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June 24, 2014

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case 15179

Dear Florene:

Enclosed for filing, on behalf of Nadel and Gussman Permian, L.L.C., are an original and one copy of an application for permission to drill in the potash area, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the July 24, 2014 Examiner hearing. Thank you.

Very truly yours,



James Bruce

Attorney for Nadel and Gussman Permian, L.L.C.

Parties Notified

Commissioner of Public Lands

Bureau of Land Management

Mosaic Potash, Inc.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF NADEL AND GUSSMAN
PERMIAN, L.L.C. FOR AN ORDER AUTHORIZING
DRILLING A WELL IN THE POTASH AREA,
LEA COUNTY, NEW MEXICO.

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Case No. 15179

APPLICATION

Nadel and Gussman Permian, L.L.C., pursuant to the provisions of Division Order No. R-111-P ("The Rules and Regulations Governing the Exploration and Development of Oil and Gas in Certain Areas Herein Defined, Which Are Known to Contain Potash Reserves"), applies for an order approving the drilling of its Tonto Fed. Com. Well No. 2H to test the Bone Spring formation within the Potash Area, with a well unit comprised of N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 32 and the N $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 33, Township 19 South, Range 33 East, N.M.P.M., Lea County, New Mexico, and in support of thereof, states:

1. Applicant is a lessee of oil and gas rights under the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 32 and the N $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 33, and has the right to develop the oil and gas reserves underlying this property.
2. Applicant proposes to drill its Tonto Fed. Com. Well No. 2H, to a total vertical depth of approximately 9,900 feet, to test the Bone Spring formation on a 160-acre oil project area comprised of the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 32 and the N $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 33. The surface location will be 1865 feet from the south line and 2276 feet from the east line (J) of Section 32, and the terminus will be at an orthodox location in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ (Unit K) of Section 33.
3. The N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 32 is state land that is located within the Potash Area.
4. Order R-111-P states that "no mining operations shall be conducted in the Potash Area that would, in the opinion of the Division or its duly authorized representative, constitute a

hazard to oil or gas production, or that would unreasonably interfere with the orderly development and production from any oil or gas pool.” C(2).

5. Applicant proposes to drill in an area where oil and gas are currently being produced, and therefore potash mining operations would unreasonably interfere with oil and gas development and production.

6. Applicant’s application for permit to drill (“APD”) the Tonto State Well No. 2H was improperly rejected because it was not afforded the opportunity to show that potash would not be unduly affected by applicant’s well.

7. Applicant should be afforded the opportunity to show that its proposed well location would not unduly waste commercial potash. See R-111-P ¶ 20.

8. Further, by rejecting applicant’s APD, the Division has denied applicant, its lessor, and other owners of the oil and gas rights underlying the N½SE¼ of Section 32 and the N½SW¼ of Section 33 the opportunity to produce recoverable oil and gas under their property. Unless reversed, this will cause the waste of hydrocarbons. Applicant therefore requests that this matter be set for hearing before a Division Hearing Examiner.

9. Since Sections 32 and 33 have numerous existing wells located thereon, an APD should not be denied simply because the proposed well's project area is within the potash area.

10. Approval of this application will protect correlative rights because it will afford applicant and the other owners of oil and gas rights in the N½SE¼ of Section 32 and the N½SW¼ of Section 33 the opportunity to produce their just and equitable share of reserves under their property, and it will honor the mutual agreement between the owners of both the potash and the oil and gas interests for the development of these lands. Approval of this application will otherwise be in the best interests of conservation and the prevention of waste.

WHEREFORE, applicant requests that this application be set for hearing before an Examiner of the Division, and that, after notice and hearing, the Division enter its order authorizing applicant to drill its proposed Tonto State Well No. 2H to test the Bone Spring formation, and granting other appropriate relief.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Bruce", written over a horizontal line.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Nadel and Gussman Permian, L.L.C.

PROPOSED ADVERTISEMENT

Case No. 15179 Application of Nadel and Gussman Permian, L.L.C. for an order authorizing drilling a well in the Potash Area, Lea County, New Mexico. Applicant seeks an order approving the drilling of its proposed Tonto Fed. Com. Well No. 2H, to an approximate depth of 9,900 feet to test the Bone Spring formation, within the Potash Area at a surface location 1865 feet from the south line and 2276 feet from the east line (Unit J) of Section 32, Township 19 South, Range 33 East, NMPM, Lea County, New Mexico, to an orthodox terminus in the NE/4SW/4 (Unit K) of adjoining Section 33. The N/2SE/4 of Section 32 and the N/2SW/4 of Section 33 will be dedicated to the well. The unit is located approximately 17-1/2 miles south-southeast of Maljamar, New Mexico.

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