be high to the Austin Field. We have the same pay zone
25 and the cross section shown on this plat, which is number

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- 1 nine, Exhibit Number Nine, shows that the Phillips State
- 2 Well in the Austin Field is the same as in the Hilliard
- 3 No. 1 Phillips State Well in the unit.
- 4 Q What is the unitized formation in the unit
- 5 area?
- 6 A The Upper Mississippian.
- 7 Q What is the closest New Mexico Oil Conser-
- 8 vation Division pool to the unit operation?
- 9 A It's the Austin Field ten miles southwest
- 10 of the unit.
- 11 Q Is Adobe Oil and Gas Corporation an operator
- 12 in the Austin Field?
- 13 A Yes, we are. We have two wells that we
- 14 just recently drilled in the field.
- 15 Q Would you locate those wells for us?
- 16 A Yes. The Adobe No. 1 State 16, located in
- 17 the southwest quarter of Section 16, Township 14 South,
- 18 Range 36 East, and the Adobe No. 1 Hanna, located 1980 from
- 19 the north, 660 from the east of Section 17, Township 14
- 20 South, Range 36 East.
- 21 Q Okay. Let's look at Exhibit Number Nine.
- 22 Is Exhibit Number Nine the cross section that's depicted on
- 23 Exhibit Number Eight?
- 24 A Yes, it is.
- 25 Q Would you describe that cross section for

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us?

A. This cross section starts on the south end in the Austin Field with the discovery well of the Austin Field, the Phillips No. 1 Austin.

Q You're looking at Exhibit Number Nine from right to left?

A. Yes, from right to left.

Q All right.

A. Going from south to north.

And it shows that the porosity zone, the pay zone in the Phillips No. 1 Austin Well, is the same pay zone that we are going to attempt to complete in in the Hilliard No. 1 Phillips State Well.

Q Would you describe for me the log here on the old Hilliard Phillips State No,1 Well that you're going to re-enter?

A. Yes, it's a compensated sonic log and it shows 7 to 8 percent porosity through the upper Mississippian zone.

Q Who drilled this well?

A. Hilliard Oil and Gas, Incorporated.

Q All right. To your knowledge, did this particular well after it was drilled ever produce from the upper Mississippian?

A. No, it did not.

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1 Q And do you know why not?

2 A Because they didn't test this zone.

3 Q Do you know what Hilliard Oil and Gas Com-
4 pany's primary objective was when they drilled this test?

5 A Their primary objective was the Devonian.

6 Q And was this well tested in the Devonian?

7 A No, it was not.

8 Q Why not, do you know?

9 A They evidently had no show. I don't know
10 the reason for it.

11 Q Have you examined that portion of the log
12 that represents the Devonian?

13 A Yes, I have.

14 Q And what does it show?

15 A There is no show that I could see, no sign
16 of possible production.

17 Q When was that well drilled?

18 A That well was drilled and completed in
19 November, '77, 1977.

20 Q And what is its status now?

21 A It is an abandoned dry hole, with 8-5/8ths
22 inch casing set in it.

23 Q To your knowledge was that well plugged
24 and abandoned in accordance with Commission regulations?

25 A Yes, it was.

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1 Q And when was that abandonment approved or
2 completed?

3 A November 19, 1977.

4 Q All right. What causes you to believe, Mr.
5 Jewell, that this particular well is still capable of
6 production from the upper Mississippian formation?

7 A We found upon drilling these wells in the
8 Austin Field you could drill through this zone very easily
9 and not see any signs of gas, and we think that's what
10 happened.

11 Q What was the porosity indicated on the log,
12 I believe you indicated --

13 A 7 to 8 percent.

14 Q -- 7 to 8 percent?

15 A Uh-huh.

16 Q In your opinion is that sufficient porosity
17 for upper Mississippian formation to provide a commercial
18 well?

19 A Yes, it is.

20 Q Let's look at Exhibit Number Ten and have
21 you identify that.

22 A Now what does Exhibit Number Ten show us,
23 Mr. Jewell?

24 A Exhibit Number Ten is a plat contoured on
25 the upper Mississippian pay zone, just in the area surrounding

1 the proposed unit, and it shows the trap that we suspect
2 is there.

3 Q All right, in conjunction with Exhibit
4 Number Ten, would you refer to Exhibit Number Eleven? I
5 assume Exhibit Eleven is the cross section that's depicted
6 on Exhibit Number Ten.

7 A It is.

8 Q All right, sir, and would you describe
9 generally what the cross section on Exhibit Number Eleven
10 shows you?

11 A All right. This cross section on Exhibit
12 Number Eleven on plat Number Ten, shows the porosity in the
13 Hilliard well, and then going up dip to the Cameron Well
14 in Section 15, in 12 South, 36 East, across to the SunRay
15 and MidContinent No. 1 Adams Well in Section 29, down to
16 the Crown Central No. 1 Lowe Well in Section 3, and back
17 west to the Freeport No. 1 State Well in Section 11, what
18 it shows is that the porosity is present in the Hilliard
19 Well but absent up dip in the Cameron Well, the SunRay
20 Well, and the Crown Central Petroleum Corporation Well,
21 and coming back to the Freeport Well, we have two to three
22 percent porosity in the proposed pay zone, so that it
23 produces a barrier of nonporous upper Mississippi limestone
24 up dip from our proposed re-entry.

25 Q Mr. Jewell, in your geological opinion, will

1 the proposed unit area give Adobe Oil and Gas Corporation
2 substantial and effective control of the unitized formation?

3 A. Yes.

4 Q In your opinion is the four section unit
5 a reasonable and logical from a geological standpoint,
6 reasonable and logical configuration for the proposed unit?

7 A. Yes.

8 Q In your opinion is the unitized interval and
9 the four sections involved reasonably productive from the
10 upper Mississippian?

11 A. Yes.

12 Q Were Exhibits Eight, Nine, Ten, and Eleven
13 prepared by you or compiled under your direction and
14 supervision?

15 A. They were.

16 MR. KELLAHIN: We move the introduction of
17 Exhibits Eight through Eleven.

18 MR. NUTTER: Exhibits Eight through Eleven
19 will be admitted in evidence.

20 MR. KELLAHIN: That concludes my examination
21 of Mr. Jewell.

22 MR. NUTTER: Are there any questions of
23 Mr. Jewell? He may be excused.

24 MR. KELLAHIN: I have one more witness,
25 Mr. Nutter.

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BILL R. OWENS

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name and occupation?

A Bill R. Owens. I'm an engineer.

Q Mr. Owens, have you previously testified before the Oil Conservation Division?

A No, I haven't.

Q Would you tell the Examiner where you graduated, what degree you obtained, and when that was?

A Graduated from the University of Oklahoma in 1958 with a BS degree in engineering physics.

Q Subsequent to graduation where have you been employed in your capacity as a petroleum engineer?

A I was employed by Kiwanee (sic) Oil Company for twelve years, various engineering capacities and as District Superintendent. And since March 1st, 1970, in various engineering capacities and supervisory capacities with Adobe Oil and Gas.

Q In your capacities with Adobe Oil and Gas

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1 Corporation, have you made a study of certain geological
2 data with regards to this unitized area and the unit agree-
3 ment?

4 A. Yes, I have.

5 MR. KELLAHIN: We tender Mr. Owens as an
6 expert engineer.

7 MR. NUTTER: Mr. Owens is qualified.

8 Q. (Mr. Kellahin continuing.) Mr. Owens would
9 you refer to Exhibit Number Twelve and identify that for
10 us?

11 A. It was our proposed plan of operation to
12 re-enter the Hilliard Well.

13 Q. Okay. Would you describe briefly the old
14 Hilliard Well in Section 35 for us?

15 A. Yes. Hilliard drilled a well that was
16 spudded in September of '77 and plugged and abandoned on
17 November 19th, 1977, with a total depth of 14,081 feet, and
18 was plugged, according to Commission order it was 7 cement
19 plugs at that time and has been since.

20 Q. What are Adobe Oil and Gas Corporation's
21 proposed re-entry procedures?

22 A. We're going to move in a rotary rig and
23 clean out the old cement plugs to a depth of 13,400, and
24 then by compensated neutron density log, which if the forma-
25 tion hadn't been damaged too much setting there, should show

1 us gas saturation in the upper Mississippian section. At
2 that time we will spot 100-foot cement plug and run 5-1/2
3 inch casing to depth of 13,300 and test through casing pro-
4 duction test, the three zones that we feel like will pos-
5 sibly produce separately. This is primarily my experience
6 down in the Austin, too.

7 Q What type of treatment, generally, do you
8 anticipate for this particular well?

9 A The upper main pay, or the zones that we
10 show just by acidizing testing, will probably not produce
11 a lot with acid jobs, and we'll go to large pad, sand pad
12 acid sand treatment of these wells, which we've had good
13 luck with down in the Austin Field.

14 Q That's a similar type treatment that you
15 implemented on your two wells in the Austin Field?

16 A That's correct.

17 Q Do you have an estimate of what the cost
18 of recompleting this well would be?

19 A My estimate, without any trouble, is about
20 Five Hundred and Eight Thousand Dollars, shown on Exhibit
21 Thirteen.

22 Q Those are the estimated well costs for re-
23 entry attached as Exhibit Number Thirteen?

24 A Yes, sir.

25 Q In your opinion as an engineer, is the old

1 Hilliard Well capable of production from the upper Mississ-
2 ippian zone?

3 A Yes, it is.

4 Q Were Exhibits Twelve and Thirteen prepared
5 by you or compiled under your direction and supervision?

6 A Yes.

7 MR. KELLAHIN: We move the introduction of
8 Exhibits Twelve and Thirteen.

9 MR. NUTTER: Applicant's Exhibits Twelve
10 and Thirteen will be admitted in evidence.

11 Q Mr. Owens, in your opinion as an engineer,
12 will approval of this application be in the best interests
13 of conservation, the prevention of waste, and the protection
14 of correlative rights?

15 A Yes, it will.

16 MR. KELLAHIN: That concludes our direct
17 examination.

18
19 CROSS EXAMINATION

20 BY MR. NUTTER:

21 Q Mr. Owens, when Hilliard drilled the well,
22 I presume they ran intermediate and surface casing.

23 A Yes, sir, had 13-3/8ths surface casing set
24 at 435 and 8-5/8ths intermediate set at 3600.

25 Q And both of those strings are still intact?

1 A. Yes, sir.

2 Q. All right.

3 MR. NUTTER: Are there any other questions
4 of Mr. Owens?

5 MR. KELLAHIN: No, sir.

6 MR. NUTTER: He may be excused.

7 Mr. Barnes, what are your initials, please?

8 MR. BARNES: K. M.

9 MR. NUTTER: N as Nancy or --

10 MR. BARNES: M as MIke.

11 MR. NUTTER: Okay. Do you have anything
12 further in Case Number 6521, Mr. Kellahin?

13 MR. KELLAHIN: No, sir.

14 MR. NUTTER: Does anyone have anything they
15 wish to offer in Case Number 6521?

16 We'll take the case under advisement.

17 (Hearing concluded.)

18

19

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6521, heard by me on 4/11 1979.

[Signature] Examiner
Oil Conservation Division

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