

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 8796

APPLICATION OF RIO PECOS CORPORATION
FOR ENFORCEMENT OF THE COMMON PURCHASER
REQUIREMENTS OF SECTION 70-2-19 NMSA
1978 (1984 SUPP) AND OTHER PERTINENT
PROVISIONS OF THE OIL AND GAS ACT,
EDDY COUNTY, NEW MEXICO

APPLICATION

Applicant, Rio Pecos Corporation, by and through its undersigned attorneys, states:

1. Rio Pecos Corporation (hereinafter sometimes referred to as "Rio Pecos") is a New Mexico corporation duly authorized to do business in New Mexico.

2. The Oil Conservation Commission has jurisdiction of this cause and the subject matter thereof.

3. Rio Pecos is the owner of an undivided interest in a certain Oil and Gas Lease (sometimes hereinafter called "said Lease") from The United States of America as Lessor insofar as it covers the following described lands in Eddy County, New Mexico, to-wit:

Township 21 South, Range 22 East, N.M.P.M.

Section 7: W $\frac{1}{2}$

containing 320 acres, more or less

(hereinafter referred to as "said Lands").

4. Said Lease insofar as it covers said Lands has been committed to the Little Box Canyon Unit for which Cities Service Oil and Gas Corporation is operator. In accordance with documents controlling the ownership and operation of the Little Box Canyon Unit, the Little Box Canyon Unit No. 5 Well (Little Box No. 5) was drilled and completed in the Morrow Formation on or about March 7, 1984. Cities Service Oil and Gas Corporation has designated Yates Petroleum Corporation as the operator of Little Box No. 5. In accord with the well spacing and acreage dedication requirements of the New Mexico Oil Conservation Commission, all of the W $\frac{1}{2}$ Section 7, Township 21 South, Range 22 East, N.M.P.M., Eddy County, New Mexico has been dedicated to said well.

5. Yates Petroleum Corporation's Mescal Federal No. 1 Well (Mescal No. 1) was drilled and completed in the Morrow Formation and the following described lands were dedicated to said well in Eddy County, New Mexico: to-wit:

Township 21 South, Range 22 East, N.M.P.M.

Section 18: N $\frac{1}{2}$

containing 320 acres, more or less

The Mescal No. 1 is a direct offset to Little Box No. 5. Both wells are completed in the same reservoir and gas from each well is of like quantity, quality and pressure. Applicant owns no interest in Mescal No. 1.

6. All of the gas produced from the Mescal No. 1 is sold to El Paso Natural Gas Company (hereinafter "Gas Company"). Said purchases by Gas Company as to the Mescal No. 1 commenced in January, 1983, prior to the completion of Little Box No. 5 and have continued down to date.

7. Gas Company also purchases gas from other producers in the immediate area of Little Box No. 5. Gas Company's pipeline is the only pipeline system in the area.

8. Since the completion of Little Box No. 5, numerous requests have been made of Gas Company to purchase Applicant's share of production from Little Box No. 5 and, in accordance with provisions of Section 70-2-19, NMSA 1978 (1984 Supp.), Applicant has duly tendered to Gas Company all of its gas produced and to be produced from the Little Box No. 5, subject to applicable rules and regulations fixed by this Commission. The deliverability capacity of Little Box No. 5 is estimated at 5.9 million cubic feet of gas per day on a 1/2 inch choke.

9. In violation of its legal obligations, as set forth in Section 70-2-19, NMSA 1978 (1984 Supp.) Gas Company has refused to purchase from Applicant, Applicant's portion of gas produced from the Morrow Formation in the Little Box No. 5, even though the gas is of like kind, quality and pressure as other gas produced from the Morrow Formation purchased by Gas Company from other producers in the area, including gas produced from the Mescal No. 1.

10. Gas Company's unreasonable discrimination and its failure to buy and pay for Morrow gas from Little Box No. 5 has resulted in drainage suffered by Applicant by virtue of Gas Company having taken production from Mescal No. 1. Further, Gas Company's unreasonable discrimination and its refusal to buy and pay for Morrow gas from Little Box No. 5 has forced Applicant, as a distressed producer, to arrange to sell gas from Little Box No. 5 to El Paso Marketing Company (Marketing Company) at a price of \$2.30 per MMBtu less production taxes and less transportation

charges instead of the \$2.60 per MMBtu (with Gas Company paying production taxes) that Gas Company has offered to pay for gas produced from the offsetting Mescal No. 1 as well as other gas produced in the general area and in other locations in New Mexico.

11. The agreement which Applicant has with Marketing Company is for only a short term, and, under the circumstances, constitutes the only source available to Applicant by which Applicant is able to mitigate damages both as to drainage from Mescal No. 1 and as to economic loss of revenues from the sale of production from Little Box No. 5.

12. Gas Company's actions adversely affect Applicant's correlative rights.

13. Gas Company's actions and unreasonable discrimination in failing and refusing to purchase gas from the Morrow Formation produced from Little Box No. 5 violate Section 70-2-19 and other pertinent provisions of the Oil and Gas Act.

14. By the actions described herein, together with the fact that Gas Company has the only pipeline system available to Applicant in the general area of the Little Box No. 5, Gas Company usurps and supplants the Oil Conservation Commission as well as the Oil Conservation Division as to the authority of those administrative agencies to regulate production of gas within the reasonable market demand. Gas Company's action is contrary to conservation of gas produced or producible from the general area in which Little Box No. 5 is located and is believed to constitute a predatory act against Applicant as prohibited by the laws of this state and the United States.

WHEREFORE, Applicant requests that the Commission:

1. Set this Application for hearing on the earliest available Commission hearing docket;

2. Enter its order to require Gas Company to make purchases from Applicant for the gas produced from Little Box No. 5 without discrimination as to price paid, quantities purchased, bases of measurement or gas transportation facilities afforded as compared to gas from other wells of like quantity, quality and pressure.

3. Enter its order to require Gas Company to take ratably the gas produced from Little Box No. 5 in order to prevent waste, to protect Applicant's correlative rights, and to carry out the overall purposes of the Oil and Gas Act; and

4. Grant such other and further relief as the Commission deems appropriate under the circumstances.

Respectfully submitted,

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