**STATE OF NEW MEXICO**
**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**
**OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:**

**APPLICATION OF SOZO I LP AND SOZO NATURAL RESOURCES, LLC TO REQUIRE A COMMON PURCHASER TO RATABLY TAKE GAS ON REASONABLE TERMS UNDER THE TERMS OF NMSA 1978 §70-2-19.D AND NMAC 19.15.24.12, LEA COUNTY, NEW MEXICO.**

**Case No. 21593**

## PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Sozo I LP and Sozo Natural Resources, LLC (collectively, "Sozo") as required by the Oil Conservation Division.

## APPEARANCES

APPLICANT
Sozo I LP and Sozo Natural Resources, LLC
Suite 150
5005 Riverway Drive
Houston, Texas 77056

Attention: Britt Pence
President and CEO
(832) 788-1662

APPLICANT'S ATTORNEY
James Bruce
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OPPONENT

OPPONENT'S ATTORNEY

## STATEMENT OF THE CASE

APPLICANT

Sozo Natural Resources, LLC is the operator of, and Sozo I LP is the working interest owner in, the Caleb State Well No. 1 (API No. 30-025-37497), with a well unit comprised of the S/2 of Section 36, Township 9 South, Range 32 East, NMPM, Lea County New Mexico (the "Well''). The Well was drilled and completed in the Atoka formation in 2006, and is still producing.

Sozo acquired the Well from OXY USA Inc. ("OXY"), and took over operations on March 1, 2020. Targa consented to the assignment to Sozo of OXY's gas purchase agreement pertaining to the Well. On June 25, 2020 Sozo met with Targa on Sozo's various gas purchase agreements with Targa, and no changes were made by Targa to any such agreements. Subsequently, Targa notified Sozo that it was terminating the gas purchase agreement on the Well. The effective date of termination was September 30, 2020.

Targa proposed a substitute agreement which would substantially increase gathering costs, and has refused to negotiate a reasonable agreement with Sozo. Based on operating costs for the Well, and current gas prices, the Well is now uneconomic to produce and has been shut in due to Targa's unilateral price increase. This adversely affects the correlative rights of Sozo and it sole lessor, the State of New Mexico.

The Well is capable of producing approximately 230 mcf/day of sweet gas (no hydrogen sulfide is produced), with a high BTU content. Upon information and belief, the Well is the best gas producer in Targa's system in this portion of Lea County. The massive increase in costs proposed by Targa unreasonably discriminates against Sozo, and violates NMSA 1978 §70-2-19.D and NMAC 19.15.24.12.

Sozo I LP and Sozo Natural Resources, LLC seek an order requiring Targa Midstream Services LLC, a common purchaser, to ratably take gas on reasonable, non-discriminatory terms from the Caleb State Well No. 1 pursuant to the provisions of NMSA 1978 §70-2-19.D and 19.15.24.12.A.

<u>OPPONENT</u>

## PROPOSED EVIDENCE

<u>APPLICANT</u>

| <u>WITNESSES</u> | <u>EST. TIME</u> | <u>EXHIBITS</u> |
|---|---|---|
| Britt Pence | 30 min. | Approx. 10 |

<u>OPPONENTS</u>

| <u>WITNESSES</u> | <u>EST. TIME</u> | <u>EXHIBITS</u> |
|---|---|---|

## PROCEDURAL MATTERS

If this case is unopposed it will be submitted by affidavit.

Respectfully submitted,

James Bruce

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Sozo I LP and Sozo Natural Resources, LLC