

**Chronology of Events Relevant to Attempts to Sell Gas
to El Paso Natural Gas Company (EPNG) from the
Little Box Canyon Unit #5, W/2 Section 7,
T-21-S, R-22-E, Eddy County, New Mexico**

- 3/07/84 — Yates Petroleum Corporation completed the Little Box Canyon Unit #5 as a gas well.
- March '84 — First of several telephone calls by B. W. Harper of Yates Petroleum Corporation to EPNG requesting that they buy the gas from said well.
- 5/06/84 — First of many telephone calls by Charles S. Crouch on behalf of Basic Energy, Inc., to EPNG requesting that they buy the gas from said well.
- 11/20/84 — First of several telephone calls by Scott E. Wilson of Rio Pecos Corporation to EPNG requesting that they buy the gas from said well.
- 1/11/85 — Letter from Rio Pecos Corporation to EPNG requesting that EPNG buy the gas from said well.
- 2/15/85 — Letter from EPNG to Rio Pecos Corporation refusing to buy the gas from the well, but offering transportation service on a best-efforts basis.
- 6/07/85 — Letter from B. W. Harper of Yates Petroleum Corporation to Basic Energy, Inc., stating that his negotiations with EPNG to sell the gas from the Little Box Canyon Unit #5 started in March 1984, to no avail.
- 9/24/85 — Letter from Rio Pecos Corporation to EPNG once again requesting that EPNG buy the gas from the Little Box Canyon Unit #5 or Rio Pecos Corporation would request a hearing before the NMOCD to attempt to use the Common Purchaser Act to get EPNG to buy the gas.
- 12/05/85 — Letter from EPNG to Basic Energy, Inc., once again refusing to buy the gas from said well.

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
<i>Rio Pecos</i>	Exhibit No. <u>12</u>
Case No. <u>8796</u>	

IO PECOS CORPORATION

110 WEST LOUISIANA, SUITE 460

MIDLAND, TEXAS 79701

(915) 687-0127

- LAND -

SCOTT E. WILSON

ROGER T. ELLIOTT

- GEOLOGY -

MARK D. WILSON

TODD M. WILSON

HEATHER G. WILSON

January 11, 1985

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79978

Attn: Mr. Richard Atha

RE: Little Box Canyon Unit #5
W/2 Section 7, T-21-S, R-22-E
Eddy County, New Mexico

Gentlemen:

Yates Petroleum Corporation as Operator completed the captioned well in the Morrow formation on March 7, 1984. Enclosed are a geologic report and various exhibits (i.e., logs, geologic maps, production record, completion report, pressure data and FERC filings). Also attached is Exhibit "A-1" which sets forth the interests of the working interest owners in the well.

We respectfully request that El Paso Natural Gas Company buy the gas from our well. El Paso is currently taking the gas from the Yates Petroleum Corporation Mescal Federal #1 which is directly offsetting the Yates Petroleum Corporation Little Box Canyon Unit #5. We can prove conclusively based upon geologic correlations and pressure data that both wells are in the same reservoir; consequently, because you are not taking the gas from the Little Box Canyon #5, we are being drained by the Mescal Federal #1. If fact, the Mescal Federal #1 has already produced about 1.3 BCFG.

As a point of clarification, all of the working interest owners in the Little Box Canyon Unit #5 have a lesser interest or no interest in the Mescal Federal #1 except Yates Drilling Company; therefore, only Yates Drilling Company, as opposed to Yates Petroleum Corporation, et al, is not in a drainage situation.

To date, we have only had verbal communication with El Paso requesting that El Paso buy our gas from the Little Box Canyon Unit #5. We have been told by El Paso that El Paso will not buy our gas from the well. After patiently waiting for ten months for the gas market to improve so that El Paso would voluntarily buy our gas, we now feel compelled to pursue this matter more vigorously.

Little Box Canyon Unit #5
Eddy County, NM
January 11, 1985
Page Two

The NMOCD Act, New Mexico Statutes, Section 70-2-19, Subparagraph D, entitled "Common purchasers; discrimination in purchasing prohibited," provides,

"Any person now or hereafter engaged in purchasing from one or more producers gas produced from gas 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 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 in which he has an interest, direct or indirect, as against other production from gas wells in the same pool."

Further, as written by Glenn Gates Taylor, "The Excess Gas Market--Recent Legal Problems Precipitated by Excess Gas Deliverability, and Applicable Regulatory Provisions," Thirty-Fifth Annual Institute on Oil and Gas Law and Taxation, page 125 states,

"Given the provisions of NGPA Section 601(a) and the Supreme Court's abandonment of the "bright line" test of Public Utilities Comm. v. Attleboro Steam and Electric Company, there is no longer any jurisdictional or regulatory reason why a state conservation commission may not once again enforce an anti-discrimination common purchaser rule against an interstate pipeline, as it could before Northern Natural Gas Co. v. State Corporation Commission of Kansas, as to the first sale of gas which falls within the ambit of NGPA Section 601(a), particularly in the case of deregulated gas where the impact of discriminatory purchasing practices is the greatest."

Because El Paso has the only pipeline in the area and we are being drained, we feel that it is reasonable to expect El Paso to buy our gas from the Little Box Canyon #5 without unreasonable discrimination in favor of one producer against another.

Your fair handling of this matter will be greatly appreciated.

Very truly yours,

Scott E. Wilson
Vice-President

SEW/cn
Enclosures

Little Box Canyon Unit #5
Eddy County, NM
January 11, 1985
Page Three

xc: Mr. Richard Stamets
Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

Yates Petroleum Corporation
207 South 4th Street
Artesia, NM 88210
Attn: Mr. B. W. Harper

Basic Energy, Inc.
318 Meadows Bldg.
5646 Milton Street
Dallas, Texas 75206

El Paso
Natural Gas Company

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

February 15, 1985

Rio Pecos Corporation
110 West Louisiana
Suite 460
Midland, Texas 79701

Re: Little Box Canyon Unit No. 5
Section 7, T21S, R22E
Eddy County, New Mexico

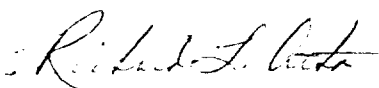
Gentlemen:

We have received and reviewed your January 11, 1985 letter requesting that El Paso Natural Gas Company purchase gas from the referenced well. As you know, the natural gas market has been depressed since mid-1982. At that time, El Paso instituted a general, systemwide moratorium on new gas purchases. Since the forecasted annual average deliverability from El Paso's dedicated sources of supply continues to substantially exceed the annual average day requirements of El Paso's market, El Paso is not in a position at the present time to offer to purchase gas producible from the referenced well, notwithstanding the arguments raised in your letter.

We do, however, recognize the difficulties that the present supply/market imbalance has caused many producers. Accordingly, while we cannot, in all fairness to our many contracted suppliers, offer to purchase gas from the referenced well, we are ready and willing to transport your gas to a mutually-agreeable point or points on behalf of any other pipeline that may be interested in acquiring gas therefrom. Such transportation service would be rendered on a best-efforts basis at applicable rates on file with the Federal Energy Regulatory Commission, and would be subject to receipt of any necessary regulatory approvals. If you are interested in having your gas transported by El Paso, please contact Mr. Arthur J. Hammel, Director of Gas Transportation and Exchange Department for El Paso.

Very truly yours,

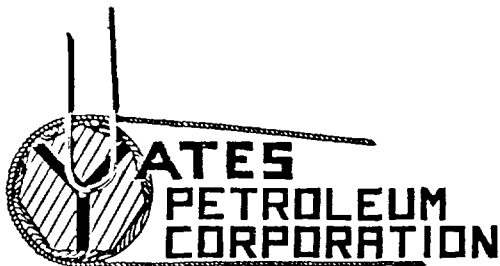
GAS PURCHASES DEPARTMENT



Richard L. Atha
Staff Contract Representative

RLA:ac

cc: Mr. Arthur J. Hammel
Gas Transportation and Exchange Department



207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1331

BASIC ENERGY, INC

JUN 10 1985

S. P. YATES

PRESIDENT

MARTIN YATES, III

VICE PRESIDENT

JOHN A. YATES

VICE PRESIDENT

B. W. HARPER

SEC. TREAS.

June 7, 1985

Basic Energy, Inc.
318 Meadows Building
Dallas, Texas 75206

Attention: Mr. James D. Brown, Jr.

Re: Little Box Canyon Unit No. 5
W/2 Section 7-T21S-R22E, N.M.P.M.
Eddy County, New Mexico

Dear Jim:

I was disappointed to hear that our original agreement with The New Energy Company did not materialize and that under the new proposal we will receive \$.15 less per MMBtu.

As I reported to you this morning, my efforts since March to sell this gas to El Paso have produced the same results as they produced over the previous twelve months. They will submit an offer to buy this well only if we agree to amend the pricing provisions of our existing contracts. Our perception of the results of our agreement to such an amendment has not changed. We feel that our position would be difficult to defend in the event that fee, federal or state royalty owners claimed that our action produced an unfair or inequitable result to them.

If there is a solution to this "El Paso/Yates impasse" it has certainly been elusive. We will continue contacting them on a regular basis, and if anything develops, we will let you know.

Coming back to the current problem of a lesser price currently offered by The New Energy Company, I have spoken with S. P. and John and their feeling is that we have no choice, and they are willing to sell the gas in any market at any price that is satisfactory with the other owners.

Yours truly,

B. W. Harper
B. W. Harper

BWH:lab

RIO PECOS CORPORATION

110 WEST LOUISIANA, SUITE 460

MIDLAND, TEXAS 79701

(915) 687-0127

- LAND -

SCOTT E. WILSON

ROBERT T. ELLIOTT

- GEOLOGY -

MARK D. WILSON

TODD M. WILSON

HEATHER WILSON ECHOLS

September 24, 1985

Certified No. P 167 347 908

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79978

Attention: Mr. Richard L. Atha

Re: Little Box Canyon Unit #5
W/2 Section 7, T-21-S, R-22-E,
Eddy County, New Mexico

Gentlemen:

Please be advised that we are pursuing the position set forth in my letter of January 11, 1985, a copy of which is attached. We respectfully request that El Paso buy our gas from the captioned well subject to the same contract granted Chama Petroleum Company on the Anderson Gas Com. #1 in the N/2 Section 10, T-20-S, R-25-E, Eddy County, New Mexico. Because we are a working interest owner in the Anderson Gas Com. #1, we are familiar with the gas contract between Chama, et al, and El Paso.

It is our position that the market price for our gas from the Little Box Canyon Unit #5 is \$3.00 per MCF plus compensation for MMBTU over 1000 with El Paso paying the production taxes. We realize that El Paso is taking the position that it cannot offer such contracts without the producers involved making concessions on old contracts (i.e., reducing prices to \$3.00 per MCF, reducing take or pay percentages, eliminating "favored nations" clauses, etc.), thereby effectively reducing the price paid for the new gas purchases.

We feel that our position is supported by the following arguments:

1) In old gas contracts which have "market-out" clauses (i.e., the gas contract on the Mescal Fed. #1 which is draining the Little Box Canyon Unit #5), El Paso has marketed-out to \$3.00 per MCF which is what El Paso can obviously afford to pay based upon current market conditions; otherwise, the "market-out" price would have been less than \$3.00 per MCF.

2) El Paso is paying \$3.00 per MCF for jurisdictional gas. In fact, we understand that El Paso has agreed to pay Meridian Exploration Company, El Paso's sister company, \$3.00 per MCF for the gas from as many as 1,000 wells that may be drilled in the San Juan Basin. It may be that the Little Box Canyon Unit #5 is subject to an old gas contract with El Paso which qualifies it for the jurisdictional price. I know that the gas from the wells drilled by Cities Service Company in the Little Box Canyon Unit was bought by El Paso.

3) El Paso is paying \$3.00 per MCF for new, non-jurisdictional gas where apparently the producers involved are making concessions on old gas contracts. If 100% of the producers involved agreed to lower the price on old gas to \$3.00 so they could sell new gas at \$3.00, the average price could not be less than \$3.00. It would be interesting to know what El Paso calculates the effective price to be where such concessions are involved.

We realize that El Paso has offered to buy the gas from the Little Box Canyon #5 if Yates Petroleum Corporation would make concessions on its old gas contracts. We understand that in all of Yates' old gas contracts that had "market-out" clauses, El Paso has marketed-out to \$3.00 per MCF anyway, which is the same price being agreed to by those producers who voluntarily agree to amend their old gas contracts. Yates' position in part is that they cannot unilaterally make concessions on old gas contracts to obtain a fair market price for its new gas at the expense of the working interest and royalty owners for whom Yates is selling gas under the old gas contracts, by, through and under the effective oil and gas leases and joint operating agreements between Yates and such working interest and royalty owners. To do so would potentially create an enormous liability if the working interest and royalty owners held Yates accountable for such an action.

We have other shut-in gas wells in areas where El Paso has the only pipelines, but where drainage is not a problem. We do not expect El Paso to buy our gas from such wells if El Paso does not wish to do so. But on the Little Box Canyon Unit #5, I calculate that we (Rio Pecos Corporation, Mark D. Wilson, Scott E. Wilson, Todd M. Wilson, Roger T. Elliott and Heather W. Echols) have lost about \$1,100.00 per day, being approximately \$600,000.00, due to drainage over the last 18 months. Consequently, as a distressed producer, we are selling the gas from the Little Box Canyon Unit #5 to El Paso Marketing Company for approximately \$1.85 per MCF (\$2.30 per MCF less production taxes and transportation charges) instead of the \$3.00 per MCF (with El Paso paying the production taxes and transportation charges) that El Paso is paying for the gas from the offsetting Mescal Fed. #1 and other gas as explained above.

We will request a de novo hearing before the NMOCD to attempt to use the Common Purchaser Act (New Mexico Statutes, Section 70-2-19, Subparagraph D) to get El Paso to buy our gas if El Paso will not voluntarily agree to buy our gas as requested within a reasonable period of time. We have been as patient as we can afford to be.

Very truly yours,

RIO PECOS CORPORATION

Scott E. Wilson,
Vice President

SEW/sh

cc: Mr. Luis Guzman
El Paso Natural Gas Company
Mr. Richard Stamets
Oil Conservation Division
Yates Petroleum Corporation
Basic Energy, Inc.

El Paso
Natural Gas Company

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

BASIC ENERGY, INC.

December 5, 1985

DEC 10 1985

Lorenz and Crouch
Attention: Mr. Charles Crouch
201 Meadows Building
5646 Milton
Dallas, Texas 75206

Re: Little Box Canyon Unit #5
Loafer Draw Federal #1

Gentlemen:

In regards to your inquiry concerning El Paso Natural Gas Company's interest in purchasing gas for system supply from the two referenced wells, I regret to inform you that we are not actively seeking new gas supplies at this time. This situation is a result of a continuing deterioration of our market combined with excessive currently contracted supply.

Best regards,

GAS PURCHASES DEPARTMENT



Gene A. Hammons
Director

GAH:hbr

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 8796
Order No. R-8209

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

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 9, 1986, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 28th day of April, 1986, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

The applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED THAT:

Case No. 8796 is hereby dismissed.

-2-
Case No. 8796
Order No. R-8209

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



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member

Ed Kelley
ED KELLEY, Member

R. L. Stamets
R. L. STAMETS, Chairman and
Secretary

S E A L