K

KERRY PETROLEUM COMPANY, INC.
500 West Texas Ave., Suite 1450
Midland, Texas 79701
Telephone (915) 687-5958

August 26, 1997

RECEIVED
SEP 12 1997
CONSERVATION DIVISION

State of New Mexico
Oil Conservation Division
Santa Fe, New Mexico

IN THE MATTER OF THE APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY FOR COMPULSORY POOLING EDDY COUNTY, NEW MEXICO

CASE NO 11837

OPPOSITION TO THE ABOVE APPLICATION

RESPONSE TO PRE-HEARING STATEMENT of BURLINGTON RESOURCES OIL & GAS COMPANY

The PRE-HEARING STATEMENT (Undated) submitted by Burlington Resources Oil & Gas Company (Burlington) to the Oil Conservation Division was not received by Kerry Petroleum Company, Inc. (Kerry) and K P Acquisition Corporation (K P) until Friday, August 22, 1997, the day after the hearing. No copy of the PRE-HEARING STATEMENT was furnished to the undersigned at the hearing.

Responding to the affidavit dated August 15, 1997 by Rick Gallegos that was attached to the Pre-Hearing Statement, please be advised as follows:

(1) Kerry and K P did receive a copy of Burlington's proposal.

(2) Kerry and K P have no information concerning any title opinion.

(3) Kerry and K P have no information concerning the percentage of any voluntary committed working interest owners.

(4) Kerry and K P have no information concerning any additional voluntary committed working interest owners.

(5) Kerry and K P did receive a copy of the letter from Leslyn Swierc.

(6) Kerry and K P have no information concerning any title opinion.

(a) The lease provides for 12.5% royalty which is normal for a lease of this nature.

(b) The lease was subject to a 6.25% overriding royalty interest at the time it was acquired by Kerry and K P.

(c) K P did assign the 3% ORR proportionately reduced to the parties shown. The net revenue is 0.000583.

(d) This production payment only relates to the arrangement before Kerry, K P and Tarik Energy and has nothing to do with third parties.

(7) Kerry's working interest (WI) is 1/2 of 1/3 of 5% in the NW/4 of Section 23, T-26-S, R-30-E, Eddy County, New Mexico or 0.008333 and the leasehold net revenue (LNR) is 81.25% so that the proceeds net revenue (PNR) to Kerry is 0.0067705, and if forced pooled all the above is reduced by 1/2.

(8) K P's WI is 0.077778 in the NW/4 of said Section 23 and the LNR is 78.25% so that the PNR is 0.060861, and if forced pooled all the above is reduced by 1/2

(9) The combined WI of Kerry and K P is 0.086111 and on a pooled basis is 0.043055. Based on this the cash consideration as offered by Burlington is 0.043055 x 320.0 acres x $250 p/a equals $3444.44, and an ORR to K P of 1/2 of 0.077778 of (.7825 - .7800) equals 0.0000972 and for Kerry the ORR would be 1/2 of 0.008333 of (.8125 - .7800) = 0.0001354.

(8) and (9) the combined revenue to Kerry and K P based on Burlington's offer and the proceeds to Burlington all on a estimated basis:

a. 2,000 MCF per day for 1st year.

b. $2.00 per MCF net.

c. 2,000 MCF x $2 MCF x 365 day x (.0000977 + .0001354) = <u>$340.00 ORR to Kerry and K P for first year.</u>

d. Total bonus and ORR to Kerry and K P equals $3,445 + $340 = $3,785.

e. Total proceeds to Burlington on Kerry's and K P's interest:
(.004166 X ,78) + (.038889 X.78) X 2000 MCF X $2 per mcf x 365 =
<u>$49,030</u>.

f. Proceeds from production to Burlington is <u>144 times</u> that of the combined proceeds from production to Kerry and K P.

(10) Repeating the same offer is not acting in good faith. Mr. Gallegos did not even say he would check with management to see if management would reconsider. Kerry did not turn Mr. Gallegos down. We countered. There have been no discussions. <u>Burlington is relying on the Oil and Gas Division to trade for them.</u>

(11) If Mr. Gallegos really believes the 50% net proceeds burden then Kerry and K P will expect to receive it under Section 70-2-17(c) which reads as follows:

> "The division is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to all production from such well which would be received by the owner, or owners, for whose benefit the well was drilled or operated, <u>after payment of royalty as provided in the lease, if any, applicable to each tract or interest, and obligations payable out of production</u>, until the owner or owners drilling or operating the well or both have been paid the amount due under the terms of the pooling order or order settling such dispute."

(12) I have on August 22, 1997, the day after the hearing, received a copy of Mr. Gallegos affidavit and dispute his opinions and conclusions.

(13) Attached hereto is a copy of letter dated September 20, 1995 form Meridian Oil Trading, Inc to K P Acquisition Corporation.

Kerry and K P again request that the Application of Burlington be denied in its entirety, but if the Division elects to approve the application that the order contain a thirty (30) day delay requiring Burlington to bargain in good faith with Kerry and K P and if no arrangements is made between these parties then the risk factor penalty be not greater than 100%.

Respectfully submitted,

KERRY PETROLEUM COMPANY, INC

H L Stonestreet

Hardeman L. Stonestreet
Senior Vice President

HLS-sf

Attachments

CC: Kellahin and Kellahin
Attn: W. Thomas Kellahin

Burlington Resources Oil & Gas Company
Attn: Rick Gallegos

Well: El Paso 23 Fed #1

MERIDIAN OIL
TRADING INC.

Operator: Meridian

September 20, 1995

Re: Discontinuance of Gas Purchases
Termination of Agreement

Dear Gas Supplier:

You, as Seller, and Meridian Oil Trading Inc. ("MOTI"), as Buyer, entered into a Gas Sales and Purchase Agreement ("Agreement") effective on the date set forth on Exhibit I. Pursuant to the provisions of Article I, Quantity, of the Agreement, the sale and purchase of Seller's gas is made on a discretionary basis, and Seller and Buyer have the right to decrease, suspend, or discontinue the delivery or purchase of gas at any time. In accordance with its rights under the Agreement, MOTI hereby provides you with written notice that effective December 1, 1995, it will permanently discontinue the purchase of gas pursuant to the Agreement.

The Agreement further provides in Article VII, Term, that it is effective through the Agreement's anniversary date in 1996, and month to month thereafter until terminated in writing. This letter is written notification to you that MOTI hereby terminates the Agreement in its entirety effective as of the Agreement's anniversary date in 1996.

MOTI will notify the operator of your well(s) of its decision to discontinue purchasing your gas. The operator should contact you concerning its procedures for nominating and scheduling your production to other markets. If you have any questions, you may call Sharon D. Reed-Richison, a MOTI representative, at 1-800-328-5581 during normal business hours.

Yates Petroleum Co., Inc.
SEP 25 1995

Sincerely,

MERIDIAN OIL TRADING INC.

Gene A. Hammons

Gene A. Hammons
Vice President, Gas Marketing

5051 Westheimer, P.O. Box 4239, Houston, Texas 77210-4239, Telephone 713-624-9000

EXHIBIT I

TO

LETTER DATED SEPTEMBER 20, 1995

OWNER NAME:	K P ACQUISITION CORP
BUSINESS ASSOCIATE NUMBER:	03869401
CONTRACT NUMBER:	G-25-60320
CONTRACT EFFECTIVE DATE:	11 01 1991