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July 2, 1997
(Our File 97-170.1)

JASON E. DOUGHTY\*

### **VIA HAND DELIVERY**

Mr. William J. LeMay, Chairman Oil Conservation Division 2040 South Pacheco Santa Fe. New Mexico 87505

RE: NMOCD Case 11745

Application of Burlington Resources Oil & Gas Co. for 640-acre Deep Gas Spacing, San Juan Basin, New Mexico

Dear Mr. LeMay:

On behalf of Movants Timothy B. Johnson, Trustee for the Ralph A. Bard, Jr. Trust U/A/D February 12, 1983, et al, please find enclosed our Reply Brief in response to Burlington's Opposition Brief filed yesterday, July 1, 1997.

Very truly yours,

GALLEGOS LAW FIRM, P.C.

JASON E. DOUGHTY

c: Lyn Herbert, Esq., Attorney for the Commission
Rand Carroll, Esq. Attorney for the Division
William F. Carr, Esq., Attorney for Amoco Production Company
W. Thomas Kellahin, Esq., Attorney for Burlington Resources Oil & Gas Co.

ioc: J. E. Gallegos

J. Hall/file

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

**CASE NO. 11745** 

RE: ORDER OF THE NEW MEXICO OIL CONSERVATION COMMISSION GRANTING THE APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY TO AMEND DIVISION RULES 104.B AND 104.C TO ESTABLISH 640-ACRE SPACING, INCLUDING WELL LOCATION REQUIREMENTS FOR GAS PRODUCTION BELOW THE BASE OF THE DAKOTA FORMATION IN SAN JUAN, SANDOVAL AND MCKINLEY COUNTIES, NEW MEXICO.

REPLY BRIEF OF TIMOTHY B. JOHNSON, TRUSTEE FOR RALPH A. BARD, JR. TRUST U/A/D FEBRUARY 12, 1983 ET AL. TO BURLINGTON RESOURCES OIL & GAS COMPANY'S OPPOSITION BRIEF

Movants Timothy B. Johnson, Trustee for Ralph A. Bard, Jr. Trust U/A/D February 12, 1983 et al., (hereinafter "Movants"), by their undersigned attorneys, Gallegos Law Firm, P.C., hereby submit their Reply brief to Burlington Resources Oil & Gas Corporation's ("Burlington") Opposition to Movants Application for Rehearing of the referenced case.

### **ARGUMENT**

In his Opposition brief, Counsel for Burlington admonishes the Commission that "to grant Movant's application would be to reek [sic] havoc with the general rule making process and the entire conservation system. To grant Movant's application would establish a precedent which would preclude the Commission from amending any of its General rules." See Opposition brief at p. 10. This is complete nonsense. Indeed, the only thing that reeks here is Burlington's malodorous smoke screen of an "argument" disingenuously designed to obfuscate and divert the Commission's attention away from the true issues raised in the Movant's Application. Counsel's obfuscatory histrionic.

notwithstanding, it could not be clearer that both the applicable NMOCD notice rules and on-point New Mexico law <u>mandate</u> that the Movants were entitled to <u>actual</u> notice of Case No. 11745 from Burlington.

### POINT ONE: THE MOVANTS WERE ENTITLED TO ACTUAL NOTICE UNDER CONTROLLING NMOCD RULES AND ON-POINT NEW MEXICO LAW

### A. NMOCD Rule 1207(11) Mandates That the Movants Should Have Received Actual Notice of Burlington's Application in Case 11745

As expressly noted in Movant's Application, in addition to notice by publication, NMOCD Rule 1207 requires additional notice in specific proceedings, none of which exactly fits a requested modification of well spacing requirements. NMOCD Rule 1207(11), however, the applicable "catch-all" provision, provides as follows:

- (11) In cases of applications not listed above, the outcome of which may affect a property interest of other individuals or entities:
- (a) Actual notice shall be given to such individuals or entities by certified mail (return receipt requested). (Emphasis added).

In its Opposition brief Burlington does not even mention the above-cited "actual notice" requirements of NMOCD Rule 1207(11)(a). This "lapse" is no doubt for good reason. This rule, which controls the notice procedure that Burlington should have used in Case No. 11745, unambiguously mandates that individuals or entitles, such as the Movants, whose property interests are affected by an application are to be given actual notice of same. Burlington's use of "random notice" falls far short.

Unable to find support in any statute, rule or regulation for its feckless "random notice" procedure, Burlington advances the rationalization that: "It is logical and reasonable that they [the Movants] are not entitled to notice. It would be impossible to identify, locate and provide actual notice to the tens of thousands of parties owning an

interest in oil and gas minerals in the entire San Juan Basin every time the Commission wanted to adopt a change in the General Rules." Opposition at p. 3. Apparently, in Burlington's strange world, since it may not know the identity and addresses of **all** parties who might be affected by its application in Case 11745, it is therefore excused from providing actual notice to the very narrow and well defined group of sixty-one Movants who it knew beyond doubt would be directly and immediately affected by Case 11745. Burlington's "logic" is illogical and directly contrary to the requirements of NMOCD Rule 1207(11)(a) as well as New Mexico case law.

There can be no question that the Movants' property interests have been directly and immediately affected by Case No. 11745 and the resulting Order No. 10815. A mere **ten days** after the Commission issued Order No. 10815, Burlington filed its Application No. 11808 requesting an order from the OCD compulsorily pooling the Movant's majority working interests in Section 9, T31N, R10W, San Juan County, New Mexico for Burlington's proposed \$2,316,973 Scott No. 24 Deep Pennsylvanian test well. See Movant's Application at ¶¶ 8-9.

Notice that Burlington does not argue that it failed to send actual notice of Case 11745 to any of the individual Movants because it did not know who they were or where

See Uhden v. New Mexico Oil Conservation Comm'n, 112 N.M. 528, 917 P.2d 721 (1991)(In Mullane v. Central Hanover Bank & Trust Co., 339 U.S. 306, 70 S. Ct. 652, 94 L. Ed. 865 (1950), the United States Supreme Court stated that "an elementary and fundamental requirement of due process in any proceeding which is to be accorded finality is notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections." 339 U.S. at 314, 70 S. Ct. at 657. The Court also said that "but when notice is a person's due, process which is a mere gesture is not due process. The means employed must be such as one desirous of actually informing the absentee might reasonably adopt to accomplish it." Id. at 315. Significantly, the Court refused to sanction notice by publication to those whose identity and whereabouts were ascertainable from sources at hand. See also In re Miller, 88 N.M. 492, 496, 542 P.2d 1182, 1188 (Ct. App. 1975) (citations omitted), rev'd on other grounds, 89 N.M. 547, 555 P.2d 142 (1976)(Administrative proceedings must conform to fundamental principles of justice and the requirements of due process of law. A litigant must be given a full opportunity to be heard with all rights related thereto. The essence of justice is largely procedural. Procedural fairness and regularity are of the indispensable essence of liberty.)

they were. It cannot make such an argument. Burlington knew all along the exact names and addresses of each and every one of the Movants well before it filed its Application in Case 11745. See e.g. Burlington's "Non-Standard Location and Non-Standard Proration Unit Notification List" attached hereto as Exhibit "A", which contains the names and addresses of each and every Movant. There are also the facts that Burlington and the Movants have been embroiled in contentious litigation since late 1992, and that Burlington submits royalty payments to each and every one of the Movants on a monthly basis. See Movants' Application at ¶3.

Isn't it curious that not one of the sixty-one Movants were among those accidentally hit by Burlington's "random notice" of Case No. 11745 while numerous of the Movant's fellow working interest owners did receive such notice? Had the recipients of notice been selected by throwing darts, surely a few of the sixty-one would have been included. A cynic might think that Burlington intentionally and systematically failed to provide actual notice to the Movants in order to keep them from opposing Burlington's Application. What is indeed suspect, and troubling, is counsel's proud proclamation that "...Burlington notified some two-hundred oil and gas operators and owners in the San Juan Basin by utilize [sic] the Division list of operators and its own list of owners for whom they operate properties." Opposition brief at p. 8 (emphasis added). As discussed above, this is simply not true. See e.g. Exhibit "A".

### B. The Basin-Wide Rule Approach is a Sham or Device to Avoid Notice Requirements.

It is obvious that the "<u>basin-wide</u>" rule change sought and obtained by Burlington in Case No. 11745 was merely a ruse employed by Burlington to facilitate its narrowly-tailored Deep Pennsylvanian exploration program, the drilling target is not the

entire Basin but rather is narrowly focused on approximately nine sections or less in T31N, R10W, San Juan County.<sup>2</sup> By first framing its application as a basin-wide rule change, however, Burlington then argues that its notice obligations to affected working interest owners are somehow reduced to "random notice." Burlington's typical "rulemaking" spin is as follows:

In contrast to <u>Uhden</u>, Case 11745 involved the Commission's General Rules and the making of a prospective rule for general application in a vast undeveloped area covering some 9,000 square miles with tens of thousands of owners and hundreds of operators for an interval involving at least twenty (20) different formations below the base of the Dakota formation in the San Juan Basin . . ."

Opposition Brief at p. 4. The general, broad scope of the application in Case 11745, and the resulting Order No. 10815, cannot be viewed in a vacuum. When one separates the actual facts from Burlington's fluff, the immediate impact of the change in Rule 104 is not nearly so broad. Burlington is **not** currently seeking to compulsory pool tens of thousands of owners and hundreds of operations covering a vast undeveloped area covering some 9,000 square miles and involving twenty (20) different formations below the base of the Dakota formation in the San Juan Basin.

Burlington knows, and evidently has known for some time, exactly where it wants to drill two deep Pennsylvania tests. One of the wells, is already being drilled. See article from the June 30, 1997 Farmington Daily News attached. The proper and honest approach would have been to drill those wells on the prevailing 160-acre space and in the event of successful completions and with production experience, come

<sup>&</sup>lt;sup>2</sup> A benefit of granting rehearing would include requiring Burlington to yield up its geology which it is believed will reveal that seismic investigation has pinpointed precise objectives beneath sections 8 and 9. One of the tip-offs for the Commission should be the unorthodox locations selected for the drill sites.

forward with reliable, reservoir science to demonstrate the true drainage area for such a well.

The fact is this spacing case is really about compulsory pooling the interests of a very narrow and well defined set of working interest owners in two sections, Sections 8 and 9, T31N, R10 W, San Juan County in its Application Nos. 11808 and 11809 currently pending before the OCD.

Regardless of Burlington's motivations and/or feeble rationalizations for failing to provide actual notice to the Movants, its use of "random notice" is a violation of NMOCD Rule 1207(11)(a) and, as such pursuant to NMOCD Rule No 1207(D), Case No. 11745 should be reheard.

### C. The <u>Uhden</u> Case Mandates that the Movants Were Entitled to Actual Notice from Burlington

It is no surprise that Burlington runs away from the on-point holding of the New Mexico Supreme Court in <u>Uhden v. New Mexico Oil Conservation Comm'n</u>, 112 N.M. 528, 917 P.2d 721 (1991). Indeed, Burlington elevates form over substance to new levels in trying to distinguish its responsibilities in the instant case from that of Amoco in <u>Uhden</u>. It cannot. Boiled down to the essentials, Burlington's strained rulemaking vs. adjudication arguments amount to a distinction without a difference and should be disregarded. Burlington's counsel fails to point to one relevant New Mexico statute or NMOCD rule concerning NMOCC or NMOCD hearing notice requirements that makes a distinction between rulemaking vs. adjudication proceedings. The reason is simple. There are none.<sup>3</sup>

<sup>&</sup>lt;sup>3</sup> While such distinctions are made in the New Mexico Administrative Procedures Act, OCD/OCC proceedings are not subject to the requirements of the NMAPA. See Mayer v. Public Employees Retirement Bd., 81 N.M. 64, 436 P.2d 40 (Ct. App. 1970)(only those agencies as are specifically placed by law under the Administrative Procedures Act are subject to its provisions.)

Despite Burlington's desperate "rulemaking vs. adjudication" rantings to the contrary, the simple issue here is what level of due process should the Movants have been given by Burlington to afford them the due process protection as guaranteed by Article II, Section 18 of the New Mexico Constitution and the fourteenth amendment of the United States Constitution. In essence, the basic Constitutional standards for adequate notice was set out in <u>Uhden</u> as follows:

In <u>Mullane v. Central Hanover Bank & Trust Co.</u>, 339 U.S. 306, 70 S. Ct. 652, 94 L. Ed. 865 (1950), the United States Supreme Court stated that "an elementary and fundamental requirement of due process in <u>any proceeding</u> which is to be accorded finality is notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections." 339 U.S. at 314, 70 S. Ct. at 657. The Court also said that "but when notice is a person's due, process which is a mere gesture is not due process. The means employed must be such as one desirous of actually informing the absentee might reasonably adopt to accomplish it." Id. at 315. Significantly, the Court refused to sanction notice by publication to those whose identity and whereabouts were ascertainable from sources at hand.

<u>Uhden, supra</u> 112 N.M. at 530 (emphasis added). <u>See also</u> Santa Fe Exploration Co. v. Oil Conservation Comm'n, 114 N.M. 103, 114, 835 P.2d 819, 830 (1992)(At a minimum, procedural due process requires that before being deprived of life, liberty, or property, a person or entity be given notice of the possible deprivation and an opportunity to defend.) The United States Supreme Court unambiguously held in <u>Mullane supra</u> that these minimum due process notice standards apply to <u>any proceeding</u>, not just to adjudicatory proceedings as Burlington suggests.

The most significant factor upon which the Supreme Court focused in reaching its holding in <u>Uhden</u> was the fact that Amoco knew Mrs. Uhden's name and address, yet failed to provide her with actual notice of its application to the NMOCD for a spacing rule change. Sounds familiar. As the New Mexico Supreme Court held:

In this case, Uhden's identity and whereabouts were known to Amoco, the party who filed the spacing application. On these facts, we hold that if a party's identity and whereabouts are known or could be ascertained through due diligence, the due process clause of the New Mexico and United States Constitutions requires the party who filed a spacing application to provide notice of the pending proceeding by personal service to such parties whose property rights may be affected as a result. Thus, the Commission Order Nos. R-7588 and No. R-7588-A are hereby void as to Uhden.

<u>Uhden, supra</u> 112 N.M. at 531 (emphasis added). <u>See also Cravens v. Corporation Commission</u>, 613 P.2d 442 (Okla. 1980), <u>cert. denied</u>, 450 U.S. 964, 101 S. Ct. 1479, 67 L. Ed. 2d 613 (1981)(on an application for an increase in well spacing to the state commission, court held that when the names and addresses of affected parties are known, or are easily ascertainable by the exercise of diligence, notice by publication does not satisfy constitutional due process requirements. Id. at 644.); <u>Union Texas Petroleum v. Corporation Commission</u>, 651 P.2d 652 (Okla. 1981), <u>cert. denied</u>, 459 U.S. 837, 103 S. Ct. 82, 74 L. Ed. 2d 78 (1982), and <u>Louthan v. Amoco Production Co.</u>, 652 P.2d 308 (Okla. Ct. App. 1982), all as cited with approval in <u>Uhden supra</u> 112 N.M. at 530.

Try as Burlington might, the instant facts are indistinguishable from those before the Supreme Court in <u>Uhden</u>. As discussed above, it is beyond doubt that Burlington knew the names and addresses of each and every one of the Movants. It is beyond doubt that Burlington knew that as soon as it obtained the Commission's Order changing the spacing rules, it would immediately begin proceedings to compulsory pool the Movant's leasehold acreage. It is beyond doubt that before it sought the spacing change, Burlington had determined to drill one of the wells on the movants' acreage.

Had Burlington have so desired, it could have easily sent actual notice to the Movants. Burlington does not contest this fact. However, not one of the Movants

received actual notice from Burlington of its Application in Case No. 11745. As such, under the unequivocal holding of the New Mexico Supreme Court in <u>Uhden</u>, the Movants were deprived of their property without due process of law, in contravention of Article II, Section 18 of the New Mexico Constitution and the Fourteenth Amendment to the United States Constitution. Commission Order No. 10815 is <u>void</u> as to the Movants.

### PART TWO: COMMISSION ORDER NO. 10815 SHOULD HAVE BEEN BASED UPON SUBSTANTIAL EVIDENCE

Burlington's argument on this point, as best we can understand it, is that the change in NMOCD spacing Rule 104 is "rule making" and as such does not need to be supported by substantial evidence since it applies to all formations below the base of the Dakota formation "without regard to the particular geologic and petroleum engineering properties of each of these formations." Opposition Brief at p. 8. Burlington provides no authority for its notion that a rule can be based on "general conditions" nor any explanation of that concept of exercise of the state's police powers.

Movants agree that the Commission is empowered to establish general rules on spacing and other matters in order to carry out the purposes of the New Mexico Oil & Gas Act. See Section 70-2-11 NMSA 1978. Indeed, this is just what the Commission did in 1950 when it established NMOCD Rule 104. However, in its Order No. 10815, the Commission changed the long established Rule 104 upon application by a private party, ostensibly based upon various allegedly relevant geologic, engineering and other representations from Burlington, so that Burlington could initiate its Deep Pennsylvanian exploration program. See e.g. Commission Order No. R-10815 at ¶ (5)(a) "deep gas wells drain more than 160-acres; and (b) a 160-acre unit does not

provide sufficient gas-in-place to economically justify the drilling and completing of deep gas wells which currently cost in excess of two million dollars to drill and complete." As such, Burlington's argument that a change in Rule 104 should be made "without regard to the particular geologic and petroleum engineering properties of each of these formations" directly contradicts the evidentiary show put on by Burlington at the hearing. Opposition Brief at pp. 7-8.

As stated in Movant's Application, the Commission's Order No. R-10815 should have been based upon, and supported by, substantial evidence, whether geologic, geophysical or otherwise. Id. at ¶¶ 12-16. See also Oilfield Serv. v. New Mexico State Corp. Comm'n, 118 N.M. 273, 881 P.2d 18 (1994). Substantial evidence is relevant evidence that a reasonable mind would accept as sufficient to support a conclusion. Rutter & Wilbanks Corp. v. Oil Conservation Comm'n, 87 N.M. 286, 290, 532 P.2d 582, 586 (1975). The "evidence" presented by Burlington amounted to irrelevant geological and engineering data from fields not even located within the San Juan Basin, and testimony concerning Burlington's desire to spread the operating and economic risk of its Pennsylvanian test wells out to other working interest owners. See Movant's Application at ¶¶ 13-15. Indeed, testimony submitted by Amoco, which was directly on-point, contradicted the evidence put on by Burlington. See Movant's Application at ¶ 14. As such, the evidence presented by Burlington and Amoco at the hearing, without more, does not constitute substantial evidence supporting a change in Rule 104. As such, the Commission's Order R-10815 is arbitrary, capricious, not supported by substantial evidence and without substantial justification.

### **CONCLUSION**

For the foregoing reasons, the Movants respectfully request that its Application be granted and that the Commission set Case No. 11745 for rehearing at which time (a) Burlington must be required to produce all of the geological and geophysical data on which it bases its drilling locations, (b) Movants will be permitted to participate and to supplement the record which already negates an increase in size of the subject spacing unit and (c) the Commission should deny the application in its entirety.

Respectfully submitted,

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ÁSON E. DOÙGHTY لك

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**Attorneys for Movants** 

### **CERTIFICATE OF SERVICE**

I hereby certify that I have caused a true and correct copy of a Reply Brief of Timothy B. Johnson, Trustee for Ralph A. Bard, Jr. Trust U/A/D February 22, 1983 et. al. to Burlington Resources Oil and Gas Company's Opposition Brief to be mailed on this day of July, 1997 to the following counsel of record:

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Jason E. Doughty

### NON-STANDARD LOCATION AND NON-STANDARD PRORATION UNIT NOTIFICATION LIST

### L WELL NAME, NON-STANDARD LOCATION, NON-STANDARD PRORATION UNIT

**MARCOTTE #2 WELL** 

Township 31 North, Range 10 West
Section 8: Lots 1, 2, 3, 4, 5, N/2,
NE/4 SW/4, W/2 SW/4 (ALL)
San Juan County, New Mexico
containing 639.78 acres, more or less
Location 935' FEL, 1540' FSL of Sec. 8

### II. NINE (9) SECTION AREA, WORKING INTEREST OWNERS (BELOW THE BASE OF DAKOTA FORMATION)

T31N, R10W Sections 4, 5, 6, 7, 8, 9, 16, 17, 18

### III. Working Interest Owners and Addresses

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WAYNE LEUPOLD BUSINESS EDITOR JUN 3 0 1997

What's down there?

No one knows.

In an effort to find out, Builington Resources Oil and Gas last week spudded a well about eight miles north of Azrec, a well that will be drilled much deeper than normal. wells in the San Juan Basin.

Parker Drilling Rig No. 218, brought in from Ozona. Texas, will drill a 14,200-foot exploratory wildcat well to see what's in the Pennsylvanian age formation. Oil and

gas production in the basin ranges from 1,500 to 8,000 feet for the normal borizons.

A well this deep hasn't been drilled in the San Juan Basin since 1984, when Phillips Petroleum's San Juan 30-6 Unit 112Y, targeted for the Pennsylvanian, delivered noncommercial amounts of natural gas

"We're hoping for a lot of promising results, but it's very very early in the process," said Mark Ellis, vice president of the San Juan Division of Houston-based Burlington Resources. We'll just keep our fingers crossed it's a 60-day test, so we'll have to wait and see?

The well, the Burlington No. 2 Marcotte, is being drilled in an area of gas production from Cretaceous Pruitland, Pictured Cliffs, Chacra, Mesa Verde, Graneros and Dakota formations in the Basin/Blanco field.

The nearest production from Pennsylvanian zones, a Builington release said, is about 23 miles to the westnorthwest in the Barker Doine field. That is a paradox gas pool straddling the New Mexico-Colorado border.

Six wells drilled to the Pennsylvanian in the basin before Phillips, attempt also resulted in dry holes. But, people who have been in the business here since the second oil and gas boom, the 1950s, say success in drilling to

the Penn could spark the area's next energy boom.

The probability is it would be gas," Ellis said. The question is, will it be gas in commercial quantities? We can't determine that off seismic, so that's why we're

drilling a well."

Burlington and Conoco Inc. are the main partners in the test well. The companies own a significant acreage portion in the basin.

The Burlington release said where support for such wells can be obtained, the companies may drill other wildcats into the deep Penn,

In January, Burlington announced it would drill two test wells to the deep Penn this year.

### Application of Burlington Resources Oil and Gas CASE 11745

Amoco Production Company

Comments

March 19, 1997

### BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Submitted by: Amoco Production Company

Hearing Date: March 19, 1997

## Amoco Supports Exploration to the leep San Juan Basın

- below the Dakota Amoco does want to encourage more drilling to the formations
- makes one support larger spacing We realize that there is an economic factor of deep drilling which
- development This prevents unnecessary drilling and provides for orderly

want Historically, we have spaced small and moved to larger spacing We should space and locate wells on what we know, not what we

as data is collected wells were assembled before spacing was established In the fields that were noted in the Application, much data and

## Spacing a Four County Area on Almost No Data Is Premature

120

- below the Dakota Amoco feels that it is premature to space entire basin
- We need to move cautiously in establishing a widespread

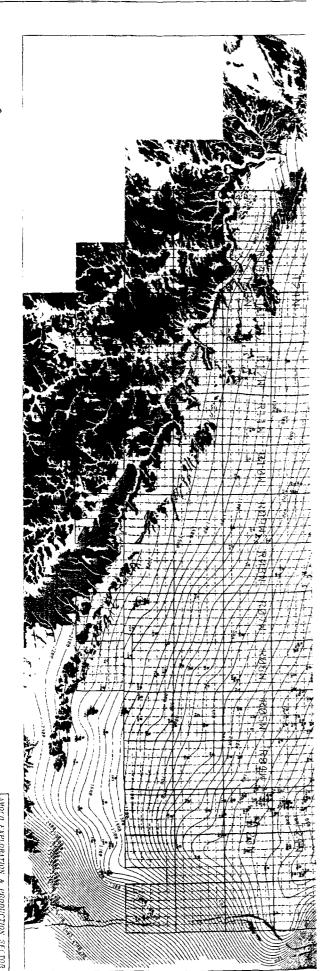
rule

- Extrapolation of Barker Creek, Barker Dome and Ute Dome Data is a "stretch" to the deep basin
- us we need more data, not new well location and While it may be "the only data we have to date" this tells basinwide spacing rules

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 11745 Exhibit No. 2

Submitted by: Amoco Production Company



# Exploratory Spacing Orders

- accumulated space a drillsite on 640 acres to be revisited after data was Amoco suggests use of an Exploratory spacing order which would
- their deep prospect or trend thus making them more "economic" to This would allow an applicant to reserve up to a 9-section area around
- Addresses the concern of offset drilling
- using the compulsory pooling rules The proposed rule would allow for pooling of interests in the 640
- spacing the entire basin at this point This is a good compromise rule to protect the party at risk without

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Submitted by: \_\_\_\_Amoco Production Company

Hearing Date: March 19, 1997