

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR



POST OFFICE BOX 2089
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

October 29, 1991

KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
P. O. Drawer 2265
Santa Fe, New Mexico 87504

RE: CASE NO. 9872
ORDER NO. R-8170-E-1

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

A handwritten signature in cursive script, appearing to read "Florene".

Florene Davidson
OC Staff Specialist

FD/sl

cc: BLM - Carlsbad



BRIDGE OIL (U.S.A.) INC.

September 16, 1991

Mr. David Catanach
State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Case No. 9872 (Reopened)
Order No. R-8170-E
Termination of Gas Prorationing in the
Burton Flat (Morrow) Gas Pool
Eddy County, New Mexico

Dear Mr. Catanach,

Bridge Oil (USA) Inc., as operator in the above captioned pool, respectfully supports termination of gas prorationing in the Burton Flat (Morrow) Gas Pool. Bridge concurs with the findings of the February 21, 1990 hearing upon which the initial April 1, 1990 temporary termination order was issued.

Specifically, based on geologic and engineering calculations, Bridge can confirm that in the case of the FEDERAL "12" COM #1, a non-marginal well, the well's estimated ultimate drainage would be considerably less than 320 acres and thus not infringe on the correlative rights of adjacent marginal wells.

Additionally, prorationing relief has permitted Bridge to upgrade compression facilities and consider other capital expenditures that would otherwise not be economically feasible under prorationing. The net effect has been an increase in the reserve recovery.

We appreciate the time and considerable effort expended by the Commission and other operators in this pool on the subject ruling. We trust that the final order will be equitable to all concerned.

Sincerely,

Mark D. Krahenbuhl
Vice President Production Operations

c: Well File



BRUCE KING
GOVERNOR

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

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

September 5, 1991

Gentlemen:

In accordance with the provisions of Division Order No. R-9463 entered on March 22, 1991, the Oil Conservation Division is reopening Case No. 9872 in order to give all operators in the Burton Flat-Morrow Gas Pool in Eddy County, New Mexico, the opportunity to appear and present evidence relative to the permanent termination of gas prorationing for said pool.

This case will be heard before an examiner on September 19, 1991, in the Oil Conservation Division Conference Room, State Land Office Building, Santa Fe, New Mexico, at 8:15 a.m. A copy of the docket for this hearing is enclosed.

Sincerely,

A handwritten signature in cursive script that reads "Florene Davidson".

Florene Davidson
OC Staff Specialist

FL/sl

Enclosure



Chevron U.S.A. Inc.

P.O. Box 670, Hobbs, NM 88240

90 FEB 7 AM 8 56

DIVISION

R. C. Anderson
Division Manager
Production Department
Hobbs Division

February 5, 1990

**Termination of Prorating
in Burton Flat (Morrow)
Prorated Gas Pool
Eddy County, New Mexico**

Oxy U.S.A., Inc.
P.O. Box 50250
Midland, Texas 79710

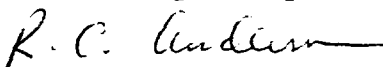
Attn: Mr. Richard E. Foppiano
Regulatory Affairs Advisor
Western Region - Midland

Case No.
9872

Gentlemen:

Attached is an executed copy of your Waiver of Protest regarding your application to the NMOCD to re-classify the Burton Flat (Morrow) Prorated Gas Pool to a non-prorated status. Chevron U.S.A. has reviewed your proposal and has no objection to terminating prorating in this field.

Yours very truly,


R. C. Anderson

awb

cc: NMOCD - Santa Fe, NM
NMOCD - District II - Artesia, NM

* * WAIVER OF PROTEST * *

THE UNDERSIGNED COMPANY HAS NO OBJECTION TO OXY USA INC.'S
REQUEST TO TERMINATE PRORATIONING IN THE BURTON FLATS-MORROW
PRORATED GAS POOL, EDDY COUNTY, MEXICO.

CHEVRON USA
COMPANY NAME

Alan W. Bohling
REPRESENTATIVE'S SIGNATURE

Special Projects Engineer
REPRESENTATIVE'S TITLE

February 5, 1990
DATE SIGNED

Hondo Oil & Gas Company

Box 2088
Roswell, New Mexico 88202
407-624-3700
12/11/88

SO FEB 14 AM 9 53



Case 9872 m.s.

February 8, 1990

Mr. William J. LeMay
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504

RE: Application for Termination of
Prorationing
Oxy U.S.A., Inc.
Burton Flat Morrow Gas Pool
Eddy County, New Mexico

Dear Mr. LeMay:

Reference is made to the captioned application by Oxy U.S.A., Inc. to terminate prorationing in the Burton Flat Morrow Gas Pool, Eddy County, New Mexico effective February 1, 1990.

Hondo Oil & Gas Company supports Oxy's application and respectfully requests your favorable consideration of this request.

Respectfully submitted,

E.J. Wentworth
Division Land Manager

EJW/cg

cc: Mr. W. Thomas Kellahin

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

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

M E M O R A N D U M

TO: ALL INTERESTED PARTIES

FROM: WILLIAM J. LEMAY, DIVISION DIRECTOR *WJL*

SUBJECT: EXHIBITS FOR COURT REPORTER

In the future all parties presenting testimony before the Oil Conservation Division or Commission will be required to provide a complete set of exhibits for the court reporter. This will aid the reporter in the timely and efficient completion of transcripts.

February 8, 1990
fd/

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN
KAREN AUBREY

CANDACE HAMANN CALLAHAN

JASON KELLAHIN
OF COUNSEL

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

March 7, 1990

Mr. Michael E. Stogner
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: Application of OXY USA, Inc.
for Termination of Gas Prorationing
in the Burton Flat Morrow Gas Pool,
Eddy County, New Mexico
NMOCD Case No. 9872

Dear Mr. Stogner:

On behalf of OXY USA, Inc., please find enclosed a
proposed order for entry in this case.

Very truly yours,



W. Thomas Kellahin

WTK/tic
Encl.

xc: Richard H. Foppiano
OXY USA, Inc.
P. O. Box 50250
Midland, Texas 79710

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

APPLICATION OF OXY USA, INC.
FOR TERMINATION OF GAS
PRORATIONING IN THE BURTON FLAT
MORROW GAS POOL, EDDY COUNTY,
NEW MEXICO.

CASE NO. 9872
ORDER NO R-

OXY USA, INC'S PROPOSED ORDER
OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:00 a.m. on February 21, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The Applicant, Oxy USA, Inc. seeks an order terminating gas prorationing in the Burton Flat Morrow Gas Pool encompassing portions of Townships 20 and 21 South, Ranges 26, 27, and 28 East, which is located in an area approximately 6 miles north of Carlsbad, New Mexico.

(3) The Burton Flat Morrow Gas Pool ("the Pool") was created by Division Order R-4486, effective March 1, 1973, for the production of gas from the Morrow formation.

(4) The horizontal limits of the Pool have been extended several times by order of the Division.

(5) The Burton Flats Morrow pool is adjacent or within one mile of six Morrow gas pools, only one of which is prorated.

(6) Gas prorationing was instituted in the Burton Flat Morrow Gas Pool by Division Order No. R-4706 (later changed to Order No. R-1670-P), dated January 18, 1974, issued in Division Case No. 5111.

(7) Gas prorationing in the Pool was established because the total deliverability of the producing wells in the Pool exceed and was expected to continue to exceed the reasonable market demand for gas from said Pool thereby creating the opportunity for violation of correlative rights.

(8) At the hearing held on October 3, 1989 by the Division to consider the setting of the allowables for the prorated pools of New Mexico, Oxy USA Inc appeared and

provided evidence to establish a basis for requesting that the Division raise the Pool's allowable because market demand was in excess of the allowable being assigned to the Pool and that production was being restricted to less than the market demand and drilling and workover activity in the Pool was severely impaired by the past low allowables.

(9) In response to OXY USA, Inc.'s request, the Division increased administratively the non-marginal allowable in the pool by 380,000 MCF in October 1989 and by 340,000MCF in November 1989.

(10) Subsequent to the administrative increase, pool production increased dramatically, further evidencing that allowables, not actual market demand, were controlling production.

(11) While providing a temporary and partial incentive for additional production, drilling and workover activity in the Pool, the administrative adjustment in allowable for the Pool has not provided a long term reliable solution which will result in prevention of waste and protection of correlative rights.

(12) Prorating was originally instituted because the total delivery capacity of the wells in the Pool exceeded the market demand for gas produced from the Pool with market demand being established by the pipelines in the Pool which were purchasing the gas.

(13) Currently and for the remaining life of the Pool, the total deliverability of the wells in the Pool is not expected to exceed market demand for gas produced from the Pool.

(14) Since early 1988 and continuing to the present, the allowable assigned to the Pool and to wells in the Pool does not accurately reflect the market demand for gas production from the Pool.

(15) The production limitations imposed by the proration system have discouraged and will continue to discourage further developmental drilling, attempted workovers of existing wells or the installation of compression equipment.

(16) Since the institution of prorationing in the Pool, there has been substantial changes in the Pool production, development, gas purchasing and marketing practices, and other factors affecting the oil and gas industry which make prorationing of the Pool unnecessary.

(17) 97% of the operators of both marginal and non-marginal wells in the Pool support the termination of prorationing in the Pool.

(18) Out of some 130 potentially interested parties to whom Oxy USA, Inc. sent notice of this application, none appeared at the hearing in opposition to the application.

✓ (19) There are no wells in the Pool which are underproduced because of lack of market for the gas from a well.

✓ (20) Geologic and engineering calculations establish that the higher capacity non-marginal wells in the Pool are draining less than 320 acres and therefore the termination of proration for the Pool will not give the non-marginal wells an unfair advantage over the marginal wells.

(21) Termination of prorationing for the Pool will result in increased ultimate recovery of production from the Pool, thereby preventing waste.

(22) Market demand in both summer and winter for gas produced from the Pool exceeds the total pool deliverability of 600 million MCF per month.

✓ (23) The production of the non-marginal wells is being restricted by the proration system assignment of allowables for those wells and not by a lack of market for that production.

✓ (24) The Division's current system of using the Pool's production from two months prior as the main indication of actual market demand by which it sets allowables has not kept pool production in line with actual market demand because when allowable levels and well capabilities are such that a well attempting to meet its market demand hits the

six times limit in two months or less, it will be curtailed by the time the allowable has a chance to reflect the increased market demand.

(25) The current proration system for the Pool lacks the flexibility to resolve the problem by simply producing the non-marginal wells at rates in excess of the current allowables and cause the future allowables to be adjusted upward to reflect actual past production because there is an insufficient volume of under production and now most non-marginal wells are at least three times overproduced with the pool cumulatively underproduced.

(26) The current proration system allows incapable wells to accumulate allowable far in excess of their ability to product it and this causes allowables for other non-marginal wells to be lower, contributing to allowable-induced curtailment and future lower allowables. This is shown by the fact that two wells which have been produced a capacity since early 1988, contribute 87% of the field's underproduced status.

(27) In order to retain proration for the Pool and provide a sufficient economic incentive for operators to undertake activities that will increase the ultimate recovery of gas from the pool, the minimum daily allowable required for each and every well should be not less than 750 MCFPD.

(28) Such an administrative adjustment of the allowable for the pool as stated in Finding #24 above does not justify the continuation of proration for the Pool because the allowable will then not be set based upon actual market demand as required by the proration statutes.

(29) Because the pipeline companies in the Pool which used to be purchasers of a substantial volume of gas produced are now transporters and not purchasers, the potential for non-ratable takes by the pipelines no longer exists and proration of the Pool is no longer justified on that basis.

(30) Because there are only six wells in the pool with non-standard proration units none of which has an acreage factor of less than .88 and all but one is marginal, there exist no basis for continuing proration for the Pool based upon the advantage non-standard spacing units might theoretically have over standard sized spacing units.

(31) There are no spacing units that currently have producing two or more Pool wells and therefore having multiple wells on a single spacing unit is not a basis for continuing proration for the Pool.

(32) In order to prevent waste and protect correlative rights proration of the Pool should be terminated effective February 1, 1990.

IT IS THEREFORE ORDERED:

(1) That the Prorationing of the Burton Flats-Morrow Gas Pool as established by Division Order R-4706 is hereby terminated effective February 1, 1990.

(2) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
Oil Conservation Division

WILLIAM J. LEMAY
Director



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

March 13, 1998

K.C.S. Medallion Resources, Inc.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-3972

Dear Mr. Bruce:

Reference is made to the following: (i) your original application to the Division, dated December 31, 1997, on behalf of the operator K.C.S. Medallion Resources, Inc. ("KCS Medallion"); (ii) the Division's initial response to said application by letter from Mr. Michael E. Stogner dated January 13, 1998; (iii) your response dated February 12, 1998; and, (vi) the records of the Division in Santa Fe: all concerning KCS Medallion's request for an unorthodox Morrow gas well location for its proposed Esperanza Well No. 1 to be drilled 660 feet from the South and East lines (Unit P) of Section 28, Township 21 South, Range 27 East, NMPM, Burton Flat-Morrow Gas Pool, Eddy County, New Mexico.

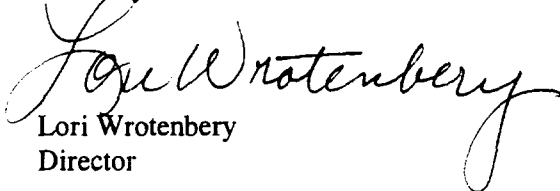
The E/2 of said Section 28 is to be dedicated to said well in order to form a standard 320-acre gas spacing and proration unit for the Burton Flat-Morrow Gas Pool.

The geologic interpretation submitted with this application indicates that a well drilled at the proposed unorthodox gas well location will be at a more favorable geologic position within the Morrow formation than a well drilled at a location considered to be standard.

The application has been duly filed under the provisions of Rule 104.F of the General Rules and Regulations of the New Mexico Oil Conservation Division.

By the authority granted me under the provisions of Division Order No. R-8170-E-1, issued in Case No. 9872 and dated October 28, 1991, and Division General Rule 104.F(2), the above-described unorthodox gas well location is hereby approved.

Sincerely,


Lori Wrotenberg
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U.S. Bureau of Land Management - Carlsbad
Case No. 9872



OXY USA INC.

NMOCD HEARING
to Permanently Terminate
Gas Prorationing

Burton Flat-Morrow Gas Pool
Eddy County, New Mexico

Case No. 9872
(Reopened)
September 19, 1991

Regulatory History

Burton Flats Morrow Field

- 1973: *Pool was created by Order No. R-4486.*
- 1974: *Pool became prorated by Order No. R-4706.*
- 1985: *Fasken attempted to terminate prorationing. Request was denied.*
- 1989: *OXY requested increases in the pool allowable. Request was granted, 380,000 MCF and 340,000 MCF were added to the pool allowable in October and November, 1989.*
- 1990: *OXY requested that proration be permanently terminated in this pool. Request was granted on a temporary basis. Review hearing to be held in September, 1991.*

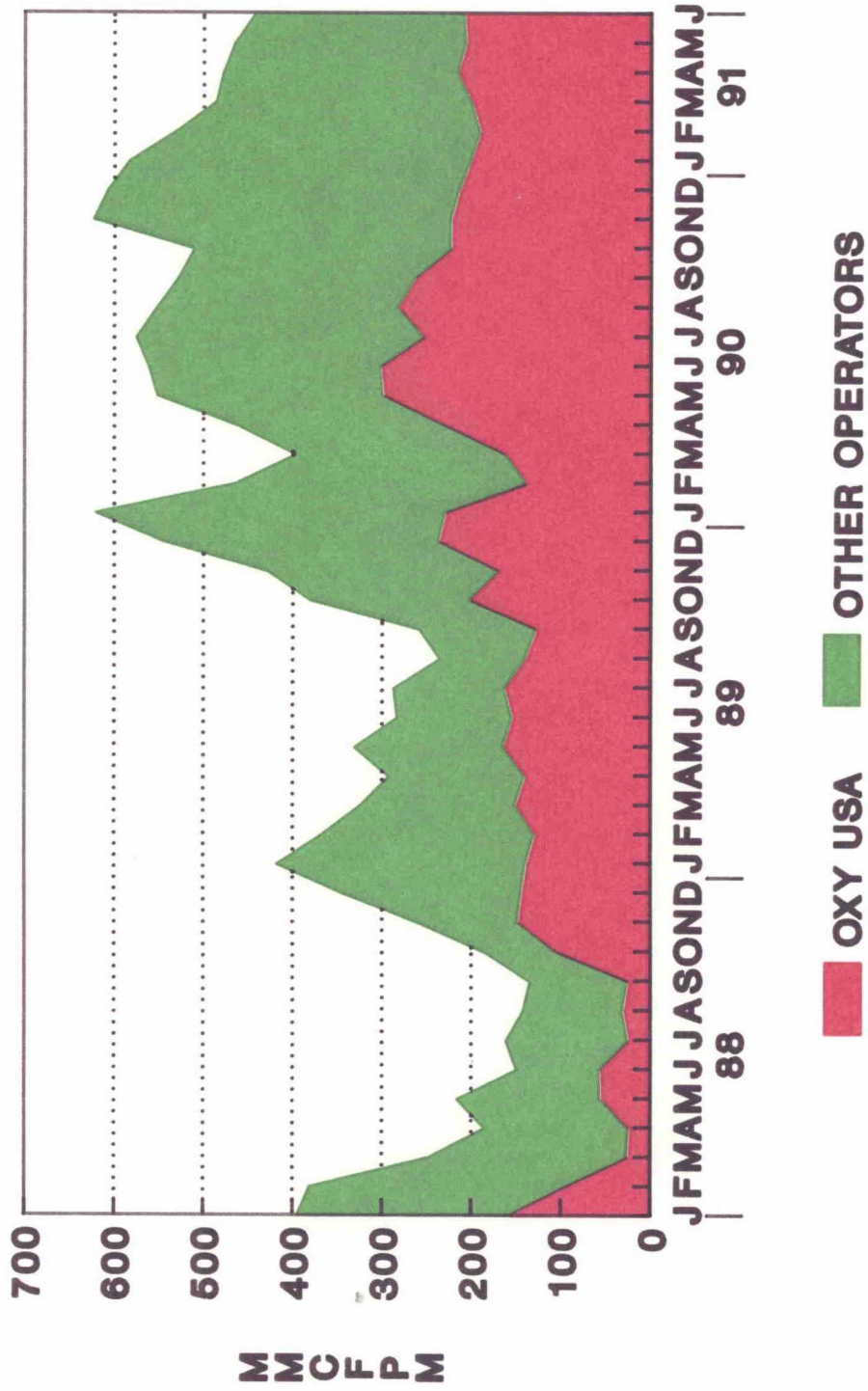
Feb 1990 Hearing: What Was Shown:

- ✓ Terminating gas proration will prevent waste by removing a major disincentive for drilling new wells, reworking old wells and other activities that increase the ultimate recovery of gas from this pool.
- ✓ Correlative rights will not be adversely affected. Market demand exceeds the pool deliverability, the non-marginal wells have limited drainage areas, and the few non-standard proration units are mostly marginal, and multiple well units are not a problem.
- ✓ The potential for non-ratable takes by the pipelines no longer exists. Most gas is now transported instead of purchased by the pipelines.
- ✓ Most of the pool operators have waived any protest to this action, and none have indicated any objection.

What Has Happened Since Feb 1990:

- ✓ Pool production has increased dramatically.
- ✓ New wells have been drilled.
- ✓ Compression installation and workover activity has increased substantially.
- ✓ There continues to be a market for all the gas.
- ✓ No one has complained.

BURTON FLAT MORROW GAS PRODUCTION

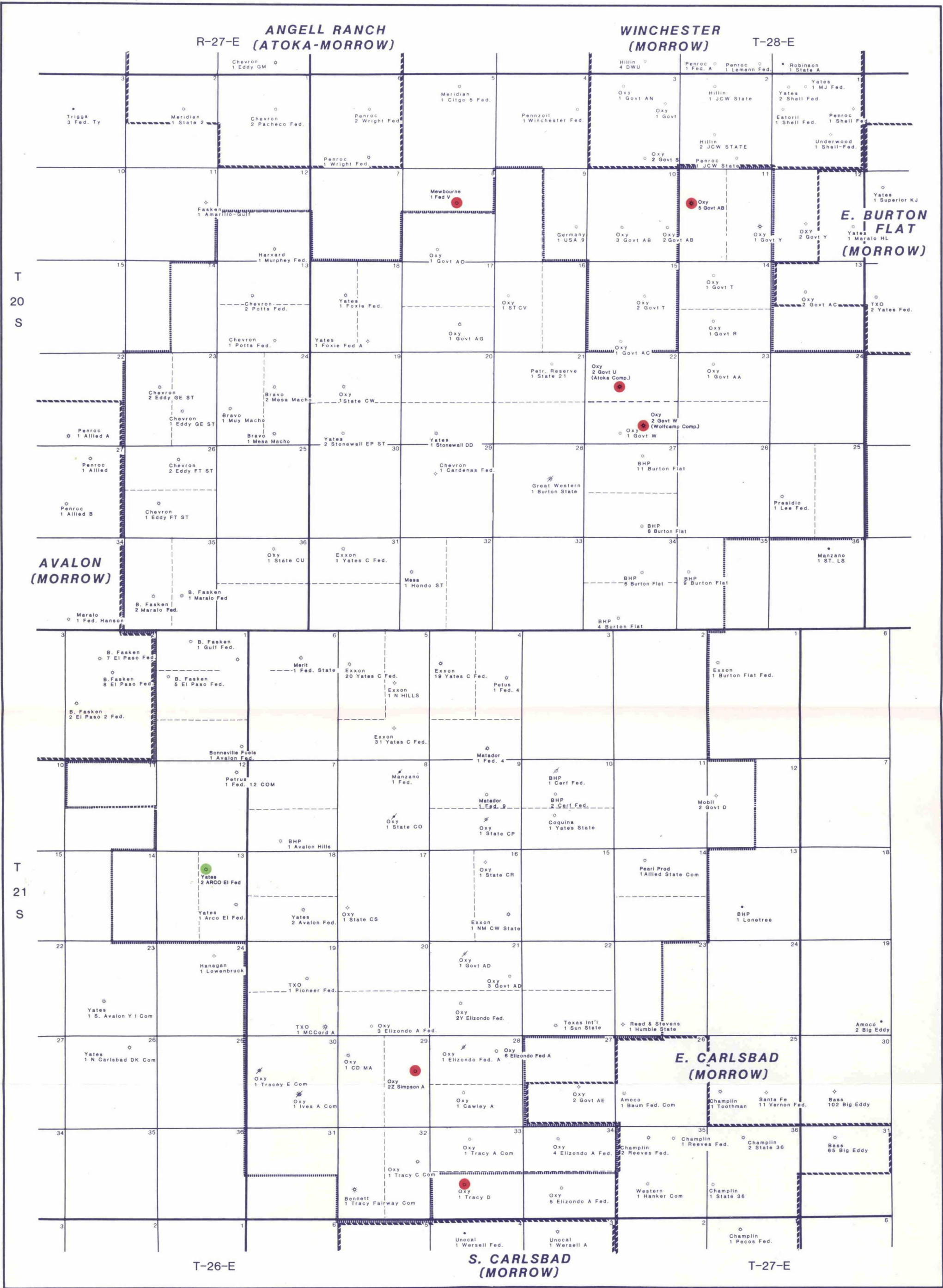


OXY USA
BURTON FLAT MORROW WORKOVERS

WELL	JOB DESCRIPTION	W.O. Cost (M\$)	Prior Gas Deliv (MCFPD)	After WO Gas Deliv (MCFPD)
Government AL #1	Test Addl Morrow	48	0	150
Elizondo Fed A #2Y	Test Addl Morrow	156	0	502
Elizondo Fed A #3	Test Addl Morrow	74	750	327
Government AD #3	Test Addl Morrow	132	0	125
Tracy A #1	Frac Morrow	36	50	350
CDM A #1	Test Addl Morrow & Frac	71	225	750
Government Z #1	P&A WC, Test Morrow	38	32	1250
Cawley A #1	Install Compressor	2.3/MO	350	575
CDM A #1	Install Compressor	2.2/MO	190	240
Elizondo Fed A #2Y	Install Compressor	1.5/MO	150	160
Government AD #3	Install Compressor	2.3/MO	500	1000
Government AL #1	Install Compressor	2.2/MO	150	325
Government AO #1	Install Compressor	2.2/MO	175	225
State CV #1	Install Compressor	2.3/MO	275	350
State CW #1	Install Compressor	1.7/MO	40	100
Tracy A #1	Install Compressor	2.3/MO	50	350
Tracy C #1	Install Compressor	2.3/MO	300	700

BURTON FLAT MORROW DRILLING

Operator	Well	Zone Completed	Date Completed	Drig Cost (M\$)	Initial Deliv (MCFPD)
OXY USA Inc.	Government AB #5	Morrow	03/30/90	751	1513
OXY USA Inc.	Government W #2	Wolfcamp	07/06/90	639	225
OXY USA Inc.	Government U #2	Atoka	11/21/90	845	1095
OXY USA Inc.	Simpson A #2-Z	Morrow	03/29/91	1211	1834
OXY USA Inc.	Tracy D #1	Morrow	03/18/91	486	1525
Mewbourne Oil Co.	Federal V #1	Morrow	01/22/91	N.A.	700





OXY USA INC.

Box 300, Tulsa, OK 74102

May 1, 1991

Mr. Grady Gist
Gas Company of New Mexico
311 Moore Drive
Carlsbad, New Mexico 88220

Re: Carlsbad Area
Eddy County, New Mexico

Dear Mr. Gist:

Pursuant to our recent discussion, enclosed is the information you requested for various wells in the referenced area. OXY would like to evaluate alternatives to redirect this gas for transport savings and possible dual connects.

Do not hesitate to contact us should you determine that Gas Company of New Mexico can provide economic alternatives for our gas production.

Very truly yours,

A handwritten signature in cursive script that reads "Susan Forman".

Susan E. Forman
Sales Representative
Natural Gas Marketing

SEP:skb

Enclosures



OXY USA INC.
Box 300, Tulsa, OK 74102

May 1, 1991

Mr. Ross Hughes
Maple Gas Corporation
511 W. Texas
Midland, Texas 79701

Re: Tracy D #1
Section 33-21S-27E
Eddy County, New Mexico

Dear Mr. Hughes:

Pursuant to our recent discussion, enclosed per your request is the gas analysis for the subject well. OXY plans to build a line from the Tracy D to the Tracy C (see attached map) and commingle both wells at the surface. I have also enclosed a list of the wells in the area that provides deliverability information. Although all are currently connected, OXY is evaluating alternatives to redirect this gas for transport savings and possible dual connects.

Should you have any interest, do not hesitate to contact me at (918)561-6632.

Very truly yours,

A handwritten signature in cursive script, reading "Susan Forman", is written over the typed name.

Susan E. Forman
Sales Representative
Natural Gas Marketing

SEF:skb

Enclosures

SEF MAY 08 1991



PHILLIPS 66 NATURAL GAS COMPANY
A SUBSIDIARY OF PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79762
4001 PENBROOK

May 1, 1991

Oxy USA
P.O. Box 300
Tulsa, OK 74102

Attn: Ms. Susan Foreman

Ms. Foreman:

Enclosed please find a map of Phillips 66 Natural Gas Company's (P66NGC) gas gathering facilities in southeast New Mexico. Note that I have hand drawn an extension to our system currently under construction in Eddy County.

I look forward to working with you on the possible purchase of gas from the Tracy "D" and other wells that Oxy may have available in the same area. Please let me know if Oxy has other gas which you would like P66NGC to evaluate for purchase.

I am confident that P66NGC can provide Oxy with excellent value for natural gas in the vicinity of our gathering systems and will welcome any inquiries that you may have.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William E. James".

William E. James

14:48 00100010000
LLANO

SEF APR 26 1991

April 23, 1991

Oxy U.S.A., Inc.
P.O. Box 300
Tulsa, OK 74102
Attn: Susan Forman

FAX # 918 561-2280

RE: OXY: TRACEY C #1 (57% WI) - 262 MMBTU/DAY NET ENTITLEMENT
AND TRACEY D #1 (86% WI) - 1000 MMBTU/DAY NET
ENTITLEMENT

Dear Susan:

Pursuant to information provided by your offices, Llano Inc. (Llano) proposes the following terms and provisions regarding the construction of interconnect facilities and transmission of production from the captioned well.

- 1) Llano will cause the construction of facilities necessary to accept delivery of gas from the captioned wells estimated to be an aggregate of [REDACTED] MMBtu/Day net at a mutually agreeable interconnect location on Llano's system for redelivery of the thermal equivalent at a mutually agreeable interstate-interconnect on Llano's system.
- 2) Oxy U.S.A., Inc. (Oxy) agrees to provide satisfactory completion and production information, or indemnify Llano to the extent that they will deliver a minimum of [REDACTED] MMBtu within the first 12 months of date of 1st deliveries (hereinafter "Pay Out Period"). In the event the well fails to deliver at least [REDACTED] MMBtu within said 12 month period, Oxy will pay Llano [REDACTED] x the difference between actual deliveries and [REDACTED] MMBtu on or before the end of the first full calendar month occurring after the end of the Pay Out Period provided; however, that if buyer fails to take the full quantity of gas available (based on last known deliverability) for sale on any day or days, during the payout period, then for the purposes of determining Oxy's payment obligation under this paragraph 2, the Pay Out Period shall be extended by the number of days of any such failure.
- 3) Llano will transport Oxy's production on a best efforts basis @ [REDACTED]
[REDACTED]
[REDACTED]
- 4) The term of the contract will be five year and month-to-month until terminated by each party via 30 day notice.
- 5) Standard Llano payment provisions and gas quality specifications shall apply including mechanical separation only on the lease premises.

LLANO, INC.

A SUBSIDIARY OF HALSOM ENERGY PRODUCTS & SERVICES, INC.
600 East John W. Carpenter Freeway / Suite 201 / Irving, Texas 75062-5880
Telephone (214) 717-1488 / Fax (214) 880-3288

If the terms and provisions set out herein appear acceptable to the management of Oxy, please execute this letter in the space provided. Upon your and Llano Inc's execution, this letter agreement shall become effective immediately and shall continue in effect until the parties execute a formal agreement incorporating the above terms and conditions. We will prepare and forward the formal agreement for your review and execution as soon as possible.

Very Truly Yours,



J. Mike McGinley
Business Development Manager
S.E. New Mexico Region

JMM:dm

Agreed and Accepted this
_____ day of _____, 1991

Oxy U.S.A., Inc.

By: _____
Title: _____

Agreed and Accepted this
_____ day of _____, 1991

Llano, Inc.

By: _____
Title: _____

ENRON
Transwestern Pipeline Company

P. O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

April 3, 1991

Oxy USA
P.O. Box 50250
Midland, Texas 79710

Attn: Mr. G.N. Buttram_____

Dear Gentlemen:

It has come to my attention that your company has recently begun or completed drilling new wells at the following location:

Section 29-T21S-R27E
Eddy County, New Mexico
Simpson "A" 2 and the 2-Y

I would like to discuss the possibility of connecting gas production you may obtain to Transwestern's pipeline system in the vicinity of these wells for transport. Attached is a list of data we will need in order to evaluate the feasibility of such connection.

If you would like to pursue this opportunity, please contact me at (713) 853-5157.

Thank you for your consideration. I look forward to hearing from you at your earliest convenience.

Jo Anne Sheriff 6/7/91

Sincerely,

James T. Simons

James T. Simons
Account Director

JTS/swm
Enclosure

wallconnect:wall1trs

W W

Post-It™ brand fax transmittal memo 7671 # of pages 5

To	G. Timmerman	From	J. Winchester
Co	OXY	Co	OXY
Phone	915-685-5852	Phone	918-561-3243
Fax	915-685-5754	Fax	918-561-2958

AXIS
GAS
CORPORATION

PRELIMINARY DRAFT

September 4, 1991

Mr. Jeffrey D. Winchester
Manager Market Development
OXY USA INC.
P.O. Box 300
Tulsa, Oklahoma 74102

Dear Mr. Winchester:

Attached is a proposal from Axis Gas Corporation, whom I represent, concerning a gathering system for connecting your gas wells located near Carlsbad, New Mexico into NGPL. These wells are currently connected into El Paso's gathering system, wherein the existing fee is considered to be excessive. The attached proposal includes a substantially lower gathering fee, plus a central compressor installation and dehydration, which will allow increased deliverability and reserves in direct proportion to the reduced gathering system pressure. For example, I have calculated that your current deliverability of 6 to 7 MMCFPD should increase to 10 MMCFPD which will correspondingly increase cash flow by approximately 50%, and the ultimate reserve recovery should increase by at least 10%, which will amount to several BCF, again as a result of the lowered gathering system pressure.

The current El Paso connection limits your marketing options solely to California. There is growing industry concern that the California market may be approaching over-saturation with a corresponding reduction in prices, because of increased Canadian imports and several planned new pipelines from the Rocky Mountain supply areas. Currently, the only alternative to other markets is for El Paso to re-deliver your gas to other pipelines at Waha but their re-delivery price is [REDACTED]. For comparison, NGPL will re-deliver your gas to Waha, if you so desire, for a back-haul rate of only [REDACTED].

cc B. McMills
S. Forman
G. Timmerman - Midland
→ FAX

Let's get an offer
from Hadson + compare
+ go forward.

Jeff

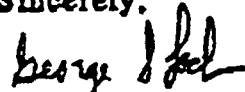
to discuss
this with
you
Regards,
Borge

As you know, NGPL provides access to markets throughout the United States, both for direct delivery and interconnections with other major pipeline systems. Their transportation fees are generally recognized as fair and reasonable, and, in many cases, special negotiations can result in further discounts. For example, NGPL will re-deliver your Carlsbad gas into an El Paso main transmission pipeline for [REDACTED] thereby, providing continued economic access to your present California markets if you so desire. Incidentally, because of my background, I have access to many market leads and would be pleased to provide those prospects directly to your marketing group.

As the representative for Axis, I will be directly responsible for negotiating the proposed gathering system contract, if you elect to proceed with these discussion. I am prepared to proceed on a high-priority basis, and because of our past business relationship, I understand the importance of a timely, complete and formal contract to OXY USA, Inc. My goal would be to conclude the contract to your full satisfaction and then directly supervise the system installation in time for gas delivery in NGPL prior to the expected high winter demand and prices.

Thank you for the opportunity to provide this economically attractive alternative for the sale of your Carlsbad gas. If you elect to accept the attached Letter of Intent from Axis, I will be prepared to negotiate and conclude the subsequent definitive contract quickly and, of course, to OXY's complete satisfaction. I look forward to working with you on this important project.

Sincerely,



George S. Loch
Agent

PRELIMINARY DRAFT

September 4, 1991



**Mr. Jeffrey D. Winchester
Manager Market Development
OXY USA INC.
P.O. Box 300
Tulsa, Oklahoma 74102**

Dear Mr. Winchester:

We understand that OXY USA, Inc. operates 12 Morrow gas sand wells located just outside of Carlsbad ("south area") and 4 wells located about 10 miles north of Carlsbad ("north area") in the Burton Flat (Morrow) Field, Eddy County, New Mexico. OXY's working interest approximately averages 60%, and the other major working interest owners include Amoco, Kerr-McGee and Redfern. The gas production currently averages between 6 and 7 MMCFPD in the south area and about 1.5 MMCFPD in the north area and is being sold month-to-month on the spot market. The wells are connected into El Paso's so-called Carlsbad gathering system, which operates in the 350+ psig range. After payment of the El Paso gathering fee, OXY sells the gas to various marketing companies, which take delivery at the interconnection of the Carlsbad gathering system into an El Paso main transmission pipeline in southeast New Mexico, for subsequent transportation and sale to California markets.

NGPL operates a pipeline system in the Carlsbad area, the so-called Big Eddy System, with a 10 inch transmission pipeline located east of the subject OXY wells. The system is operated in the 500 to 600 psig range and is considerably under-utilized.

Axis Gas Corporation herewith proposes to install a new low-pressure gathering system which would connect the OXY wells into the nearby NGPL pipeline. Included in the installation will be individual well meters for allocation purposes, two sales delivery meters into NGPL, a central compressor in each area to be operated with an inlet pressure of 125 psig, central dehydration units, and the various valves, controls and other equipment normally associated with such a gathering system.

The system has been designed to initially gather 15 MMCFPD, but this volume capability could be increased if required. The installation will be designed and operated in accordance with all federal and state regulatory requirements and normal industry practices.

**1801 N. LAMAR SUITE 100, DALLAS, TEXAS 75202
214/220-1080 FAX: 214/720-1048**

JUN MAY 31 1991



AMERICAN CENTRAL GAS COMPANIES, INC.

May 29, 1991

Mr. Jeff Winchester
OXY USA, Inc.
110 West 7th Street
P.O. Box 300
Tulsa, OK 74102

Dear Jeff:

American Central is pleased to make the following proposal for gathering OXY operated wells presently connected to the El Paso Carlsbad Gathering System. The proposal assumes that 100% of the working interest can be committed to the system.

The planned sequence would be to immediately gather and connect the three "high pressure" wells to the NGPL 4" gathering line in Section 20 of 21S-27E. All "low pressure" wells with the exception of the two Tracy wells will be gathered to a common point in the vicinity of the meter station and compression set to boost the gas into the NGPL system through the common meter. As soon as the necessary river crossing permits can be obtained, the two Tracy wells will be connected to the low pressure system. This configuration will allow the "high pressure" wells to be diverted into the low pressure system as they pressure deplete.

We propose a fee structure of [REDACTED] for daily volumes of [REDACTED] increasing to [REDACTED] for volumes less than [REDACTED]. Compressor fuel, estimated to be 3% of the gas compressed, would be deducted from the gathered gas.

The foregoing is subject to confirmation of reserve and deliverability numbers used as a basis for this proposal and execution of a mutually acceptable contract.

We will be happy to meet at your convenience and discuss this proposal in more detail.

Sincerely,

AMERICAN CENTRAL GAS COMPANIES, INC.


Howard W. Martin
Executive Vice President

HWM/sw