STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

P. O. BOX 2088
SANTA FE, NEW MEXICO 8750(

Form C-129
Revised 10-1-78

RECEIVED
JAN - 3 1982

APPLICATION FOR EXCEPTION TO NO-FLARE RULE 306

RECEIVED
DEC 30 1982
O. C. D.
ARTESIA, OFFICE

NFO Permit No. OIL CONSERVATION DIVISION
SANTA FE
(For Division Use Only)

RECEIVED
JAN 06 1983
O. C. D.
ARTESIA, OFFICE

A. Applicant, Wood & Locker, Inc.,
whose address is 600 Energy Square, 505 N. Big Spring
Midland, Texas 79701-8602,
hereby requests an exception to Rule 306 for 102 days or until
April 1, 1983, for the following described tank battery (or LACT):

Name of Lease Southland State Name of Pool Wildcat - Bone Springs

Location of Battery: Unit Letter H Section 1 Township 25-S Range 27-E

Number of wells producing into battery 1

B. Based upon oil production of 3 barrels per day, the estimated* volume
of gas to be flared is 200 MCF; Value $860 per day. BT & Roy

C. Name and location of the nearest gas gathering facility:
El Paso Natural Gas Co. - NE/4 Sec. 2, T-26-S, R-27-E, Eddy County

D. Distance 6-1/2 Miles Estimated cost of connection $350,000

E. This exception is requested for the following reasons:

1. Waiting on Right-of-Way Easement No. RW-21955 "Permit" from State of New Mexico, Commissioner of Public Lands.

2. El Paso Natural cannot give us a definite tie-in date per attached letter.

F. I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

D. M. Johnson D. M. Johnson
(Signature)

Drilling & Production Manager
(Title)

12-28-82
(Date)

Approved Until Denied

NEW MEXICO OIL CONSERVATION DIVISION

By Joe D. Ramey

Title Div. Director

Date 1/3/83

*Gas-Oil ratio test may be required to verify estimated gas volume.

RECEIVED

DEC 1 1982

Approved

El Paso
Natural Gas Company

P. O. BOX 1492
EL PASO, TEXAS 79978
PHONE: 915-541-2600

December 15, 1982

Wood & Locker, Inc.
600 Energy Square
505 N. Big Spring Street
Midland, Texas 79701-8602

Attention: Mr. D. M. Johnson

Re: Casinghead Gas Purchase Contract
Eddy County, New Mexico

Gentlemen:

In reference to your letter of November 2, 1982, we must advise you that, at this time, El Paso is not in a position to take on any new gas commitments.

Perhaps you know that, in the recent past, El Paso and its California customers were negotiating on a number of issues, including a commitment on their part to increase their purchases of El Paso's gas. As stated in the attached copy of El Paso's letter of October 25, 1982 addressed to the CPUC, those negotiations reached an impasse. El Paso, however, continues to attempt a settlement, as evidenced in the attached copy of El Paso's December 10, 1982 letter to all parties to El Paso's current rate proceedings which, of course, include the California customer parties.

At this writing, final results of our settlement negotiations are inconclusive; and, accordingly, we cannot tell you when El Paso will be in a position to once again take on new gas commitments, or the precise basis on which contracts will be offered.

We want to be sure you understand El Paso's position in a matter of such vital importance to you. We certainly regret that, under the present circumstances, we will be unable to offer you a contract.

Should El Paso's situation change where we can offer contracts and you have not otherwise disposed of your gas, we will certainly be interested in discussing a possible purchase with you at that time.

Very truly yours,

GAS PURCHASES DEPARTMENT

R. E. Johnson
Director

Attachments
REJ:ck

cc: H. O. Whitt, Midland Office

The
El Paso Company

2727 ALLEN PARKWAY
P. O. BOX 2185
HOUSTON, TEXAS 77001

PHONE: 713-525-8400

TRAVIS H. PETTY CHAIRMAN AND PRESIDENT

October 25, 1982

Mr. John E. Bryson, President
California Public Utilities Commission
State Building - Civic Center
San Francisco, California 94102

Dear President Bryson:

For the past three months, we have been negotiating with Southern California Gas Company and Pacific Gas and Electric Company in an effort to reduce the cost of natural gas to Calfornia consumers. As suggested in your letters of July 16 and 23 to Messrs. Rensch and Mielke, these discussions have concentrated on our purchases of high-cost, unregulated gas and on the possibility of our exercising "market-out" clauses in gas purchase contracts.

We have presented a plan to SoCal and PG&E that would reduce our October rate increase by 75 percent, resulting in an annual saving of approximately $360 million. An integral part of that plan is the commitment by SoCal and PG&E to increase their purchases of El Paso's gas which, even before the proposed rate reduction, is California's lowest cost out-of-state supply and is much less expensive than Canadian gas purchased by SoCal and PG&E from their own affiliates. No progress has been made toward such a commitment and, unfortunately, our negotiations have reached an impasse.

In letters addressed to SoCal and PG&E on October 22, copies enclosed, we review the discussions that have occurred and summarize the plan proposed by El Paso. Of course, we are available to continue discussions if there is reason to believe that progress can be made toward equitable resolution of these problems. In any event, we very much appreciate the efforts you and your staff have made in this matter.

Very truly yours,

Travis H. Petty

El Paso NATURAL GAS COMPANY

P. O. BOX 1492
EL PASO, TEXAS 79978
PHONE: 915-543-2600

CHARLES R. JACK VICE PRESIDENT

December 10, 1982

To All Parties to El Paso
Natural Gas Company's Rate
Proceedings at Docket Nos.
RP82-33, et al., and
Related Proceedings

Gentlemen:

This letter is written in order to advise you of a new proposal which El Paso Natural Gas Company ("El Paso") hopes will serve to resolve a number of matters in dispute before the Federal Energy Regulatory Commission ("Commission"). In addition, this letter is intended to advise you of certain actions which El Paso has taken and will undertake with regard to its natural gas purchasing activities in order to enhance the marketability of natural gas through price reductions.

SETTLEMENT PROPOSAL IN DOCKET NOS. RP82-33, ET AL.

El Paso's current base tariff rates became effective, subject to refund, on July 1, 1982, pursuant to a notice of rate increase filed with the Commission in Docket No. RP82-33. Since the filing of that rate increase, a number of other rate matters have been consolidated by the Commission with the proceeding at Docket No. RP82-33. Additionally, it has become apparent that even certain other rate proceedings before the Commission which have not been consolidated in Docket No. RP82-33, are nevertheless substantially related to the matters and issues of that docket.

Despite the continuous efforts of the parties to Docket Nos. RP82-33, et al., and related dockets, a settlement of the disputes therein has not yet been achieved. El Paso believes, however, that a fair settlement of the issues in these proceedings is still possible. To that end, El Paso proposes a new basis for settlement, key features of which are briefly outlined in the following paragraphs.

Mid-Louisiana. El Paso will price its production on a cost-of-service basis unless the Supreme Court issues a decision on review affirming the decision of the Fifth Circuit Court of Appeals in Mid-Louisiana Gas Co. v. FERC, 664 F.2d 530 (1981). If the Supreme Court affirms the holding of the Fifth Circuit in the Mid-Louisiana case, El Paso will price Category 1 and Category 2 production at levels permitted by the Natural Gas Policy Act of 1978 ("NGPA") prospective only from and after January 1, 1983. If the Commission also grants El Paso's petition for an order issued under Section 5(a) of the Natural Gas Act respecting the pricing of Category 3(b) production, El Paso will price that production at NGPA levels from and after the earlier of the issuance of the Supreme Court's decision on review of the Mid-Louisiana case, or July 1, 1983. El Paso will permanently retain cost of service pricing with respect to Category 3(a) production. In view of this resolution of the pricing of pipeline production, all parties would withdraw the various petitions filed for review of the Commission's September 30, 1982 order concerning El Paso's implementation of the Mid-Louisiana decision.

Rate Reductions. Upon the effectiveness of the proposed settlement agreement, El Paso will file revised tariff sheets reducing its rates for jurisdictional sales of gas by 2.43¢ per Mcf for California customers, 4.98¢ per Mcf for east-of-California customers, and 4.97¢ for field sales customers. Additionally, El Paso will withdraw its filing at Docket No. RP83-6 which will avoid the rate increase in April, 1983 of approximately 12.23¢ per Mcf for the California customers and 7.81¢ per Mcf for the east-of-California customers.

Cost-of-Service Items. The proposed rate reductions are based on sales volumes of 2651 MMcf per day, a 17.5% return on common equity, and depreciation rates as follows: 2.40% for transmission plant; 4.50% for onshore production and gathering plant; 11.00% for offshore production and gathering plant; 2.20% for products extraction plant; 5.25% for underground storage plant; and 5.00% for San Juan Triangle facilities plant. The rate reductions also reflect a reduced working capital allowance. The working capital allowance in the settlement cost of service was developed by application of the one-eighth formula contained in the Commission's regulations. While El Paso has offered to reduce its working capital allowance, and believes that a compromise is still possible, it appears that the issue should be severed for hearing. If the matter cannot be settled in advance of a decision after hearing, El Paso must maintain in its rates, pending that decision, the full amounts that the regulations entitle El Paso to base its filed rates upon. The rate reductions proposed herein also reflect $30.9 million of working gas inventory in the Washington Ranch Storage Project facility. Finally, the question of the propriety of El Paso's inclusion of certain "production-related costs" in its rates will be deferred pending the Commission's issuance of a final order, no longer subject to judicial review, on rehearing of Order No. 94.

Two-Part Rate. Effective April 1, 1983, El Paso will implement a two-part rate design as proposed in Docket No. RP83-6. The new form of service agreement filed in Docket No. RP83-13 will also become an effective portion of El Paso's tariff on that date, or such earlier date as may be agreed to, and Rate Schedule G-X will be cancelled.

Btu Billing. Effective April 1, 1983, El Paso will commence billing its customers on the basis of dekatherms purchased rather than on an Mcf basis.

"Tracking" Provisions. The settlement agreement will include "tracking" provisions with respect to the following items: liquids costs and revenues; transportation costs and revenues; royalties and production taxes; prepaid gas purchase costs; and federal income taxes.

"Unpaid Accruals". Following the approval of the proposed settlement agreement and until its termination, El Paso will forego the inclusion of "unpaid accruals" in Account No. 191 for rate purposes, to the extent required to offset any rate increases attributable to increased purchased gas costs.

Liquids and Liquefiables. El Paso will agree to include provisions disposing of the liquids and liquefiables issue drawn from the Commission's settlement with Transcontinental Gas Pipe Line Co. El Paso's agreement to such provisions is conditioned upon the Staff's providing to El Paso and the parties a thorough explanation of the basis for and effect of such provisions.

Month of June 1982. Rates for the month of June will be subject to the procedures, modified as necessary, set forth in the Docket No. RP79-12 (Further Extension) Stipulation and Agreement.

Affiliated Entities Purchases. In light of El Paso's new gas acquisition policy and other steps taken to deal with the "high cost of gas" issue (described below), the "Affiliated Entities" proceeding pending at Docket Nos. TA83-1-33 and TA82-2-33 will be terminated.

Washington Ranch Certificate Amendment. El Paso has proposed at Docket No. CP79-224 to amend its certificate for the Washington Ranch Storage Facility to provide greater gas acquisition and system operation flexibility. A certificate permitting such amendment will be provided for in the Stipulation and Agreement.

Termination of Miscellaneous Proceedings. The proceeding pending at Docket No. RP72-116 respecting El Paso's Alaskan advance payments will be terminated on the basis spelled out in earlier discussions. The transportation rate schedules filed in Docket No. RP82-94 and RP82-108 will be approved and those proceedings terminated.

GAS ACQUISITION POLICY

A large portion of the settlement discussions to date has been directed to the so-called "high cost of gas" issue. El Paso believes that the following approach should alleviate the concerns expressed in this area. In consideration of the increasing sensitivity of market demand to rising gas sales rates and the general supply and market environment in which El Paso now finds itself and foresees will prevail in the future, El Paso intends to limit its future purchased gas cost rate increases through exercise of the flexibility provided in existing gas purchase contracts and in future contracts executed in accordance with the guidelines set forth below.

El Paso will continue to defer acquisition of any new gas supplies until the presently highly volatile gas sales market has stabilized. However, once the gas sales market has stabilized, El Paso would intend to implement a gas acquisition policy under which it would seek to purchase new gas supplies at the most favorable prices reasonably available, with activity centered on securing supplies at prices generally not exceeding NGPA Section 102 levels. El Paso will continue to secure broad marketability-out and pass-through provisions, and to continue to avoid use of favored nations clauses in all new gas purchase agreements, and to attempt to renegotiate those existing contracts that do not conform to these guidelines. As previously indicated, El Paso will furnish customers and regulatory agencies 10-year gas supply and price forecasts on or about May 1 and November 1 of each year.

PRICING OF AFFILIATE PURCHASES

As a matter of information, El Paso has made a corporate decision to limit the price paid to El Paso Exploration, retroactively to June 1, 1982, to an amount not exceeding the incremental pricing threshold established under Section 282.301(g) of the Commissions Regulations. This price is equal to 130 percent of the price per barrel of No. 2 fuel oil landed in the New York City metropolitan area as published by the Energy Information Administration.

SETTLEMENT CONFERENCE

After the conclusion of the prehearing conference before Judge Liebman at the Commission on Tuesday, December 14, 1982, El Paso expects that the parties will enter into discussions concerning a settlement of the matters outlined in the first portion of this letter. Copies of a draft settlement agreement incorporating the substance of the proposal in Docket No. RP82-33, et al., will be available in The El Paso Company office in Washington by noon, Monday, December 13, 1982. The El Paso Company office is now located at Suite 200, 1050 Connecticut Avenue, N.W.

Very truly yours,

Charles R. Jack