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March 28, 1996

Via Hand Delivery

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Via Hand Delivery

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Re: Commission Order No. R-10470-A
Avalon (Delaware) Unit

Dear Commissioners:

On behalf of Exxon Corporation, we request that you deny the Application for Rehearing filed by Premier Oil & Gas, Inc. in the above matter.

Premier once again attempts to prove that its FV3 well has pay in the zone to be flooded. This issue was addressed in detail in

hearings before the Division and the Commission. In summary form, the evidence showed that:

1. Gulf completed the FV3 well at a depth correlative with the highest oil saturations, i.e., the best Cherry Canyon zone, resulting in very poor production.
2. Premier had 5 years to test the disputed zone, but never did so, either in the FV3 well or in any other well.
3. The zones which Premier claims add extra value to the FV3 well are stray Delaware zones which (i) will not be flooded, and (ii) have produced only very small amounts of oil within the unit.
4. The worth of the FV3 well is verified by the ZG1 well, which was drilled through the entire Delaware interval and completed in the best available zone. Its production history proves that the theoretical "extra pay" claimed by Premier is not present.

Premier's attempt to re-hash this issue should be ignored.


Regarding the participation formula, we note that Premier's formula is grossly unfair because (i) it ignores actual tract-by-tract production figures, which validate Exxon's proposal, (ii) it is massively weighted toward original oil in place, most of which will never be recovered, and (iii) it attributes unreasonable value to CO2 reserves, which Premier treats as equally recoverable and thus equally as valuable as waterflood reserves. For those reasons alone, it is not supportable by the evidence. Exxon's formula, on the other hand, attributes production to Premier's tract even though it is outside the original waterflood pattern, and gives fair credit for Premier's riskier CO2 reserves. Thus, it meets the requirement in the Statutory Unitization Act to establish a fair "relative value" for each tract.

Premier, throughout its Application, states that certain findings in the Order are inconsistent with "undisputed" testimony. Suffice it to say that Exxon and Yates presented substantial evidence on the record refuting every contention made by Premier.

Again, please deny the Application.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY, L.L.P.


James Bruce

cc: counsel of record (via fax)

HINKLE, COX, EATON, COFFIELD & HENSLEY, L.L.P.