CASE NO. 21593

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

APPLICANT'S EXHIBIT LIST

A. Application and Proposed Ad

B. Affidavit of Britt Pence

C. Definition of Gas Contracts

D. Notice Affidavit

E. NMSA §70-2-19

F. NMAC 19.15.24.12

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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

APPLICATION

Sozo I LP and Sozo Natural Resources, LLC (collectively "Sozo") applies for an order requiring Targa Midstream Services LLC ("Targa") to ratably take gas from a well on reasonable terms to keep the well economic, and in support thereof, states:

1. 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 capable of producing gas in paying quantities.

2. The gas purchaser for the Well is Targa. Targa is engaged in purchasing gas from one or more producers in New Mexico, and meets the definition of "common purchaser" under **NMSA 1978 §70-2-19.D and 19.15.24.12.A**. Thus it is required to ratably take produced gas from a well operator without unreasonable discrimination. **Id**.

3. 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.

EXHIBIT A

4. Subsequently, Targa notified Sozo that it was terminating the gas purchase agreement on the Well. The effective date of termination was September 30, 2020.

5. 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.

6. 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.

7. Sozo should be granted relief under NMSA 1978 §70-2-19.D and NMAC 19.15.24.12 in order to prevent waste and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter an order requiring Targa to take Sozo's gas under non-discriminatory terms, and granting such further relief as the Division deems proper.

Respectfully submitted,

James Bruce

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

Attorney for Sozo I LP and Sozo Natural Resources, LLC

PROPOSED ADVERTISEMENT

Case No. ______________:

Application of Sozo I LP and Sozo Natural Resources, LLC to require a common purchaser to ratably take gas from a gas well on reasonable terms, Lea County, New Mexico. Applicants seek an order requiring Targa Midstream Services LLC, a common purchaser, to ratably take gas on reasonable terms from 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, pursuant to the provisions of NMSA 1978 §70-2-19.D and 19.15.24.12.A. The well is located approximately 16-1/2 miles west-southwest of Crossroads, New Mexico.

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

SELF-AFFIRMED STATEMENT OF BRITT PENCE

Britt Pence deposes and states:

1. I am the President and Chief Executive Officer of Sozo Natural Resources LLC ("Sozo Natural"), and I am also a part owner of Sozo I LP ("Sozo I") (or collectively, "Sozo"). I have personal knowledge of the matters stated herein. I am also an engineer and have previously been qualified by the Division as an expert petroleum engineer.

2. Sozo Natural is the operator of, and Sozo I is the majority 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").

3. Referring to the timeline submitted as **Attachments 1 and 2**, the Well was drilled and completed in the Atoka formation in 2006 by Bold Energy, and is still producing. Bold Energy entered into a gas purchase agreement for the Well with Targa Midstream Services LLC ("Targa") in May 2006. This gas purchase agreement is a fee-based agreement. Bold Energy conveyed its interest in the Well and the gas purchase agreement to OXY USA Inc. ("OXY") in June 2008.

EXHIBIT B

Targa purchased gas produced from the Well by OXY under the gas purchase agreement from June 2008 to March 2020.

Sozo I acquired the State oil and gas lease covering the S/2 of Section 36, and Sozo Natural took over Well operations, on March 1, 2020. Targa consented to OXY's assignment of the gas purchase agreement to Sozo. On June 25, 2020 Sozo met with Targa to discuss 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 on August 31, 2020. Targa subsequently delayed termination for one month, and the effective date of termination was September 30, 2020.

On September 3, 2020 Targa proposed a replacement agreement. This proposed replacement agreement was a Percent of Proceeds ("POP") type agreement rather than the original fee-based agreement. Targa's proposed POP agreement increases gathering costs and fees by 171% from the original agreement, making the Well uneconomic. On September 4, 2020 Sozo countered with a similar POP agreement to Targa's proposed replacement agreement. Sozo's countered proposed POP agreement increased the costs and fees of the original fee-based agreement by 61% making the Well marginally economic. September 14, 2020 Targa response was "the offer provided to Sozo on September 3, 2020 is our final offer." Sozo did not sign the replacement agreement, and shut the Well in at the end of September. On October 26, 2020 Targa proposed a fee-based agreement, which still increased fees by over 68% making the Well uneconomic.

4. Referring on economic analyses submitted as **Attachments 3, 4, and 5,** you can see that the Well was marginally economic under the original gas purchase agreement, but became very uneconomic under Targa's proposals.

5. Submitted as **Attachment 6** is Targa's statement for the Well for August 2020, showing actual fees. **Attachment 7** is the August 2020 statement using Targa's replacement proposal. Based on operating costs for the Well, and current gas prices, the Well is now uneconomic to produce under either proposal, 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.

6. 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. See **Attachment 8**. The massive increase in costs proposed by Targa unreasonably discriminates against Sozo.

7. Targa has refused to negotiate a reasonable agreement with Sozo. As a result Sozo I and Sozo Natural seek an order requiring Targa, 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.

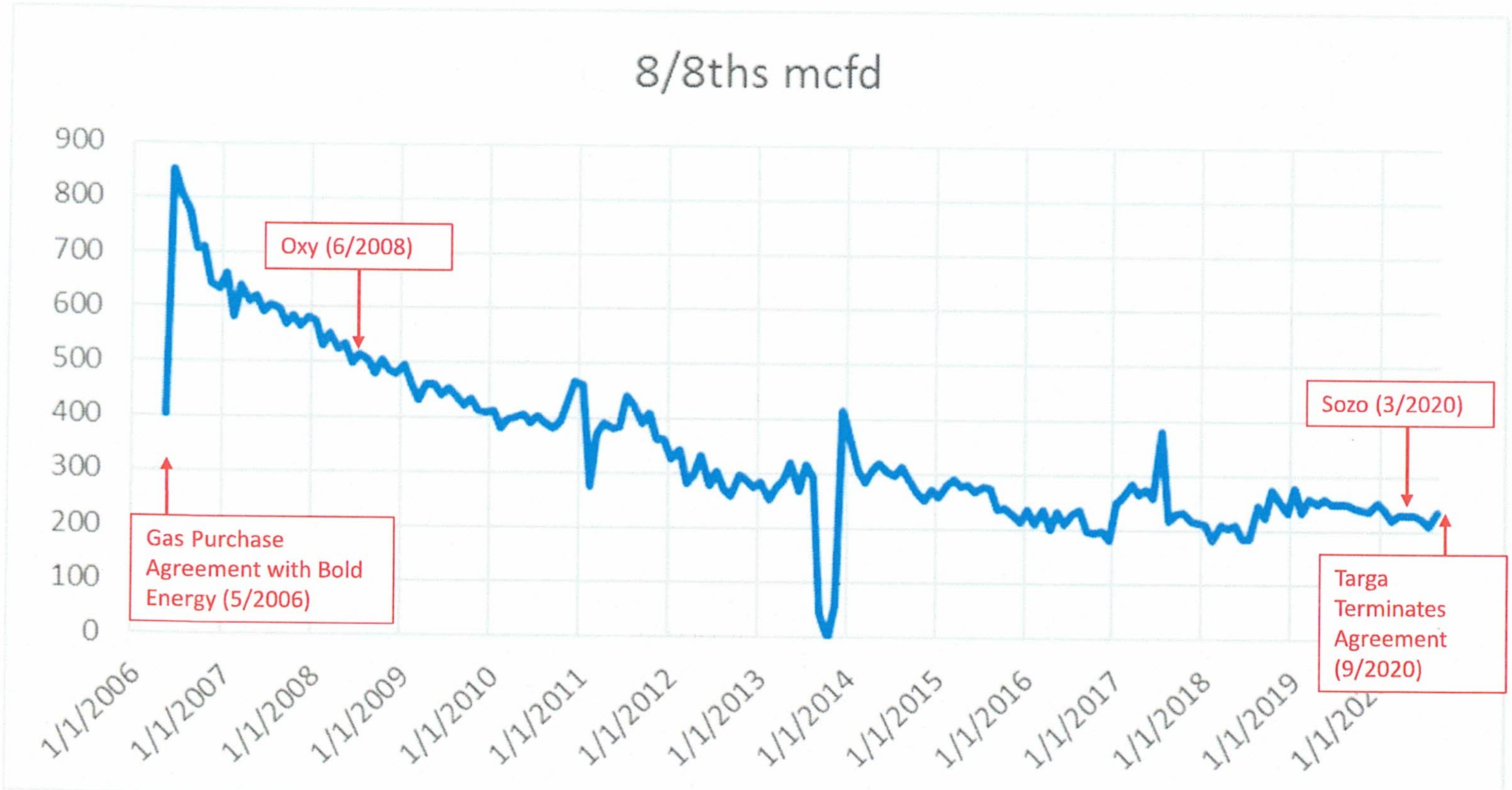
8. The granting of this affidavit will prevent was and protect the correlative rights of the working and royalty interest owners in the Well.

9. I understand that this Self-Affirmed Statement will be used as written testimony in this case. I affirm that my testimony in paragraphs 1 through 8 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.

Date: 1/5/21

Britt Pence

Production and Timeline for Caleb State #1



ATTACHMENT 1

Targa’s Proposals

- 7/29/20: Targa terminates original agreement effective 8/31/20.
- 8/31/20: Targa deferred the termination date to 9/30/20.
- 9/3/20: Targa proposed a POP replacement agreement increasing fees 171%.
- 9/4/20: Sozo counters with a marked-up POP agreement.
- 9/14/20: Targa emailed Sozo – Targa’s first proposal was their “final offer”.
- 9/20: Sozo shuts the Caleb in because Targa’s proposal makes the well uneconomic.
- 10/26/20: Targa emailed Sozo a different proposal to increase the original agreement’s fees by 68.4%. This new proposal makes the well uneconomic.

ATTACHMENT 2

Caleb Profits are Marginal with Original Agreement

Month	Total Mcf	Total Mcfd	Btu/Mcf	Total Fees/Total Mmbtu	Total Fees	Wellhead price, $/mmbtu	Value, $	Payment, $	Realized price per total Mcf	Royalty+ORRI, $	Est. Taxes, $	Net Revenues to Caleb Well, $	Est. Caleb Well Costs, $	Est. Caleb Well Profit, $
Mar-20	7,152	231	1240.6	$ 0.297	$ (2,633.95)	$ (0.03)	$ (262.63)	$ (2,896.59)	$ (0.41)	$ (579.32)	$ (208.55)	$ (2,108.72)	$ 5,000.00	$ (7,108.72)
Apr-20	7,188	240	1240.6	$ 0.297	$ (2,647.21)	$ 0.37	$ 3,319.07	$ 671.86	$ 0.09	$ 134.37	$ 48.37	$ 489.11	$ 5,000.00	$ (4,510.89)
May-20	7,181	232	1240.6	$ 0.297	$ (2,644.63)	$ 1.19	$ 10,562.21	$ 7,917.58	$ 1.10	$ 1,583.52	$ 570.07	$ 5,764.00	$ 5,000.00	$ 764.00
Jun-20	6,961	232	1240.6	$ 0.297	$ (2,563.61)	$ 1.38	$ 11,931.24	$ 9,367.63	$ 1.35	$ 1,873.53	$ 674.47	$ 6,819.64	$ 5,000.00	$ 1,819.64
Jul-20	6,571	212	1240.6	$ 0.297	$ (2,419.98)	$ 1.32	$ 10,783.44	$ 8,363.46	$ 1.27	$ 1,672.69	$ 602.17	$ 6,088.60	$ 5,000.00	$ 1,088.60
Aug-20	7,393	238	1240.6	$ 0.297	$ (2,722.59)	$ 1.32	$ 12,131.89	$ 9,409.29	$ 1.27	$ 1,881.86	$ 677.47	$ 6,849.97	$ 5,000.00	$ 1,849.97
Sep-20	3,402	113	1240.6	$ 0.297	$ (1,253.04)	$ 1.49	$ 6,286.78	$ 5,033.74	$ 1.48	$ 1,006.75	$ 362.43	$ 3,664.56	$ 5,000.00	$ (1,335.44)
Total	**45,848**				**$ (16,885.03)**		**$ 54,752.01**	**$ 37,866.98**	**$ 0.83**	**$ 7,573.40**	**$ 2,726.42**	**$ 27,567.16**	**$ 35,000.00**	**$ (7,432.84)**
Average	**6,550**				**$ (2,412.15)**		**$ 7,821.72**	**$ 5,409.57**		**$ 1,081.91**	**$ 389.49**	**$ 3,938.17**	**$ 5,000.00**	**$ (1,061.83)**

ATTACHMENT 3

Caleb is Uneconomic with Targa's POP Proposal

Month	Total Mcf	Total Mcfd	Btu/Mcf	Total Fees/Total Mmbtu*	Total Fees	POP Value, $ **	Payment, $	Realized price per total Mcf	Royalty+ORRI, $	Est. Taxes, $	Net Revenues to Caleb Well, $	Est. Caleb Well Costs, $	Est. Caleb Well Profit, $
Mar-20	7,152	231	1240.6	$ 0.804	$ (7,129.38)	$ (288.29)	$ (7,417.68)	$ (1.04)	$ (1,483.54)	$ (534.07)	$ (5,400.07)	$ 5,000.00	$ (10,400.07)
Apr-20	7,188	240	1240.6	$ 0.804	$ (7,165.27)	$ 3,643.34	$ (3,521.93)	$ (0.49)	$ (704.39)	$ (253.58)	$ (2,563.96)	$ 5,000.00	$ (7,563.96)
May-20	7,181	232	1240.6	$ 0.804	$ (7,158.29)	$ 11,594.14	$ 4,435.85	$ 0.62	$ 887.17	$ 319.38	$ 3,229.30	$ 5,000.00	$ (1,770.70)
Jun-20	6,961	232	1240.6	$ 0.804	$ (6,938.99)	$ 13,096.93	$ 6,157.94	$ 0.88	$ 1,231.59	$ 443.37	$ 4,482.98	$ 5,000.00	$ (517.02)
Jul-20	6,571	212	1240.6	$ 0.804	$ (6,550.22)	$ 11,836.98	$ 5,286.76	$ 0.80	$ 1,057.35	$ 380.65	$ 3,848.76	$ 5,000.00	$ (1,151.24)
Aug-20	7,393	238	1240.6	$ 0.804	$ (7,369.31)	$ 13,317.18	$ 5,947.86	$ 0.80	$ 1,189.57	$ 428.25	$ 4,330.04	$ 5,000.00	$ (669.96)
Sep-20	3,402	113	1240.6	$ 0.804	$ (3,391.64)	$ 6,901.00	$ 3,509.36	$ 1.03	$ 701.87	$ 252.67	$ 2,554.81	$ 5,000.00	$ (2,445.19)
Total	**45,848**				**$ (45,703.11)**	**$ 60,101.28**	**$ 14,398.17**	**$ 0.31**	**$ 2,879.63**	**$ 1,036.67**	**$ 10,481.86**	**$ 35,000.00**	**$ (24,518.14)**
Average	**6,550**				**$ (6,529.02)**	**$ 8,585.90**	**$ 2,056.88**		**$ 411.38**	**$ 148.10**	**$ 1,497.41**	**$ 5,000.00**	**$ (3,502.59)**

* original fees are $0.296858/mmbtu - the $0.50/mmbtu proposal is a 171% increase in fees

** Value is a POP estimated to be 109.8% higher than original terms (provided by Targa for August statement)

ATTACHMENT 4

Caleb is Uneconomic with Targa's 10/26/20 Proposal

Month	Total Mcf	Total Mcfd	Btu/Mcf	Total Fees/Total Mmbtu*	Total Fees	Wellhead price, $/mmbtu	Value, $	Payment, $	Realized price per total Mcf	Royalty+ORRI, $	Est. Taxes, $	Net Revenues to Caleb Well, $	Est. Caleb Well Costs, $	Est. Caleb Well Profit, $
Mar-20	7,152	231	1240.6	$ 0.500	$ (4,436.39)	$ (0.03)	$ (262.63)	$ (4,699.02)	$ (0.66)	$ (939.80)	$ (338.33)	$ (3,420.89)	$ 5,000.00	$ (8,420.89)
Apr-20	7,188	240	1240.6	$ 0.500	$ (4,458.72)	$ 0.37	$ 3,319.07	$ (1,139.65)	$ (0.16)	$ (227.93)	$ (82.05)	$ (829.66)	$ 5,000.00	$ (5,829.66)
May-20	7,181	232	1240.6	$ 0.500	$ (4,454.37)	$ 1.19	$ 10,562.21	$ 6,107.84	$ 0.85	$ 1,221.57	$ 439.76	$ 4,446.51	$ 5,000.00	$ (553.49)
Jun-20	6,961	232	1240.6	$ 0.500	$ (4,317.91)	$ 1.38	$ 11,931.24	$ 7,613.34	$ 1.09	$ 1,522.67	$ 548.16	$ 5,542.51	$ 5,000.00	$ 542.51
Jul-20	6,571	212	1240.6	$ 0.500	$ (4,075.99)	$ 1.32	$ 10,783.44	$ 6,707.45	$ 1.02	$ 1,341.49	$ 482.94	$ 4,883.02	$ 5,000.00	$ (116.98)
Aug-20	7,393	238	1240.6	$ 0.500	$ (4,585.69)	$ 1.32	$ 12,131.89	$ 7,546.20	$ 1.02	$ 1,509.24	$ 543.33	$ 5,493.64	$ 5,000.00	$ 493.64
Sep-20	3,402	113	1240.6	$ 0.500	$ (2,110.51)	$ 1.49	$ 6,286.78	$ 4,176.27	$ 1.23	$ 835.25	$ 300.69	$ 3,040.33	$ 5,000.00	$ (1,959.67)
Total	**45,848**				**$ (28,439.57)**		**$ 54,752.01**	**$ 26,312.44**	**$ 0.57**	**$ 5,262.49**	**$ 1,894.50**	**$ 19,155.45**	**$ 35,000.00**	**$ (15,844.55)**
Average	**6,550**				**$ (4,062.80)**		**$ 7,821.72**	**$ 3,758.92**		**$ 751.78**	**$ 270.64**	**$ 2,736.49**	**$ 5,000.00**	**$ (2,263.51)**

* original fees are $0.296858/mmbtu - the $0.50/mmbtu proposal is a 68.4% in fees

ATTACHMENT 5

Caleb's August Statement

TARGA

SOZO I LP
BA #: 189300
5005 RIVERWAY DR, ST 150
Function: 1
HOUSTON, TX 77056

Versado Gas Processors, L.L.C.
811 Louisiana St., Suite 2100
Houston, TX 77002

Attention:
Operator #: 999927
Operator: OXY USA INC
Asset Name: Saunders Complex
Meter #: 2238
Meter Name: CALEB STATE #1
Contract: 031595
Meter Split: 100.00
Contract Type: Wellhead Purchase

Accounting Date: Aug 1, 2020
Production Date: Aug 1, 2020
Pressure Base: 14.65 (W)

Run Date: Sep 23, 2020 2:20:42 PM

Physical Information

Volumes

	Mcf	MMBtu
Gross Wellhead	7,392.69	9,171.37
Wellhead BTU		
1,240.60		

Analysis

	GPM	Mol
c1	0.000	79.1322
co2	0.000	0.7698
c2	2.364	8.8559
c3	1.238	4.5042
ic4	0.284	0.8683
nc4	0.473	1.5043
ic5	0.230	0.6298
nc5	0.166	0.4595
c6	0.607	1.3626
nit	0.000	1.9134
Total	**6.362**	**100.00**

Fees

Description	Fee Unit	Fee Quantity	Fee Rate	Fee Value
Gathering	mmbtu	9,171.37	0.296858	$2,722.59
Low Volume	mmbtu	0.00	0.296858	$0.00
Total				**$2,722.59**

Settlement Information

Purchase

Description	Wellhead Qty	Wellhead Rate	Wellhead Value
Purchase	9,171.37	$1.322800	$12,131.99
Total	**9,171.37**		**$12,131.99**

Total Producer Payment: $9,409.30

For Questions Contact: TMS-CSR @ 1-877-672-1449 or TMS_CSR@TARGARESOURCES.COM
Gas Buyer: Stephen Bingham, 713-584-1428 or Randy Tampien, 940-220-2491 @ or PermianCommercial@targaresources.com

$2,722.59 Fees (Actual)

ATTACHMENT 6

Caleb's August Statement using Targa's POP Proposal

TARGA

Versado Gas Processors, L.L.C.
811 Louisiana St., Suite 2100
Houston, TX 77002

Attention:
Operator #:
Operator:

Asset Name: Saunders Complex
Meter #: 2238
Meter Name: CALEB STATE #1
Contract:
Meter Split: 100.00
Contract Type: Percent Of Proceeds
Timeline: 0820 Test

Accounting Date: Sep 1, 2020
Production Date: Aug 1, 2020
Pressure Base: 14.65 (W)
Plant BTU Factor: 0.986854

Run Date: Oct 8, 2020 10:35:46 AM
<TEST>

Physical Information

Volumes

	Mcf	MMBtu
Gross Wellhead	7,392.69	9,171.37
Net Delivered	7,392.69	9,171.37
Shrink	1,167.27	2,993.16
Residue Theoretical	6,235.42	6,178.21
Residue Production	5,990.48	5,911.73
Residue Sale	5,606.16	5,544.40

Analysis

	GPM	Mol
c1	0.000	79.1322
co2	0.000	0.7498
c2	2.364	8.8569
c3	1.238	4.5042
ic4	0.284	0.8683
nc4	0.473	1.5043
ic5	0.230	0.6298
nc5	0.166	0.4595
c6	0.607	1.3626
n2	0.000	1.9134
Total	5.362	100.00

Wellhead BTU
1,240.60

Settlement Information

Plant Products

Description	Settle Unit	Basis Quantity	Allocated Quantity	Producer %	Settle Quantity	Price	Value
Ethane	gal	17,476.32	12,881.54	77.00%	9,918.79	$0.038973	$386.57
Propane	gal	9,152.15	9,042.79	77.00%	6,962.95	$0.360660	$2,511.26
Isobutane	gal	2,099.52	2,043.82	77.00%	1,571.43	$0.458494	$720.49
N Butane	gal	3,496.74	3,423.21	77.00%	2,635.87	$0.404719	$1,066.79
Isopentane	gal	1,700.32	1,638.72	77.00%	1,261.81	$0.689597	$870.14
N Pentane	gal	1,227.19	1,148.71	77.00%	884.51	$0.689597	$609.96
Hexane	gal	4,487.36	3,838.57	77.00%	2,955.70	$0.689597	$2,038.24
Total		39,638.60	34,014.56		26,912.21		$8,202.46

Fees

Description	Fee Unit	Fee Quantity	Fee Rate	Fee Value
Blending	mcf	19,836.07	0.050000	$991.80
Electric	mcf	29.51	1.000000	$29.51
Gathering	mcf	7,392.69	0.850000	$6,283.79
Low Volume	decimal	1.00	0.00	$0.00
New Mexico Gas Tax Recovery Fee (After Tax Fee)	decimal	64.20	1.000000	$64.20
Treating	mcf	0.00	0.000000	$0.00
Total				$7,369.30

Residue Gas

Description	Settle Unit	Allocated Quantity	Producer %	Settle Quantity	Price	Value
Residue	mmbtu	5,544.40	77.00%	4,269.19	$1.198076	$5,114.81
Total		5,544.40		4,712.74		$5,114.81

Total Producer Payment: $5,947.96

$7,369.30 Fees using Targa's Proposed Agreement

Plant Summary

Unit	Gross Delivery Point	Gas Lift	Field Fuel	Net Delivery Point	Total Residue Produced	Plant Fuel	Lease Return	Actual Residue Remaining
mcf	907,230	0	50	907,180	590,470	121,669	0	468,801
mmbtu	1,020,990	0	64	1,020,325	582,707	119,070	0	463,637

Plant Product Volumes

Eth Theo	Ethane	Pro Theo	Propane	I-But Theo	I-Butane	N-But Theo	N-Butane	I-Pentane Theo	I-Pentane	N-Pentane Theo	N-Pentane	Hexane Theo	Hexane	Total Theo	Total
2,287,527	1,643,164	1,428,555	1,411,425	229,761	223,676	557,621	546,630	173,074	167,183	182,543	171,425	452,014	387,202	5,281,095	4,570,706

For Questions Contact: TMS-CDR @ 1-877-672-1449 or TMS_CDR@TARGARESOURCES.COM

ATTACHMENT 7

Unique Characteristics of the Caleb Well

- Capable of making 230 mcfd high BTU gas. It is believed that this makes it the best gas producer in the Targa system in this portion of Lea County, NM. Usually, better wells are provided more favorable gas purchasing agreements.
- Sozo was told that the reason for Targa's high operating costs is the high H2S concentrations in their system. The Caleb gas is sweet and contains no H2S gas. The Caleb gas can actually benefit Targa's system by blending down the high concentrations of H2S in Targa's system.
- The Caleb well makes little to no oil or condensate, so the only material income is from gas sales.

ATTACHMENT 8

Gas processing contracts between producers and processors typically vary between "keep-whole" (KW), percent of proceeds (POP), or fee-based, with the key difference being who is taking the inherent risk of the frac spread. In KW contracts, the processor takes the risk as the producers are literally kept whole on the value of the natural gas produced, including the NGLs. With POP contracts, the processor and producers share the value of both natural gas and NGLs and, therefore, the frac spread risk is effectively shared. Fee-based processing puts the risk of processing on the producer as the processor is indifferent to changes in commodity prices.

EXHIBIT C

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

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. ______________

SELF-AFFIRMED STATEMENT OF NOTICE

COUNTY OF SANTA FE)
) ss.
STATE OF NEW MEXICO)

James Bruce deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters stated herein.

2. I am an attorney for Sozo I LP and Sozo Natural Resources LLC.

3. Sozo I LP and Sozo Natural Resources LLC have conducted a good faith, diligent effort to find the name and correct address of the interest owner entitled to receive notice of the application filed herein.

4. Notice of the application was provided to the interest owner, at its last known address, by certified mail. Copies of the notice letter and certified return receipts are attached hereto as Attachment A.

5. Applicant has complied with the notice provisions of Division Rules.

6. I understand that this Self-Affirmed Statement will be used as written testimony in this case. I affirm that my testimony in paragraphs 1 through 5 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.

Date: 1/5/21

James Bruce
James Bruce

EXHIBIT D

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

December 17, 2020

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Targa Midstream Services LLC
Suite 2100
811 Louisiana Street
Houston, Texas 77002

ATTACHMENT A

Attention: Misty Edwards

Ladies and gentlemen:

Enclosed is a copy of an application, filed with the New Mexico Oil Conservation Division by Sozo I LP and Sozo Natural Resources LLC, seeking an order requiring Targa Midstream Services LLC to ratably take gas on reasonable terms from 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, pursuant to the provisions of NMSA 1978 §70-2-19.D and 19.15.24.12.A.

This matter is scheduled for hearing at 8:15 a.m. on Thursday, January 7, 2021. During the COVID-19 Public Health Emergency, state buildings are closed to the public and the hearing will be conducted remotely. To determine the location of the hearing or to participate in an electronic hearing, go to *emnrd.state.nm.us/OCD/hearings* or see the instructions posted on the Division's website, *http://emnrd.state.nm.us/OCD/announcements.html*.

You are not required to attend this hearing, but as an owner of an interest who may be affected by the application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from contesting this matter at a later date.

A party appearing in a Division case is required by Division Rules to file a Pre-Hearing Statement no later than Thursday, December 31, 2020. This statement may be filed online with the Division at *ocd.hearings@state.nm.us*, and should include: The name of the party and his or her attorney; a concise statement of the case; the name(s) of the witness(es) the party will call to testify at the hearing; the approximate time the party will need to present his or her case; and identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to the undersigned.

Very truly yours,

James Bruce

James Bruce

Attorney for Sozo I LP and Sozo Natural Resources LLC

7020 0640 0000 1385 5289

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Soto

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Sent To
Targa Midstream Services LLC
Street and Apt. No., or
Suite 2100
811 Louisiana Street
City, State, ZIP+4®
Houston, Texas 77002

PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions

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- Print your name and address on the reverse so that we can return the card to you.
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Targa Midstream Services LLC
Suite 2100
811 Louisiana Street
Houston, Texas 77002

9590 9402 5941 0062 9765 35

2. Article Number (Transfer from service label)
7020 0640 0000 1385 5289

COMPLETE THIS SECTION ON DELIVERY

A. Signature
X
☐ Agent
☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery
12/21/20

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type
- ☐ Adult Signature
- ☐ Adult Signature Restricted Delivery
- ☑ Certified Mail®
- ☐ Certified Mail Restricted Delivery
- ☐ Collect on Delivery
- ☐ Collect on Delivery Restricted Delivery
- ☐ Insured Mail Restricted Delivery (over $500)
- ☐ Priority Mail Express®
- ☐ Registered Mail™
- ☐ Registered Mail Restricted Delivery
- ☑ Return Receipt for Merchandise
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PS Form 3811, July 2015 PSN 7530-02-000-9053 Soto Domestic Return Receipt

70-2-19. Common purchasers; discrimination in purchasing prohibited.

A. Every person now engaged or hereafter engaging in the business of purchasing oil to be transported through pipelines shall be a common purchaser thereof and shall, without discrimination in favor of one producer as against another in the same field, purchase all oil tendered to it which has been lawfully produced in the vicinity of, or which may be reasonably reached by pipelines through which it is transporting oil, or the gathering branches thereof, or which may be delivered to the pipeline or gathering branches thereof by truck or otherwise, and shall fully perform all the duties of a common purchaser. If any common purchaser shall not have need for all such oil lawfully produced within a field or if for any reason it shall be unable to purchase all such oil, then it shall purchase from each producer in a field ratably, taking and purchasing the same quantity of oil from each well to the extent that each well is capable of producing its ratable portions; provided, however, nothing herein contained shall be construed to require more than one pipeline connection for each producing well. In the event any such common purchaser of oil is likewise a producer or is affiliated with a producer, directly or indirectly, it is hereby expressly prohibited from discriminating in favor of its own production or in favor of the production of an affiliated producer as against that of others, and the oil produced by such common purchaser or by the affiliate of such common purchaser shall be treated as that of any other producer for the purposes of ratable taking.

B. It shall be unlawful for any common purchaser to unjustly or unreasonably discriminate as to the relative quantities of oil purchased by it in the various fields of the state; the question of the justice or reasonableness to be determined by the division, taking into consideration the production and age of wells in the respective fields and all other factors. It is the intent of the Oil and Gas Act [this article] that all fields shall be allowed to produce and market a just and equitable share of the oil produced and marketed in the state, insofar as the same can be effected economically and without waste.

C. It shall be the duty of the division to enforce the provisions of the Oil and Gas Act, and it shall have the power, after notice and hearing as provided in Section 70-2-23 NMSA 1978, to make rules, regulations and orders defining the distance that extension of the pipeline system shall be made to all wells not served; provided that no such authorization or order shall be made unless the division finds, as to such extension, that it is reasonably required and economically justified or, as to such extension of facilities, that the expenditures involved therein and the expense incident thereto are justified in relation to the volume of oil available for transportation through said extension; and such other rules, regulations and orders as may be necessary to carry out the provisions of the Oil and Gas Act, and in making such rules, regulations and orders, the division shall give due consideration to the economic factors involved. The division shall have authority to relieve such common purchaser, after due notice and hearing as herein provided, from the duty of purchasing crude petroleum oil of

EXHIBIT E

inferior quality or grade or that is not reasonably suitable for the requirements of such common purchaser.

D. Any person now or hereafter engaged in purchasing from one or more producers gas produced from gas wells or casing-head gas produced from oil wells shall be a common purchaser thereof within each common source of supply from which it purchases, and as such it shall purchase gas lawfully produced from gas wells or casing-head gas produced from oil wells with which its gas transportation facilities are connected in the pool and other gas lawfully produced within the pool and tendered to a point on its gas transportation facilities. Such purchases shall be made without unreasonable discrimination in favor of one producer against another in the price paid, the quantities purchased, the bases of measurement or the gas transportation facilities afforded for gas of like quantity, quality and pressure available from such wells. In the event any such person is likewise a producer, he is prohibited to the same extent from discriminating in favor of himself on production from gas wells or casing-head gas produced from oil wells in which he has an interest, direct or indirect, as against other production from gas wells or casing-head gas produced from oil wells in the same pool. For the purposes of the Oil and Gas Act, reasonable differences in prices paid or facilities afforded, or both, shall not constitute unreasonable discrimination if such differences bear a fair relationship to differences in quality, quantity or pressure of the gas available or to the relative lengths of time during which such gas will be available to the purchaser. The provisions of this subsection shall not apply:

(1) to any wells or pools used for storage and withdrawal from storage of natural gas originally produced not in violation of the Oil and Gas Act or of the rules, regulations or orders of the division; or

(2) to persons purchasing gas principally for use in the recovery or production of oil or gas.

E. Any common purchaser taking gas produced from gas wells or casing-head gas produced from oil wells from a common source of supply shall take ratably under such rules, regulations and orders, concerning quantity, as may be promulgated by the division consistent with the Oil and Gas Act. The division, in promulgating such rules, regulations and orders, may consider the quality and the deliverability of the gas, the pressure of the gas at the point of delivery, acreage attributable to the well, market requirements in the case of unprorated pools, and other pertinent factors.

F. Nothing in the Oil and Gas Act shall be construed or applied to require, directly or indirectly, any person to purchase gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his gas transportation facilities then in service.

History: Laws 1935, ch. 72, §§ 12a, 12b, and 12c, added by 1941, ch. 166, § 2; 1941 Comp., §§ 69-214, 69-215 and 69-216; Laws 1949, ch. 168, § 14; 1953 Comp., § 65-3-15; Laws 1977, ch. 255, § 53; 1983, ch. 94, § 1.

ANNOTATIONS

Relationship between prevention of waste and correlative rights. — The prevention of waste is of paramount interest to the legislature and protection of correlative rights is interrelated and inseparable from it. The very definition of "correlative rights" emphasizes the term "without waste." However, protection of correlative rights is a necessary adjunct to prevention of waste. *Continental Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 70 N.M. 310, 373 P.2d 809.

Allowable not to exceed market demand. — When 70-2-16C NMSA 1978 and Subsection E of this section are read together, one fact is evident: even after a pool is prorated, the market demand must be determined, since, if allowable production from the pool exceeds market demand, waste would result if allowable is produced. *Continental Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 70 N.M. 310, 373 P.2d 809.

Basis for change of allowables. — Enabling of gas purchasers to more nearly meet market demand is not an authorized statutory basis upon which change of allowables may be placed. *Continental Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 70 N.M. 310, 373 P.2d 809.

Elements of property rights of natural gas owners. — The legislature has stated definitively the elements contained in property right of natural gas owners. Such right is not absolute or unconditional. It consists of merely (1) an opportunity to produce, (2) only insofar as it is practicable to do so, (3) without waste, (4) a proportion, (5) insofar as it can be practically determined and obtained without waste, (6) of gas in the pool. *Continental Oil Co. v. Oil Conservation Comm'n*, 1962-NMSC-062, 70 N.M. 310, 373 P.2d 809.

Am. Jur. 2d, A.L.R. and C.J.S. references. — 61 Am. Jur. 2d Pipelines § 5.
58 C.J.S. Mines and Mineral § 239.

19.15.24.12 RATABLE TAKE OF GAS:

A. A person engaged in purchasing from one or more producers, gas produced from gas wells or casinghead gas produced from oil wells shall be a common purchaser of gas within each common supply source from which it purchases, and shall purchase gas lawfully produced from gas wells or casinghead gas produced from oil wells with which its gas transportation facilities are connected in the pool and other gas lawfully produced within the pool and tendered to a point on its gas transportation facilities.

B. The common purchaser shall make purchases without unreasonable discrimination in favor of one producer against another in the price paid, the quantities purchased, the bases of measurement or the gas transportation facilities afforded for gas of like quantity, quality and pressure available from the wells.

C. In the event the common purchaser is also a producer, the common purchaser shall not discriminate in favor of the common purchaser on production from gas wells or casinghead gas produced from oil wells in which the common purchaser has an interest, direct or indirect, as against other production from gas wells or casinghead gas produced from oil wells in the same pool. For the purposes of 19.15.24.12 NMAC, reasonable differences in prices paid or facilities afforded, or both, do not constitute unreasonable discrimination if the differences bear a fair relationship to differences in quality, quantity or pressure of the gas available or to the relative lengths of time during which the gas will be available to the purchaser. The provisions of Subsection C of 19.15.24.12 NMAC shall not apply to:

(1) a well or pool used for storage and withdrawal from storage of gas originally produced not in violation of division rules or orders;

(2) a person purchasing gas principally for use in the recovery or production of oil or gas; or

(3) a well that the division designates a hardship well.

D. A common purchaser taking gas produced from gas wells or casinghead gas produced from oil wells from a common source of supply shall take ratably under division rules and orders, concerning quantity, as the division or commission promulgates consistent with 19.15.24.12 NMAC. The division or commission, in promulgating the rules and orders may consider the gas' quality and the deliverability, the gas' pressure at the point of delivery, acreage attributable to the well, market requirements in the case of unprorated pools and other pertinent factors.

E. Nothing in 19.15.24.12 NMAC requires, directly or indirectly, a common purchaser to purchase gas of a quality, under a pressure or under other condition by reason of which the common purchaser cannot economically and satisfactorily use the gas by means of the common purchaser's gas transportation facilities then in service.

[19.15.24.12 NMAC - Rp, 19.15.11.902 NMAC, 12/1/08]

EXHIBIT F