

ENSERCH EXPLORATION, INC.

THIS AGREEMENT made and entered into this 6th day of October, 1982, by and between ENSERCH EXPLORATION, INC., Suite 600, Summit Bldg., P. O. Box 4815, Midland, Texas 79704, hereinafter called "Enserch" and PHILLIPS PETROLEUM COMPANY, 4001 Penbrook, Odessa, Texas 79762 hereinafter called "Phillips".

W I T N E S S E T H

WHEREAS, Enserch owns, operates and maintains facilities for the underground disposal of salt water in and under the following lands situated in Roosevelt County, State of New Mexico, to wit:

A one (1) acre tract of land in the form of a square with the said Scott Federal No. 2 well at its center, which one (1) acre tract is located in the Northeast Quarter (NE/4) of Section 20, Township 4 South, Range 33 East, Roosevelt County, New Mexico.

WHEREAS, Phillips is the owner of an oil and gas lease from which salt water is being or will be produced, and desires to dispose of said salt water into the above referenced facilities owned by Enserch.

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements hereinafter contained, it is agreed as follows:

ARTICLE I

DISPOSAL:

Enserch grants to Phillips the right and privilege of disposing of salt water from Lambirth lease into the disposal facilities of Enserch, mentioned above, subject to the terms and conditions herein contained.

ARTICLE II

POINT OF DELIVERY:

Phillips shall deliver said salt water, at its sole risk, cost and expense, to the said disposal facilities, at a point designated by Enserch. Phillips agrees to secure all necessary rights of way and easements to transport said salt water by truck or by pipeline or lines to the said point of delivery. In the event Enserch constructs a salt water disposal pipeline to the subject well and designates a new delivery point on said pipeline, Enserch and Phillips agree to use best efforts to agree on the terms of a transportation agreement. Connection at the point of delivery shall be in a manner designated by Enserch, and at the sole cost and expense of Phillips.

ARTICLE III

QUALITY:

Phillips agrees that the salt water delivered hereunder shall be clean and free of oil, basic sediment and other substances which may tend to plug or interfere with the efficient operation of the said disposal facilities, and Enserch shall be the sole and exclusive judge as to whether or not the said salt water is sufficiently free of said substances. Enserch shall have the right to refuse to accept any salt water which does not meet such requirements.

ARTICLE IV

INDEMNITY:

Phillips agrees to hold Enserch harmless from any and all claims, damages or liability which may arise from laying, relaying, construction,

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Exhibit 12 A

Date 2-16-89 3-9-89

operation, maintenance and removal of pipeline or lines by Phillips, and which may arise from the delivery of salt water by Phillips to said disposal facilities. Enserch agrees to hold Phillips harmless from any claim, damages or liability which may result from said salt water after the same enters said disposal facilities.

ARTICLE V

QUANTITY:

It is agreed that Enserch shall accept said salt water for disposal only when said disposal facilities have input capacity in excess of the disposal requirements of Enserch and other commitments heretofore made by Enserch for the disposition of said water of others through said disposal facilities and Enserch shall be under no obligation to construct, alter or maintain either existing or additional disposal facilities to receive and dispose of Phillips's salt water, or any part thereof.

ARTICLE VI

FORCE MAJEURE:

Enserch shall not be liable in damages or otherwise for delays, failures or omissions due to lack of capacity of said disposal facilities, accidents, breakdowns, closing for repair or remedial work, labor difficulties, strikes, walkouts, fires, storms, acts of God, sabotage, interference by order of or compliance with requests of military or civil authority, whether federal, state or local, or appropriation, requisition or confiscation of any facility for the disposal of salt water hereunder.

ARTICLE VII

MEASUREMENT:

Water volume shall be determined by meter to determine the amount of salt water produced from such well or wells and the result from such meter readings shall be the basis for determining the monthly amount of salt water delivered by Phillips into said disposal facilities. If the salt water disposed of under this contract is transported by truck, the volume of such water shall be determined from tank truck hauling tickets to be furnished by the hauling contractor. Phillips hereby grants Enserch the right and privilege to make any inspections deemed advisable.

ARTICLE VIII

FEE, COST AND PAYMENT:

Phillips agrees to pay the sum of forty cents (40c) for each and every barrel of salt water disposed of into said disposal facilities by the Second Party, such amount being intended to reimburse Enserch for the cost of disposing of said salt water under this agreement. This price is based on current operating costs and is subject to review and adjustment, but not more often than annually. Enserch shall render monthly statements to Phillips, in care of J. O. Woodson, Hobbs Plant, P. O. Box 2130, Hobbs, NM. 88240 on or before the twentieth (20th) day of each calendar month for the disposal of water into the said disposal facilities, and Phillips shall pay such amount within fifteen (15) days after receipt of each such statement.

ARTICLE XI

TERMINATION:

This agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, devisees, executors, administrators, representatives, successors and assigns, until termination hereof by either First Party or Second Party upon thirty (30) days written notice to the other.

ARTICLE X

NOTICE:

All notices required or permitted hereunder shall be addressed to the re-

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spective parties at the following addresses or such other address as any party may hereafter designate in writing, to wit;

Enserch Exploration, Inc.
Suite 600, The Summit Bldg.
P.O. Box 4815, Midland, Texas 79704

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

IN WITNESS WHEREOF, this agreement is executed as of the day, month and year first above written.

First Party:

ATTEST:

ENSERCH EXPLORATION, INC.

J. B. Bilton

By E. L. Smith
E. L. Smith Vice President *wys*

Second Party:

ATTEST:

Ernest H. Turner

By J. B. Bilton
J. B. B.

SALT WATER TRANSPORTATION AND
DISPOSAL AGREEMENT

THIS AGREEMENT made and entered into this 6TH day of AUGUST, 1987, by and between EP Operating Company, ClayDesta National Bank Building, Suite 5250, 6 Desta Drive, Midland, Texas 79705, hereinafter called "EPO", and Phillips Petroleum Company, 4001 Penbrook, Odessa, Texas 79762, hereinafter called "Phillips".

W I T N E S S E T H

WHEREAS, EPO owns, operates and maintains facilities for the underground disposal of salt water in and under the following lands situated in Roosevelt County, State of New Mexico, to wit:

A one (1) acre tract of land in the form of a square with the said Scott Federal No. 2 well at its center, which one (1) acre tract is located in the Northeast Quarter (NE/4) of Section 20, Township 4 South, Range 33 East, Roosevelt County, New Mexico.

WHEREAS, Enserch Exploration, Inc., EPO's predecessor in interest, and Phillips entered into that certain salt water disposal agreement dated October 6, 1982 which provided for the disposal of salt water into Enserch's well.

WHEREAS, said agreement provided that if Enserch constructed a salt water disposal pipeline to said well, the parties would use their best efforts to agree on the terms of a transportation agreement.

WHEREAS, EPO has recently constructed a new salt water disposal pipeline to the above-referenced well.

WHEREAS, EPO and Phillips have reached agreement and wish to terminate the October 6, 1982 salt water disposal agreement and enter into this Salt Water Transportation and Disposal Agreement.

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements hereinafter contained, it is agreed as follows:

ARTICLE I

DISPOSAL:

EPO grants to Phillips the right and privilege of disposing of salt water from its Lambirth lease into the disposal facilities of EPO, mentioned above, subject to the terms and conditions herein contained.

ARTICLE II

POINT OF DELIVERY:

Phillips shall deliver said salt water, at its sole risk, cost and expense, to EPO's central tank battery on EPO's Lambirth lease located in N/2 SW/4 (1980' FSL and 1980' FWL) of Section 31, T5S-R33E, Roosevelt County, New Mexico (hereinafter referred to as "point of delivery"). Phillips agrees to secure all necessary rights-of-way and easements to transport said salt water by truck or by pipeline or lines to the said point of delivery. Connection at the point of delivery shall be in a manner designated by EPO, and at the sole cost and expense of Phillips. EPO shall, at its sole cost, risk and expense transport Phillips' salt water

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Docket No. 9511 (De Novo)

Exhibit 12 B

Date ~~2-16-89~~ 3-9-89

from the point of delivery to its disposal well for disposal into said well.

ARTICLE III

QUALITY:

Phillips agrees that the salt water delivered hereunder shall be clean and free of oil, basic sediment and other substances which may tend to plug or interfere with the efficient operation of the pipeline or disposal facilities, and EPO shall be the sole and exclusive judge as to whether or not the said salt water is sufficiently free of said substances. EPO shall have the right to refuse to accept any salt water which does not meet such requirements.

ARTICLE IV

INDEMNITY:

Phillips agrees to hold EPO harmless from any and all claims, damages or liability which may arise from laying, relaying, construction, operation, maintenance and removal of pipeline or lines by Phillips and which may arise from the delivery of the salt water by Phillips to the point of delivery. EPO agrees to hold Phillips harmless from any claim, damages or liability which may result from said salt water after the same enters said salt water disposal pipeline at the point of delivery.

ARTICLE V

QUANTITY:

It is agreed that EPO shall accept said salt water for disposal only when said pipeline or disposal facilities have input capacity in excess of the disposal requirements of EPO and other commitments heretofore made by EPO for the disposition of said water of others through said pipeline or disposal facilities and EPO shall be under no obligation to construct, alter or maintain either existing or additional pipeline or disposal facilities to receive and dispose of Phillips' salt water, or any part thereof.

ARTICLE VI

FORCE MAJEURE:

EPO shall not be liable in damages or otherwise for delays, failures or omissions due to lack of capacity of said pipeline or disposal facilities, accidents, breakdowns, closing for repair or remedial work, labor difficulties, strikes, walkouts, fires, stores, acts of God, sabotage, interference by order of or compliance with requests of military or civil authority, whether federal, state or local, or appropriation, requisition or confiscation of any facility for the transportation or disposal of salt water hereunder.

ARTICLE VII

MEASUREMENT:

Water volume shall be determined by meter to determine the amount of salt water produced from such well or wells and the result from such meter readings shall be

the basis for determining the monthly amount of salt water delivered by Phillips to said point of delivery. If the salt water disposed of under this agreement is transported by truck, the volume of such water shall be determined from tank truck hauling tickets to be furnished by the hauling contractor. Phillips hereby grants EPO the right and privilege to make any inspections deemed advisable.

ARTICLE VIII

FEE, COST AND PAYMENT:

Phillips agrees to pay the sum of ten cents (10¢) for each and every barrel of salt water transported in EPO's salt water disposal pipeline and thirty cents (30¢) for each and every barrel of salt water disposed of into said disposal facilities by Phillips, such amounts being intended to reimburse EPO for the cost of transporting and disposing of said salt water under this agreement. These prices are based on current operating costs and are subject to review and adjustment, but not more often than annually. EPO shall render monthly statements to Phillips, in care of D. J. Fisher, Hobbs Office, 1625 W. Marland, Hobbs, New Mexico 88240, on or before the twentieth (20th) day of each calendar month for the disposal of water into the said disposal facilities, and Phillips shall pay such amount within fifteen (15) days after receipt of each statement.

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ARTICLE IX

TERMINATION:

This agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, devisees, executors, administrators, representatives, successors and assigns, until termination hereof by either EPO or Phillips upon thirty (30) days written notice to the other.

ARTICLE X

NOTICE:

All notices required or permitted hereunder shall be addressed to the respective parties at the following addresses or such other address as any party may hereafter designate in writing, to wit:

EP Operating Company
ClayDesta National Bank
Building, Suite 5250
6 Desta Drive
Midland, Texas 79705

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

ARTICLE XI

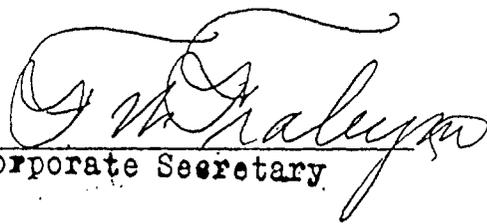
PRIOR AGREEMENTS:

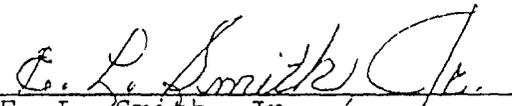
Notwithstanding anything in that certain salt water disposal agreement between EP Operating Company and Phillips Petroleum Company dated October 7, 1982 to the contrary regarding prior notice of termination, said agreement is terminated effective as of the same day and hour that this agreement becomes effective.

IN WITNESS WHEREOF, this agreement is executed as of the day, month and year first above written.

ATTEST:

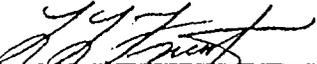
EP OPERATING COMPANY,
a Texas Limited Partnership by
Enserch Exploration, Inc.,
Managing General Partner


Corporate Secretary

By: 
E. L. Smith, Jr.
Vice President

ATTEST:

PHILLIPS PETROLEUM COMPANY

By: 
(signature)
L. L. Frantz
(typed name)
Manager, Permian Basin Region
(title)

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

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

CASE NO. 9511 DE NOVO
Order No. R-8780-A

APPLICATION OF PHILLIPS PETROLEUM
COMPANY FOR SALT WATER DISPOSAL,
ROOSEVELT COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on March 9, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 2nd day of May, 1989, 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:

(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, Phillips Petroleum Company, seeks an order to utilize its Lambirth "A" Well No. 6, located 1830 feet from the South line and 1980 feet from the East line (Unit J) of Section 30, Township 5 South, Range 33 East, NMPM, Roosevelt County, New Mexico, to dispose of produced salt water into the South Peterson-Fusselman Pool and Montoya Formation, with injection into the perforated interval from approximately 7892 feet to 7944 feet.

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(3) The matter came on for hearing at 8:15 a.m. on October 26, 1988, at Santa Fe, New Mexico, before Examiner Michael E. Stogner and, pursuant to this hearing, Order No. R-8780 was issued on November 7, 1988, which granted the application for salt water disposal.

(4) On November 9, 1988, application for Hearing De Novo was made by Enserch Exploration, Inc. and the matter was set for hearing before the Commission.

(5) The matter came on for hearing De Novo on March 9, 1989.

(6) The findings of the Division in Order No. R-8780 are supported by substantial evidence and the Commission adopts those findings as its own.

(7) Enserch opposed the application alleging the potential loss of oil reserves caused by breakthrough of injected water because of the highly fractured nature of the Fusselman reservoir.

(8) The evidence presented did not support the conclusion that water breakthrough would occur and the mere contention of possible damage is not sufficient cause to deny the application.

(9) Phillips is presently paying EP Operating \$0.40 per barrel to dispose of produced water and granting of this application could reduce Phillips' operating costs and result in additional recoveries of oil and gas.

(10) The evidence adduced at said Commission hearing indicates that Division Order No. R-8780 should be affirmed.

IT IS THEREFORE ORDERED THAT:

(1) Division Order No. R-8780, entered November 7, 1988, is hereby affirmed.

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

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Order No. R-8780-A

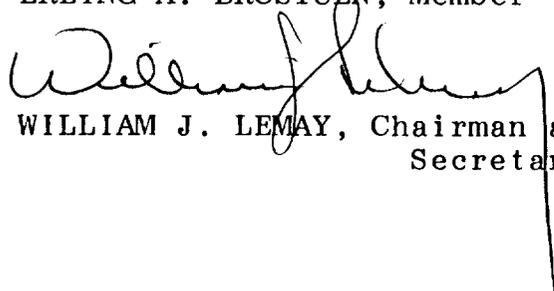
DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

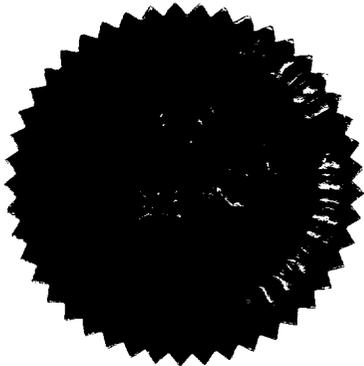


WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUEN, Member



WILLIAM J. LEMAY, Chairman and
Secretary



S E A L

dr/