



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

March 22, 1989

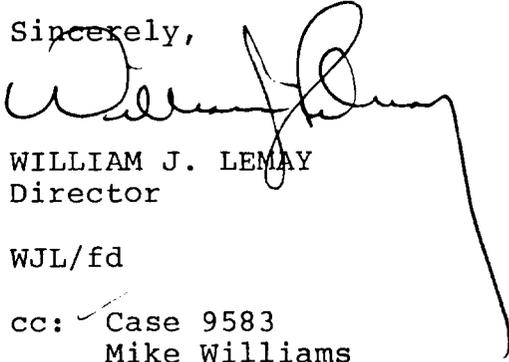
POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Richard Goddard, Supervisor
Production Department
Regulatory Affairs
Exxon Company, U.S.A.
Post Office Box 1600
Midland, Texas 79702-1600

Dear Mr. Goddard:

Based upon your letter of March 20, 1989, and in accordance with the provisions of Division Order No. R-8861, Exxon Company is hereby granted an extension of time in which to begin the well on the unit pooled by said order until June 15, 1989.

Sincerely,



WILLIAM J. LEMAY
Director

WJL/fd

cc: Case 9583
Mike Williams

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

REGULATORY AFFAIRS

RICHARD D. GODDARD
SUPERVISOR



March 20, 1989

NMOCD Order No. R-8861
Compulsory Pooling for W/2 SW/4 of
Section 17, T18S, R27E
Eddy County, NM

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
State Land Office, Room 206
310 Old Santa Fe Trail
Santa Fe, NM 87503

Dear Mr. LeMay:

On February 8, 1989 the New Mexico Oil Conservation Division adopted Order R-8861 which included a provision that Exxon Corporation commence drilling of a well on or before April 15, 1989. Exxon requests a 60-day extension of the April 15, 1989 date to begin drilling operations. This extension is requested due to delays Exxon has encountered in obtaining necessary rights-of-way. Please call Bill Duncan at 915/688-7538 if you need any additional information concerning this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard D. Goddard".

RDG:dgm

c: Mr. Tim Custer
Amoco Production Company
P. O. Box 3097
Houston, TX 77253

Certified Return Receipt Requested

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6
7 18 January 1989

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Exxon Corporation for CASE
11 compulsory pooling and an unorthodox 9583
12 location, Eddy County, New Mexico.

13 BEFORE: Victor T. Lyon, Examiner

14
15 TRANSCRIPT OF HEARING

16
17 A P P E A R A N C E S

18 For the Division:

19 Robert G. Stovall
20 Attorney at Law
21 Legal Counsel to the Division
22 State Land Office Bldg.
23 Santa Fe, New Mexico

24 For Exxon Corporation:

25 James Bruce
Attorney at Law
HINKLE LAW FIRM
500 Marquette, N. W.
Suite 740
Albuquerque, New Mexico
87102-2121

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I N D E X

WILLIAM L. TATE

Direct Examination by Mr. Bruce 3

JOE B. THOMAS

Direct Examination by Mr. Bruce 12

Cross Examination by Mr. Lyon 19

E X H I B I T S

Exxon Exhibit One, Plat 4

Exxon Exhibit Two, Land Plat 5

Exxon Exhibit Three, Cross Section 5

Exxon Exhibit Four, Structural Map 8

Exxon Exhibit Five, Isopach 8

Exxon Exhibit Six, Data-Correspondence 17

Exxon Exhibit Seven, Return Receipts 18

1 MR. LYON: We'll call Case
2 9583.

3 MR. STOVALL: Application of
4 Exxon Corporation for compulsory pooling and an unorthodox
5 location, Eddy County, New Mexico.

6 MR. BRUCE: Mr. Examiner, my
7 name is Jim Bruce from the Hinkle Law Firm in Albuquerque,
8 representing Exxon Corporation and I have two witnesses to
9 be sworn.

10 MR. LYON: Would the -- are
11 there any other appearances? Would the two witnesses
12 stand and raise your right hands?

13
14 (Witnesses sworn.)

15
16 MR. LYON: Proceed, Mr. Bruce.

17
18 WILLIAM L. TATE,
19 being called as a witness and being duly sworn upon his
20 oath, testified as follows, to-wit:

21
22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q Mr. Tate, would you please give your
25 full name and city of residence?

1 A My name is William L. Tate and I reside
2 in Midland, Texas.

3 Q And who are you employed by and in what
4 capacity?

5 A I'm employed with Exxon as a geologist.

6 Q And are you familiar with the geological
7 matters involved in Case 9583?

8 A Yes.

9 Q And have you previously testified before
10 the OCD as a geologist?

11 A Yes.

12 MR. BRUCE; Mr. Examiner, are
13 the witness' credentials acceptable?

14 MR. LYON: Yes, they are.

15 Q Mr. Tate, would you refer to Exhibit
16 Number One and briefly describe its contents?

17 A Okay. Exhibit Number One is a location
18 map illustrating a portion of north central Eddy County,
19 within the State of New Mexico.

20 The purpose of this exhibit is to il-
21 lustrate the approximate location of Exxon Corporation's
22 proposed well in the Red Lake Field area, noted with a star
23 in Township 18 South, Range 27 East.

24 Q Please move on to Exhibit Number Two and
25 describe it for the Examiner?

1 A Exhibit Number Two is a land plat for
2 the Red Lake Field area. The scale of this map is one inch
3 equals 2000 feet. Section numbers are noted in the center
4 of each section on this land plat.

5 The purpose of this exhibit is to il-
6 lustrate the location of Exxon's proposed Morrow gas well,
7 located at 2095 feet from the south line and 922 feet from
8 the west line of Section 17 of Township 18 South, Range 27
9 East, Eddy County, New Mexico.

10 The 320-acre standup proration unit de-
11 dicated to this well is noted with a heavy dashed line in
12 the west half of Section 17.

13 Exxon acreage within the proration unit
14 is noted in yellow.

15 It appears from this exhibit that Amoco
16 has 80 acres within this proration unit, the east half of
17 the northwest one-quarter; however, Amoco's exact acreage,
18 and more importantly their interest, within this proration
19 unit is a little bit more complicated than that and will be
20 fully explained in detail by our land witness following my
21 testimony.

22 Q Please move to the cross section marked
23 Exhibit Three and describe it.

24 A Exhibit Number Three is a 3-well north
25 to south stratigraphic cross section located in the Red

1 Lake Penn Field area.

2 Horizontal scale for this cross section
3 is one inch equals 2000 feet. The vertical scale for each
4 well log is 2-1/2 inches equals 100 feet.

5 The locator map on the right side of
6 the cross section shows the line of section, which includes
7 one well approximately one mile to the north of Exxon's
8 proposed well and two wells located to the south; one
9 approximately 1 mile south and the other about 1-1/2 miles
10 to the south of the proposed location.

11 Shaded on the gamma ray curve in the
12 left track of these logs are the potential reservoir sands
13 encountered in each wellbore.

14 Highlighted also on each log in red in
15 the depth track are the producing perforations. The depth
16 for the (unclear) of the cross section, or the datum for
17 the (unclear) cross section is the top of the Morrow
18 Clastics.

19 Other important picks include the Morrow
20 "B" sand, the base of the Middle Morrow shale, the Morrow
21 "A" sands, the top of the Barnett shale, and the top of the
22 Chester lime.

23 At the bottom of each well on this cross
24 section, production information is noted.

25 The Peterson Com No 1 Well, which is

1 located in the southeastern quarter of Section 7 north of
2 the proposed location, has a cumulative production of 3.73
3 billion cubic feet of gas as of 9-88.

4 The Rio Pecos "GB" No. 2 Well, located
5 in the southwestern quarter of Section 20, approximately
6 one mile south of the proposed location, has a cumulative
7 production of 9.1 billion cubic feet of gas.

8 Following, the Rio Pecos "GB" No. 1,
9 located in the northwest one-quarter of Section 29, has a
10 cumulative production of 11.3 BCF as of 9-88.

11 This section illustrates that the pro-
12 posed location, the Chalk Bluff Draw Undesignated No. 1,
13 could encounter three Morrow sands which produce in com-
14 mercial quantities in offset wells; therefor, Exxon be-
15 lieves this is a reasonable location with an acceptable
16 chance of success; however, this cross section also illus-
17 trates obvious stratigraphic risks involved in drilling to
18 the Morrow.

19 This line of section illustrates the
20 discontinuity of sands in the Morrow "A" section in the
21 vicinity of the proposed location.

22 The final point on this cross section
23 I'd like to make is the stratigraphic datum at the base of
24 the Middle Morrow shale, which is used for the structure
25 map, which will be the next exhibit that I'll show.

1 percent porosity cutoff were used to construct this map.
2 The Exxon proposed location again is noted with an orange
3 dot.

4 This exhibit illustrates a north/north-
5 west to south/southeast dip oriented channel fill deposit.
6 The orientation of this channel is defined by three con-
7 trol points, the three wells which were illustrated on the
8 cross section, Exhibit Number Three.

9 The Peterson Com No. 1 Well, located up
10 dip of the proposed location in the southeast one-quarter
11 of Section 7, encountered 28 feet of net porosity sand.

12 Down dip of the proposed location the
13 Rio Pecos "GB" No. 2 Well, located in the southwest one-
14 quarter of Section 20, encountered 21 feet of net porosity
15 sand, while the Rio Pecos "GB" No. 1 Well, located in the
16 northwest one-quarter of Section 29, encountered 17 feet of
17 net porosity sand.

18 This map illustrates that the proposed
19 location is expected to encounter greater than 20 feet of
20 net porosity sand in the Morrow "B" section similar to the
21 three wells just discussed, which are all significant Mor-
22 row gas producers from this sand.

23 However, this exhibit also illustrates
24 obvious stratigraphic risks involved in drilling Morrow gas
25 wells.

1 This map illustrates that there are four
2 wells which encountered little or no net porosity sand in
3 the Morrow "B" section, which are located closer to the
4 proposed well than the three producing wells which have
5 been discussed. These four wells include the two wells in
6 Section 18, a dry hole noted in the northeastern quarter of
7 Section 19, and the well located in the east half of Sec-
8 tion 17.

9 In fact, only 3 of 13 Morrow penetra-
10 tions shown on this map, or 23 percent of the wells, have
11 produced commercial quantities of gas from this Morrow "B"
12 sand, again documenting the risks involved in drilling to
13 the Morrow.

14 Q Now, Mr. Tate, what do you recommend as
15 a penalty to be assessed against nonconsenting interest
16 owners in this well?

17 A Exxon recommends a penalty of costs plus
18 200 percent based on the stratigraphic risks clearly illus-
19 trated on the exhibits, plus the relatively deep test of
20 9700-foot -- of 9700 feet for this Morrow Well.

21 These stratigraphic risks result in a
22 substantial risk of making a successful well.

23 Q And what formations are potentially pro-
24 ductive in this area?

25 A Again the primary objective is the

1 Morrow but other potential horizons would be the Permian
2 Wolfcamp, the Upper Penn, the Strawn, and the Atoka, in
3 addition to the Morrow.

4 Q And from what you have reviewed, these
5 would be spaced most likely on 320 acres or 40 acres if oil
6 productive.

7 A Yes.

8 Q Mr. Tate, in your opinion is the grant-
9 ing of this application in the interest of conservation,
10 the prevention of waste, and the protection of correlative
11 rights?

12 A Yes.

13 Q And were Exhibits One through Five pre-
14 pared by you or under your direction?

15 A Yes, they were.

16 MR. BRUCE: Mr. Examiner, I
17 move the admission of Exhibits One through Five.

18 MR. LYON: Is there objection?
19 Exhibits One through Five will be admitted.

20 MR. BRUCE: I have no further
21 questions of the witness.

22 MR. LYON: I have no ques-
23 tions.

24

25

1 JOE B. THOMAS,

2 being called as a witness and being duly sworn upon his
3 oath, testified as follow, to-wit:

4
5 DIRECT EXAMINATION

6 BY MR. BRUCE;

7 Q Mr. Thomas, would you please state your
8 full name and residence?

9 A My name is Joe B. Thomas. I live in
10 Midland, Texas.

11 Q And what is your occupation and who are
12 you employed by?

13 A I'm a petroleum landman employed by
14 Exxon Corporation.

15 Q And have you previously testified before
16 the OCD as a petroleum landman?

17 A Yes, sir.

18 Q And are you familiar with the land mat-
19 ters involved in this case?

20 A Yes, sir.

21 MR. BRUCE: Mr. Examiner, are
22 the witness' credentials acceptable?

23 MR. LYON: Yes, they are.

24 Q Mr. Thomas, would you set forth in more
25 detail what Exxon seeks in this case?

1 A Exxon Corporation seeks an order pooling
2 all mineral interests from the base of the San Andres for-
3 mation to the top of the Mississippian formation, excepting
4 the Abo formation, underlying the west half of Section 17,
5 Township 18 South, Range 27 East in Eddy County, New
6 Mexico.

7 Exxon seeks to dedicate the following
8 acreage to the proposed well: The northwest quarter of the
9 southwest quarter of Section 17 for all pools or formations
10 spaced on 40 acres; and the west half of Section 17 for all
11 pools or formations spaced on 320 acres.

12 Exxon requests dismissal of its request
13 to pool force pool 80 and 160 acre units.

14 Exxon also requests consideration of the
15 cost of drilling and completing the well and allocation of
16 costs thereof, as well as actual operating costs and
17 charges for supervision;

18 Exxon asks that it be designated as -
19 operator of the well and that a charge for risk involved in
20 drilling the well be assessed.

21 Q Would you please discuss the location of
22 the well?

23 A The original location was 2,095 feet
24 from the south line and 992 feet from the west line of
25 Section 17.

1 MR. LYON: Would you please
2 say that again?

3 A 2095 feet from the west line and 992
4 feet -- I'm sorry, 2095 feet from the south line and 992
5 feet from the west line.

6 This last call has been changed to 922
7 feet from the west line. This location is orthodox for
8 both 40's and 320-acre units.

9 Q Referring back to Exhibit Number Two,
10 would you please discuss the operating rights ownership in
11 the unit and the parties who Exxon seeks to force pool?

12 A Amoco is the record owner of the east
13 half northwest of Section 17 but through an operating
14 agreement dated June 14th, 1960, it owns an undivided 18.75
15 percent operating interest in all of Section 17 below the
16 base of the San Andres formation. Exxon owns the remainder
17 of the operating rights in Section 17.

18 Amoco is the only party we seek to force
19 pool.

20 Q Would you please describe your efforts
21 to get Amoco to commit its interest to this well?

22 A On November 7th, 1988, I made a tele-
23 phone call to Mr. Tim Custer with Amoco Production Company.
24 We discussed a proposal to join or farm out Amoco's
25 interest in our proposed well. Custer asked for a letter

1 stating -- setting out what was discussed by telephone.

2 On November 8th I sent a letter to Amoco
3 requesting either a farmout with Amoco delivering 75 per-
4 cent net revenue interest, or Amoco joining for their 18.75
5 percent working interest.

6 A copy of my letter is attached to this
7 exhibit.

8 On November 15th Custer called and said
9 he was going to check with Amoco's law department to see if
10 a joint operating agreement with the Chalk Bluff Draw Unit
11 was still in force and effect.

12 On November 21st I sent a letter to
13 Amoco enclosing an AFE. A copy of that letter is also
14 attached.

15 On November 28th I called Custer with
16 Amoco and he agrees that the Chalk Bluff joint operating
17 agreement has terminated and that Amoco's interest is 18.75
18 percent of the operating rights.

19 Custer expects that Amoco will farmout
20 rather than join in this well.

21 On December 19th I called Custer with
22 Amoco and he agreed -- and left word on his answering
23 machine, which machine stated he'd be out of the office
24 until December 27th.

25 On December 27th I called Custer and

1 asked if Amoco had reached a decision on our proposal.

2 Custer replied that Amoco had not reached a decision yet.

3 At that time I told Custer that Exxon was applying for
4 forced pooling and the hearing would be in late January,
5 1989.

6 January 9, 1989, I called Custer and
7 left word on his answering machine to please return my
8 call.

9 On January 13th, 1989, I called Tim
10 Custer and left word on his answering machine and asked him
11 to please return my call. Later on that day he did return
12 my call but after my normal office hours.

13 On January 16th I called Tim Custer and
14 left word on his answering machine. Later in the day
15 Custer called me and said that Amoco has considered joining
16 in the proposed well. I told Custer that Exxon's offer to
17 farm in would be withdrawn at 10:00 a. m. January 17th,
18 1989. Later in the day Custer called and said that Amoco
19 would give us an answer by 10:00 a. m. January 17th.

20 At 10:00 a. m. on January 17th Custer
21 said that Amoco decided not to join or farm out on our pro-
22 posed well but would go under the forced pooling order.

23 Q Would you please discuss the cost of the
24 proposed well?

25 A We estimated \$376,000 for a dry hole and

1 \$599,000 for a completed well.

2 Q And is this proposed well cost in line
3 with those normally encountered by Exxon in drilling wells
4 to this depth in Eddy County?

5 A Yes, it is.

6 Q And do you have a recommendation as to
7 the amount which Exxon should be paid for supervision and
8 administrative expenses?

9 A Yes. It is my recommendation that \$6068
10 per month be allocated for a drilling well and \$606 per
11 month be allowed for a producing well.

12 Q And are these amounts in line with those
13 normally encountered by Exxon for wells of this type in
14 this area?

15 A Yes. These are give or take rates and
16 they're calculated by Exxon's accounting department based
17 on actual costs incurred.

18 Q And was Amoco notified of this hearing?

19 A Yes, sir.

20 Q And was Exhibit Number Six prepared by
21 you?

22 A Yes, sir.

23 Q And in your opinion will the granting of
24 this application be in the interest of conservation, the
25 prevention of waste, and the protection of correlative

1 rights?

2 A Yes, sir.

3 MR. BRUCE: At this time I'd
4 submit Exhibit Number Six and ask for admission.

5 MR. LYON: Is there objection?
6 Exhibit Six will be admitted.

7 MR. BRUCE: And Exhibit Seven,
8 Mr. Examiner, contains copies of the certified return re-
9 cepts to Amoco regarding the original application, which
10 was dated December 21, 1988; the amended application dated
11 December 28, 1988; and the letter to the OCD correcting the
12 well location, dated December 30, 1988. These are from my
13 office and I ask that they be admitted.

14 MR. LYON: I don't think I
15 have a copy of those.

16 Is this Exhibit Seven?

17 MR. BRUCE: That is Exhibit
18 Seven.

19 MR. LYON: This is Exhibit
20 Seven. Okay. Is there objection? Exhibit Seven will be
21 admitted.

22 I have some other letters and
23 so forth in here. Are you going to cover that?

24 MR. BRUCE: Yes, Mr. Examiner.

25 Q Mr. Thomas, all of the letters and oper-

1 ating agreements and documents provided to Amoco, are they
2 contained within Exhibit Six?

3 A That is correct.

4 MR. LYON: That's which exhi-
5 bit?

6 MR. BRUCE: Exhibit Six.

7 MR. LYON: Exhibit Six.

8 A They're all part of Exhibit Six.

9 MR. BRUCE: They're all part
10 of Exhibit Six, Mr. Examiner.

11 MR. LYON: Does that complete
12 your -- okay.

13

14

CROSS EXAMINATION

15 BY MR. LYON:

16 Q Okay, the Exxon letter dated November
17 21st is part of which exhibit?

18 A Exhibit Six.

19 Q Six? You're going to have to give me
20 some help here.

21 Would you describe for me again the
22 interests of Amoco on this --

23 A If you will look on that November 8th
24 letter, on the letter to Amoco, attached to that letter is
25 a copy of an operating agreement dated June 14th, 1960.

- 1 Q Which, which letter was that?
- 2 A It's the letter dated November 8th,
3 1988.
- 4 Q All right.
- 5 A It was between Hondo Oil and Gas Company
6 and Humble Oil and Refining Company.
- 7 Through various changes Amoco has pur-
8 chased the interest of Hondo and through a corporation name
9 change, Humble Oil and Refining Company is now Exxon
10 Corporation. This operating agreement spread the operating
11 rights to the entire Section 17 among the parties to this
12 agreement. This operating agreement runs with the terms of
13 the lease, the two leases involved.
- 14 Q Now didn't you mention that there was a
15 depth --
- 16 A Yes, below the San Andres formation.
- 17 Q Okay. Now, and didn't you say that
18 Exxon owns deep rights?
- 19 A Yes, sir.
- 20 Q Okay, now tell me where Amoco owns.
- 21 A They own, it is my understanding they
22 own all depths.
- 23 Q All depths?
- 24 A Yes, sir, that's my understanding.
- 25 Q I thought somebody said that Exxon owned

1 the deeper rights. Did -- did I -- was I not hearing some-
2 thing there?

3 A Due to this operating agreement we
4 spread our operating agreement.

5 Amoco owns an undivided 18.75 percent in
6 all of Section 17 below the base of the San Andres forma-
7 tion, and Exxon owns the remainder.

8 Q Amoco owns -- say that again.

9 A Amoco owns an undivided 18.75 percent of
10 the operating rights in all of Section 17 below the base of
11 the San Andres formation. Exxon owns the remainder below
12 the base of the San Andres, which is 81.25.

13 Q Okay. I've been fearful that I might be
14 confusing some of these cases, but this is an undivided in-
15 terest throughout this section.

16 A That's correct.

17 Q Well, that -- that led to some of my
18 other questions that we still need to go into.

19 And as I understand it, you have dis-
20 missed that portion of the application dealing with
21 160-acre units and 80-acre units.

22 A That's correct, Mr. Examiner.

23 Q And we're now looking at only 40-acre,
24 did you have 40-acre?

25 MR. BRUCE: Yes, sir.

1 A Yes.

2 Q So we're dealing with 40 acres or 640
3 acres.

4 A No, 320 acres.

5 MR. LYON: All right, I think
6 that's all the questions I have at this time.

7 MR. BRUCE: Thank you, Mr.
8 Examiner.

9 MR. LYON: The witness may be
10 excused, and we'll take the case under advisement.

11

12 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9583, heard by me on Jan 18 1989.

W. J. Byron, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

1 February 1989

EXAMINER HEARING

IN THE MATTER OF:

Application of Exxon Corporation for CASE
compulsory pooling and an unorthodox 9583
location, Eddy County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

1 MR. CATANACH: We'll call Case
2 9583 at this time.

3 The application of Exxon Cor-
4 poration for compulsory pooling and an unorthodox location,
5 Eddy County, New Mexico.

6 This case was heard by Vic
7 Lyon on January 18th and readvertised for notice purposes.

8 Are there any additional ap-
9 pearances at this time?

10 If not, this case will be
11 taken under advisement.

12

13

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9583, heard by me on February 1 1988 :

David R. Catanzano, Examiner
Oil Conservation Division