



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79762
4001 PENBROOK

EXPLORATION AND PRODUCTION GROUP
Permian Basin Region

March 1, 1988

Case 9316: Comments Concerning
Proposed Order No. R-111-P

State of New Mexico
Energy, Minerals and Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Attn: William J. LeMay, Chairman
Commissioner's Hearings

RECEIVED
MAR 2 1988
OIL CONSERVATION DIVISION

Gentlemen:

Phillips Petroleum Company commends the Oil Conservation Division for holding the meetings, discussions, and hearings to adopt good workable rules governing the development of both potash and oil and gas resources in the potash area of New Mexico. The proposed Order No. R-111-P is a very good step in the elimination of problems between the two industries that has existed for many years. Phillips had a representative attend the hearing, held February 18, 1988, and had a statement to present based on all the material that had been obtained prior to the hearing date. However, after seeing the proposed Order No. R-111-P, which was not distributed prior to the hearing, and listening to the testimony presented, our representative elected to return the proposed R-111-P to Phillips Management for further review. We now submit these written comments and suggestions for your consideration.

The proposed Order No. R-111-P is very well drafted and meets the overall objective of the Division in obtaining a set of workable rules in the potash area. Our first area of concern is in Section III(4) having to do with exceptions to Section IV(3). There was quite a bit of discussion concerning this paragraph at the hearing, held February 18, 1988, and Phillips recommends Section III(4) be retained to allow alternate casing programs that could offer better protection in the salt section. If proper proof is presented requesting an exception to this section, it could eliminate some unnecessary expense to the oil and gas industry. It also provides the Division with authoritative control in this matter.

Section IV(3)(e) - Cementing requirements should be changed to allow alternative cementing programs. With the cements and additives being offered today, twelve hours is plenty of time to allow cement to stand under pressure, before drilling the plug or initiating tests.

Section VII - Location For Wells

Paragraph (1) - This paragraph requires each potash lessee to designate the potash deposits on his lease which would be considered "life-of-mine" (LMR) reserves as described in the agreement of the Potash-Oil and Gas

Work Committee dated November 23, 1987. Phillips Petroleum Company requests this paragraph be changed. As was brought out in the hearing on February 18, 1988, the agreement is binding to no one, not even the people who signed it. The agreement, as signed November 23, 1987, is not representative of Phillips Petroleum Company's position in this matter. Phillips believes since the agreement is not binding and the Division cannot adopt the agreement as written, all references to the agreement should be removed from the proposed Order No. R-111-P. The appropriate definitions concerning "life-of-mine" reserves should be written directly in Order No. R-111-P when adopted. There could be too many unanswered questions raised by only referring to the "agreement" in the final Order. Since the agreement is not binding, it could possibly not demand compliance.

Section VII, paragraph (4) - The provisions of this paragraph was also a main topic of discussion at the hearing, held February 18, 1988, and Phillips recommends this paragraph be adopted, after the appropriate definition is provided for in Section VII, Paragraph (1) as discussed above. This would allow for orderly development for oil and gas after notice and hearing, or by mutual agreement between the potash and oil and gas industries. The last sentence in this paragraph should be changed to reflect the removal of references to the "agreement." Again, the agreement is not binding so any reference to the agreement should not be in the final adopted Order No. R-111-P.

*no mention
in the last
sentence of
the agreement*

Again, Phillips Petroleum Company commends the Oil Conservation Division in their efforts to formulate Order No. R-111-P and we respectfully request our comments and suggested revisions be adopted. If Phillips can be of any further assistance in the matter, please contact me at the letterhead address or telephone (915) 367-1324.

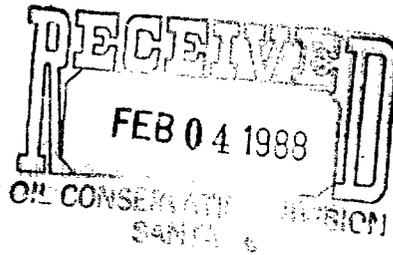
Sincerely,



L. L. Frantz, Manager
Permian Basin Region

LLF/LMS/sdb
REG/PRO8/case9316

cc: William R. Humphries
Erling A. Brostuen
Victor T. Lyon



Case 511

February 2, 1988

Oil Industry Committee Members
Special Rules Study Committee
R-111 Potash Area

RE: Statement of Agreement Between
The Potash and Oil & Gas Industries
on Concurrent Operations in the Potash Area

Gentlemen:

This ballot is being submitted to all Oil Industry Committee Members for approval or disapproval of the recently signed Statement of Agreement. Since a formal ballot was never taken from the General Committee Members prior to the signing of the "Statement of Agreement", this vote is now requested.

The subject "Statement of Agreement" has been set before a Commissioner Hearing of the Oil Conservation Division on February 18, 1988. Please indicate your vote at the bottom of this page and return to the attention of the undersigned as soon as possible.

Yours very truly,

L. J. Seeman

L. J. Seeman
District Petroleum Engineer

DBW:JRB

cc: Mr. William LeMay - NMOCD, Santa Fe
Mr. Vic Lyon - NMOCD, Santa Fe

_____ Approve of "Statement of Agreement between the
Potash and Oil & Gas Industries on Concurrent
Operations in the Potash Area".

_____ Disapprove of "Statement of Agreement between the
Potash and Oil & Gas Industries on Concurrent
Operations in the Potash Area".

BY: _____

COMPANY: _____

DATE: _____

POTASH STUDY COMMITTEE MEMBERS

Yates Petroleum Corporation
105 S. Fourth St.
Artesia, New Mexico 88210
Attention: Norbert Rempe

Talisman Energy Corporation
2807 Buffalo Speedway, Ste. 319
Houston, Texas 77098
Attention: Mr. J. B. Waid

Amoco Production Company
Box 3092
Houston, Texas 77253
Attention: Mr. Jim Allen

Bass Enterprises Production Co.
Box 2760
Midland, Texas 79702
Attention: Mr. J. Hansen

Exxon Company
Box 1600
Midland, Texas 79702-1600
Attention: Mr. Bill Duncan

Anadarko Petroleum Corporation
P. O. Box 2497
Midland, Texas 79702
Attention: Mr. George Buehler

Chervron U.S.A., Inc.
Box 670
Hobbs, New Mexico 88240
Attention: Mr. Al Boling

Conoco, Inc.
Box 460
Hobbs, New Mexico 88240
Attention: Mr. Hugh Ingram

Department of Energy & Minerals
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501-2088
Attention: Mr. Vic Lyon

Mr. J. Scott Hall
Campbell & Black P.A.
P. O. Box 2088
Santa Fe, New Mexico 87501

Bureau of Land Management
P. O. Box 1397
Roswell, New Mexico 88201
Attention: Francis Cherry

W. Thomas Kellahin
Kellahin, Kellahin & Aubrey
Box 2265
Santa Fe, New Mexico 87504

Heyco
Box 1933
Roswell, New Mexico 88201
Attention: Mr. Dan Girard

Enron Oil & Gas
Box 2267
Midland, Texas 79702
Attention: George Hoover

Tenneco Oil Company
7990 IH 10 West
San Antonio, Texas 78230
Attention: David L. Motlock

D. S. Nutter
105 E. Alicante
Santa Fe, New Mexico 87501

Kaiser-Francis Oil Co.
Box 21468
Tulsa, Oklahoma 71421
Attn: James T. Wakefield

STATEMENT OF AGREEMENT BETWEEN
THE POTASH INDUSTRY AND OIL AND
GAS INDUSTRY ON CONCURRENT
OPERATIONS IN THE POTASH AREA
IN EDDY AND LEA COUNTIES, NEW MEXICO

Introduction

This Statement of Agreement sets forth the joint agreement of the Potash Industry and Oil and Gas Industry on important issues concerning the concurrent development of potash and oil and gas reserves in Eddy and Lea Counties, New Mexico. It represents the efforts of numerous representatives from each industry over many months and is intended to resolve many of the disputes that have arisen as a result of concurrent oil and gas drilling activities in the vicinity of underground potash mining.

The parties recognize that this Agreement will not resolve all disputes or disagreements that may arise and that regulatory intervention may still be necessary in some instances. By entering into this Agreement, however, each industry recognizes the right of the other to develop its mineral resources in a safe and economical manner and acknowledges that concurrent development of multiple mineral resources places certain limits on each industry. Each also agrees that these limits can be better defined through good faith discussions among industry representatives familiar with industry technology and practices than repeated and prolonged litigation or administrative proceedings.

In attempting to accomplish this, each industry has made concessions on issues considered critical to it in a good faith effort to obtain concessions from the other. For this reason, both industries agree that the terms of this Statement of Agreement are subject to the following conditions:

1. Upon approval by representatives of each industry, the terms of the Agreement will be submitted to and must be adopted without substantial change by the New Mexico Oil Conservation Commission ("OCC") in lieu of the current Order R-111A, as amended;
2. The terms of the Agreement will be submitted to and must be adopted without substantial change by the U. S. Department of Interior, Bureau of Land Management ("BLM") in lieu of Section III (E) of the Secretary of the Interior's Order of October 21, 1986 [51 Fed. Reg. 39425];
3. Each industry will use its best efforts to secure approval of the terms of the Agreement from the OCC and BLM; and
4. In the event the terms in the Agreement are not adopted without substantial change by both the OCC and the BLM, this Statement of Agreement will become null and void and will not be referred to by any industry representative on the Study Committee in any future proceeding before the OCC or BLM.

It is the intention of the parties to this Agreement that:

- (1) certain areas of potash deposits, called "life-of-mine-reserves" or "LMR's," be permanently protected from oil and gas drilling activities; and (2) to make available for oil and gas drilling activities, certain areas within the Potash Area. The area of potash deposits protected will be determined in accordance with this Agreement but, generally speaking, will encompass the yellow, orange and a major portion of the blue

areas shown on the BLM Potash Resources Map as it existed on October 1, 1984. Areas in the Potash Area that will be available for oil and gas drilling activities will be those areas outside the designated LMR's which, generally speaking, will be the red, green, grey and a minor portion of the blue areas shown on the BLM Potash Resources Map as it existed on October 1, 1984, less areas designated as buffer zones by this Agreement.

I. The Potash Area

A. The Area covered by this Agreement shall be known as the "Potash Area".

B. The "Potash Area" includes those tracts of land in Southeastern New Mexico, from the surface downward, which are designated as a "potash area" by the Secretary of the Department of Interior in Section V of the Order dated October 21, 1986 and published in the Federal Register on October 28, 1986 [51 Fed. Reg. 39426]. It shall also include any subsequent revisions to such designations. The terms "potash" and "commercial deposits of potash" shall have the same meaning as assigned by the U. S. Department of Interior.

C. It is the intent of the parties to this Agreement that the "Potash Area" designated by the State of New Mexico be identical to that designated by the U. S. Department of Interior. Accordingly, if the "potash area" designated in the Secretarial Order of October 21, 1986 [51 Fed. Reg. 39425] is revised, the OCC, on its own motion after notice and hearing as

provided by applicable laws and regulations, will adopt the same revision.

II. Designation of Mine Reserves

A. Within ninety (90) days following adoption of this Agreement by the OCC and BLM and annually thereafter by January 31 if revised, each potash lessee, without regard to whether the lease covers State or Federal lands, shall file with the District Manager, BLM, a designation of the potash deposits considered by the potash lessee to be its life-of-mine reserves ("LMR"). For purposes of this Agreement, "life-of-mine reserves" means those potash deposits within the Potash Area reasonably believed by the potash lessee to contain potash ore in sufficient thickness and grade to be mineable using current day mining methods, equipment and technology. Information used by the potash lessee in identifying its LMR shall be filed with the BLM but will be considered privileged and confidential "trade secrets and commercial . . . information" within the meaning of 43 C.F.R. §2.13(c)(4) (1986) and not subject to public disclosure.

B. An authorized officer of the BLM shall review the information submitted by each potash lessee in support of its LMR designation and verify, upon request, that the data used by the potash lessee in establishing the boundaries of its LMR is consistent with data available to the BLM. Any disputes between the BLM and potash lessee concerning the boundary of a designated LMR shall be resolved in accordance with the

Department of Interior's Hearings and Appeals Procedures, 43 C.F.R. Part 4 (1986).

C. A potash lessee may amend its designated LMR by filing a revised designation with the BLM accompanied by the information referred to in Section A above. Such amendments must be filed by January 31 next following the date the additional data becomes available.

D. An authorized officer of the BLM shall commit the designated LMR of each potash lessee to a map(s) of suitable scale and thereafter revise the map(s) as necessary to reflect the latest amendments to any designated LMRs. These maps shall be considered privileged and confidential and exempt from disclosure under 43 C.F.R. Part 2 and will be used only for the purposes set forth in this Agreement.

III. Drilling in the Potash Area

A. All oil and gas wells drilled in the Potash Area after approval of this Agreement by the OCC and BLM, including those currently pending before the OCC and/or BLM, shall be subject to the terms of this Agreement.

B. It is the policy of the OCC and BLM to approve or deny applications for permits to drill (APD's) in the Potash Area in accordance with the following:

1. LMR and Buffer Zone. No oil or gas well shall be allowed from a surface location: (a) within the LMR of any potash lessee; (b) within one-fourth (1/4) mile, or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of the LMR of any potash lessee; or (c) where the well casing will pass within one-fourth (1/4) mile, or a distance equal to

the depth of the ore plus ten percent (10%), whichever is greater, of the LMR of any potash lessee.

2. Outside Buffer Zone But Within One-Half (1/2) Mile of LMR. An APD for an oil or gas well at a location more than one-fourth (1/4) mile, or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, but less than one-half (1/2) mile from the LMR of any potash lessee may be approved only if: (a) the bottom hole location does not extend below the base of the Delaware Mountain Group, and (b) the well is drilled in accordance with the cementing and casing requirements set forth in Section V.

3. More Than One-Half Mile But Less Than One Mile From LMR. An APD for an oil or gas well at a location more than one-half (1/2) mile but less than one mile from the LMR of any potash lessee may be approved regardless of the depth of the bottom hole location provided: (a) wells with bottom hole locations below the base of the Delaware Mountain Group are drilled in accordance with the cementing and casing requirements set forth in Section V of this Agreement, and (b) wells to bottom hole locations above the base of the Delaware Mountain Group may be drilled without regard to the requirements in Section V of this Agreement but must be drilled in accordance with then current industry safety standards.

4. More Than One Mile From LMR. An APD for an oil or gas well at a location more than one mile from the LMR of any potash lessee may be approved regardless of the depth of the bottom hole location and without regard to the requirements of Section V of this Agreement.

5. Open Mine Workings. No oil or gas well shall be allowed from any location where the well casing will pass within one-fourth (1/4) mile or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of any open mine workings.

6. Abandoned Mine Workings. No oil or gas well shall be allowed from any location where the well casing will pass through or within one-fourth (1/4) of a mile or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of any abandoned mine workings that are connected to an existing mine by an opening or barrier of one-hundred (100) feet or less unless the APD is accompanied by the sealing and safety plan and certification described in Paragraph C below.

7. An APD for a directionally drilled oil or gas well to a bottom hole location underlying the LMR of any potash lessee may be approved subject to the limitations and requirements set forth in Paragraphs 1 - 6 above. Directionally drilled holes shall be drilled vertically until they have completely penetrated Marker Bed No. 126 (U.S.G.S.) of the Salado Formation at which time they may be deviated.

C. An oil and gas operator desiring to drill a well to a bottom hole location that does not extend below the base of the Delaware Mountain Group from a surface location where the well casing will pass through or within one-fourth (1/4) of a mile or a distance equal to the depth of the ore ~~plus ten percent (10%)~~ ~~whichever is greater~~, of abandoned mine workings that are connected to an existing mine by any opening or a barrier of one-hundred (100) feet or less shall prepare and submit to all affected potash lessees a plan and program for sealing off the area to be penetrated from other mine workings. Approval of any such plan shall be in the sole discretion of the affected potash lessees. Any approved plan shall be attached by the oil and gas operator to the APD for filing with the OCC, and/or BLM. The oil and gas operator shall also complete a certification in the form prescribed by the OCC and/or BLM that the drilling of such well will not create a safety hazard to affected potash lessees.

D. It is the belief of both parties that the provisions of this Agreement eliminate the need for drilling islands and three-year mining plans and, therefore, both agree that no drilling islands will be established in the Potash Area and the filing of three-year mining plans will be eliminated.

IV. Location of Wells and Notice to Potash Lessees

A. The BLM, upon request, will advise oil and gas lessees of the surface locations where wells will be allowed to develop the leases. Oil or gas leases covering areas designated a LMR by a potash lessee will be utilized to the extent possible with other areas where drilling is allowed.

B. An oil or gas operator desiring to drill an oil or gas well in the Potash Area ~~or within one (1) mile~~ of a potash lease shall prepare and file an APD with the OCC and/or BLM along with a map or plat showing the location of the proposed well. One copy of the APD and map or plat shall be served by registered mail, return receipt requested, on all potash leaseholders within one (1) mile of the proposed well location. However, if the APD is for an oil or gas well that will penetrate abandoned mine workings, all potash leaseholders in the Potash Area shall be notified. Proof of such service shall be attached to the APD and filed with the OCC and/or BLM. Within twenty (20) days of service of an APD and required documents, any potash leaseholder within one (1) mile of the proposed well location (or any affected potash lessee if the proposed well will penetrate abandoned mine workings) may file an objection with the OCC to the proposed well. If the objections cannot be resolved by agreement of the parties, the matter shall be referred for hearing before the OCC.

C. The failure of a potash leaseholder to object to a well location or its agreement to the drilling locations

referred to in this Agreement shall not constitute a release of liability. Oil and gas leaseholders and those persons and/or entities involved in the development of the lease shall be responsible as provided by law for any damages caused by them to any person by the release of gases or liquids into the strata or atmosphere as a result of drilling activities.

V. Drilling and Casing Program

[Same as current R-111-A]

VI. Drilling Fluid for Salt Section

[Same as current R-111-A]

VII. Plugging and Abandonment of Wells

[Same as current R-111-A]

VIII. Filling of Well Surveys

The OCC may require an oil and gas operator to file a certified directional survey from the surface to a point below the lowest known potash bearing horizon on all wells drilled in the Potash Area. All encounters with flammable gases, including H₂S, shall be reported by the operator to the OCC.

IX. Additional Safety Requirements and Emergency Action

A. All oil and gas drilling activities within the Potash Area shall be performed using appropriate technology, equipment, and procedures to reduce the hazards of such activities to underground mines and miners and be conducted in accordance with the prudent operator standard.

B. Only the minimum number of wells necessary to develop an oil or gas lease will be allowed within the Potash Area.

C. In the event the increased oil and gas drilling activities allowed by this Agreement result in a safety hazard or if data developed in the course of such increased activities make it reasonably appear that such activities are or will become a hazard to underground miners or mining activities, the BLM and/or OCC will, upon request, initiate proceedings in accordance with NMSA 70-2-23 and/or other applicable laws and regulations to review such data and take whatever emergency steps are found necessary to eliminate such hazard. Potash lessees may, in addition, initiate actions for injunctive relief under MSA 70-2-29. The taking or failure to take such action by the OCC or any potash lessee shall not relieve the oil and gas lessee from liability for any damages caused by its oil and gas activities.

AGREED TO AND APPROVED THIS 23rd DAY OF November, 1987, BY THE FOLLOWING REPRESENTATIVES OF EACH INDUSTRY COMPRISING THE POTASH-OIL AREA SPECIAL RULES STUDY COMMITTEE:

For the Oil and Gas Industry:

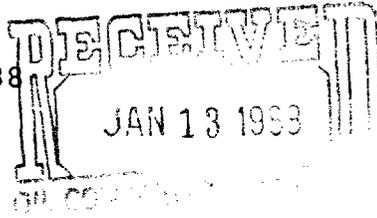
For the Potash Industry:

1727L-7



*State of New Mexico Potash
Study Committee*

January 8, 1988



State of New Mexico
Energy & Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501-2088

Attention: Mr. William J. LeMay

Gentlemen:

To further clarify Texaco's position, we do not agree with the Potash Sub-Committee's "Statement of Agreement" which was recently proposed. It is believed that General Rules for "Committee work" were not followed. No General Committee Meeting was called to discuss this agreement with no subsequent vote taken. Once the Sub-Committee finalized the "Statement of Agreement", a formal approval from members of the General Committee should have been obtained prior to submittal to the Oil Conservation Division.

Texaco will vigorously oppose any attempts to incorporate the proposed "Statement of Agreement" into the R-111 Potash Area Rules and Regulations.

Yours very truly,

Joe E. King
District Manager

DBW:JRB

cc: Potash Study Committee Members

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARPENTERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: ALL DOCKET MAILING LIST

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: REVISION OF ORDER NO. R-111 (POTASH AREA)

DATE: NOVEMBER 30, 1987

Attached hereto is an agreement which was executed by members of the Potash-Oil and Gas Work Committee in an attempt to clarify the co-existent rights of lessees within the potash area. This agreement culminates an effort begun on May 1, 1986 in which representatives of the two industries met to gain basic knowledge of each industry and document the concerns of each industry brought about by the operations of the other. Membership in this committee was open to any operator in either industry. At the conclusion of the educational phase, each industry elected three representatives and an alternate as a work committee to develop a mutually agreeable program to permit maximum development of both resources with maximum safety for both industries. The agreement was duly completed and signed November 23, 1987.

The Oil Conservation Commission contemplates a hearing, probably on January 21, 1988 to consider on its own motion the amendment of Order R-111. At this hearing we will entertain comments on:

- 1) the attached agreement which may be pertinent to the amendment of Order R-111;
- 2) the area to be covered by R-111, as amended (note - we are proposing the area be expanded to the BLM "known Potash Leasing Area");
- 3) the casing-cementing requirements of Order R-111-A;
- 4) directional drilling procedures for inclusion in the order;
- 5) a procedure for expanding/contracting the effected area by the pool nomenclature procedure rather than amendment to Order R-111. This would be responsive to changes in the KPLA by BLM.
- 6) Revisions to notice requirements.

dr/

STATEMENT OF AGREEMENT BETWEEN
THE POTASH INDUSTRY AND OIL AND
GAS INDUSTRY ON CONCURRENT
OPERATIONS IN THE POTASH AREA
IN EDDY AND LEA COUNTIES, NEW MEXICO

Introduction

This Statement of Agreement sets forth the joint agreement of the Potash Industry and Oil and Gas Industry on important issues concerning the concurrent development of potash and oil and gas reserves in Eddy and Lea Counties, New Mexico. It represents the efforts of numerous representatives from each Industry over many months and is intended to resolve many of the disputes that have arisen as a result of concurrent oil and gas drilling activities in the vicinity of underground potash mining.

The parties recognize that this Agreement will not resolve all disputes or disagreements that may arise and that regulatory intervention may still be necessary in some instances. By entering into this Agreement, however, each industry recognizes the right of the other to develop its mineral resources in a safe and economical manner and acknowledges that concurrent development of multiple mineral resources places certain limits on each industry. Each also agrees that these limits can be better defined through good faith discussions among industry representatives familiar with industry technology and practices than repeated and prolonged litigation or administrative proceedings.

In attempting to accomplish this, each Industry has made concessions on issues considered critical to it in a good faith effort to obtain concessions from the other. For this reason, both Industries agree that the terms of this Statement of Agreement are subject to the following conditions:

1. Upon approval by representatives of each Industry, the terms of the Agreement will be submitted to and must be adopted without substantial change by the New Mexico Oil Conservation Commission ("OCC") in lieu of the current Order R-111A, as amended;
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3. Each Industry will use its best efforts to secure approval of the terms of the Agreement from the OCC and BLM; and
4. In the event the terms in the Agreement are not adopted without substantial change by both the OCC and the BLM, this Statement of Agreement will become null and void and will not be referred to by any Industry representative on the Study Committee in any future proceeding before the OCC or BLM.

It is the intention of the parties to this Agreement that:

- (1) certain areas of potash deposits, called "life-of-mine-reserves" or "LMR's," be permanently protected from oil and gas drilling activities; and (2) to make available for oil and gas drilling activities, certain areas within the Potash Area. The area of potash deposits protected will be determined in accordance with this Agreement but, generally speaking, will encompass the yellow, orange and a major portion of the blue

areas shown on the BLM Potash Resources Map as it existed on October 1, 1984. Areas in the Potash Area that will be available for oil and gas drilling activities will be those areas outside the designated LMR's which, generally speaking, will be the red, green, grey and a minor portion of the blue areas shown on the BLM Potash Resources Map as it existed on October 1, 1984, less areas designated as buffer zones by this Agreement.

I. The Potash Area

A. The Area covered by this Agreement shall be known as the "Potash Area".

B. The "Potash Area" includes those tracts of land in Southeastern New Mexico, from the surface downward, which are designated as a "potash area" by the Secretary of the Department of Interior in Section V of the Order dated October 21, 1986 and published in the Federal Register on October 28, 1986 [51 Fed. Reg. 39426]. It shall also include any subsequent revisions to such designations. The terms "potash" and "commercial deposits of potash" shall have the same meaning as assigned by the U. S. Department of Interior.

C. It is the intent of the parties to this Agreement that the "Potash Area" designated by the State of New Mexico be identical to that designated by the U. S. Department of Interior. Accordingly, if the "potash area" designated in the Secretarial Order of October 21, 1986 [51 Fed. Reg. 39425] is revised, the OCC, on its own motion after notice and hearing as

provided by applicable laws and regulations, will adopt the same revision.

II. Designation of Mine Reserves

A. Within ninety (90) days following adoption of this Agreement by the OCC and BLM and annually thereafter by January 31 if revised, each potash lessee, without regard to whether the lease covers State or Federal lands, shall file with the District Manager, BLM, a designation of the potash deposits considered by the potash lessee to be its life-of-mine reserves ("LMR"). For purposes of this Agreement, "life-of-mine reserves" means those potash deposits within the Potash Area reasonably believed by the potash lessee to contain potash ore in sufficient thickness and grade to be mineable using current day mining methods, equipment and technology. Information used by the potash lessee in identifying its LMR shall be filed with the BLM but will be considered privileged and confidential "trade secrets and commercial . . . information" within the meaning of 43 C.F.R. §2.13(c)(4) (1986) and not subject to public disclosure.

B. An authorized officer of the BLM shall review the information submitted by each potash lessee in support of its LMR designation and verify, upon request, that the data used by the potash lessee in establishing the boundaries of its LMR is consistent with data available to the BLM. Any disputes between the BLM and potash lessee concerning the boundary of a designated LMR shall be resolved in accordance with the

Department of Interior's Hearings and Appeals Procedures, 43 C.F.R. Part 4 (1986).

C. A potash lessee may amend its designated LMR by filing a revised designation with the BLM accompanied by the information referred to in Section A above. Such amendments must be filed by January 31 next following the date the additional data becomes available.

D. An authorized officer of the BLM shall commit the designated LMR of each potash lessee to a map(s) of suitable scale and thereafter revise the map(s) as necessary to reflect the latest amendments to any designated LMRs. These maps shall be considered privileged and confidential and exempt from disclosure under 43 C.F.R. Part 2 and will be used only for the purposes set forth in this Agreement.

III. Drilling in the Potash Area

A. All oil and gas wells drilled in the Potash Area after approval of this Agreement by the OCC and BLM, including those currently pending before the OCC and/or BLM, shall be subject to the terms of this Agreement.

B. It is the policy of the OCC and BLM to approve or deny applications for permits to drill (APD's) in the Potash Area in accordance with the following:

1. LMR and Buffer Zone. No oil or gas well shall be allowed from a surface location: (a) within the LMR of any potash lessee; (b) within one-fourth (1/4) mile, or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of the LMR of any potash lessee; or (c) where the well casing will pass within one-fourth (1/4) mile, or a distance equal to

the depth of the ore plus ten percent (10%), whichever is greater, of the LMR of any potash lessee.

2. Outside Buffer Zone But Within One-Half (1/2) Mile of LMR. An APD for an oil or gas well at a location more than one-fourth (1/4) mile, or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, but less than one-half (1/2) mile from the LMR of any potash lessee may be approved only if: (a) the bottom hole location does not extend below the base of the Delaware Mountain Group, and (b) the well is drilled in accordance with the cementing and casing requirements set forth in Section V.

3. More Than One-Half Mile But Less Than One Mile From LMR. An APD for an oil or gas well at a location more than one-half (1/2) mile but less than one mile from the LMR of any potash lessee may be approved regardless of the depth of the bottom hole location provided: (a) wells with bottom hole locations below the base of the Delaware Mountain Group are drilled in accordance with the cementing and casing requirements set forth in Section V of this Agreement, and (b) wells to bottom hole locations above the base of the Delaware Mountain Group may be drilled without regard to the requirements in Section V of this Agreement but must be drilled in accordance with then current industry safety standards.

4. More Than One Mile From LMR. An APD for an oil or gas well at a location more than one mile from the LMR of any potash lessee may be approved regardless of the depth of the bottom hole location and without regard to the requirements of Section V of this Agreement.

5. Open Mine Workings. No oil or gas well shall be allowed from any location where the well casing will pass within one-fourth (1/4) mile or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of any open mine workings.

6. Abandoned Mine Workings. No oil or gas well shall be allowed from any location where the well casing will pass through or within one-fourth (1/4) of a mile or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of any abandoned mine workings that are connected to an existing mine by an opening or barrier of one-hundred (100) feet or less unless the APD is accompanied by the sealing and safety plan and certification described in Paragraph C below.

7. An APD for a directionally drilled oil or gas well to a bottom hole location underlying the LMR of any potash lessee may be approved subject to the limitations and requirements set forth in Paragraphs 1 - 6 above. Directionally drilled holes shall be drilled vertically until they have completely penetrated Marker Bed No. 126 (U.S.G.S.) of the Salado Formation at which time they may be deviated.

C. An oil and gas operator desiring to drill a well to a bottom hole location that does not extend below the base of the Delaware Mountain Group from a surface location where the well casing will pass through or within one-fourth (1/4) of a mile or a distance equal to the depth of the ore plus ten percent (10%), whichever is greater, of abandoned mine workings that are connected to an existing mine by any opening or a barrier of one-hundred (100) feet or less shall prepare and submit to all affected potash lessees a plan and program for sealing off the area to be penetrated from other mine workings. Approval of any such plan shall be in the sole discretion of the affected potash lessees. Any approved plan shall be attached by the oil and gas operator to the APD for filing with the OCC, and/or BLM. The oil and gas operator shall also complete a certification in the form prescribed by the OCC and/or BLM that the drilling of such well will not create a safety hazard to affected potash lessees.

D. It is the belief of both parties that the provisions of this Agreement eliminate the need for drilling islands and three-year mining plans and, therefore, both agree that no drilling islands will be established in the Potash Area and the filing of three-year mining plans will be eliminated.

IV. Location of Wells and Notice to Potash Lessee

A. The BLM, upon request, will advise oil and gas lessees of the surface locations where wells will be allowed to develop the leases. Oil or gas leases covering areas designated a LMR by a potash lessee will be unitized to the extent possible with other areas where drilling is allowed.

B. An oil or gas operator desiring to drill an oil or gas well in the Potash Area or within one (1) mile of a potash lease shall prepare and file an APD with the OCC and/or BLM along with a map or plat showing the location of the proposed well. One copy of the APD and map or plat shall be served by registered mail, return receipt requested, on all potash leaseholders within one (1) mile of the proposed well location. However, if the APD is for an oil or gas well that will penetrate abandoned mine workings, all potash leaseholders in the Potash Area shall be notified. Proof of such service shall be attached to the APD and filed with the OCC and/or BLM. ~~Within twenty (20) days of service of an APD and required~~

documents, any potash leaseholder within one (1) mile of the proposed well location (or any affected potash lessee if the proposed well will penetrate abandoned mine workings) may file an objection with the OCC to the proposed well. If the objections cannot be resolved by agreement of the parties, the matter shall be referred for hearing before the OCC.

C. The failure of a potash leaseholder to object to a well location or its agreement to the drilling locations

referred to in this Agreement shall not constitute a release of liability. Oil and gas leaseholders and those persons and/or entities involved in the development of the lease shall be responsible as provided by law for any damages caused by them to any person by the release of gases or liquids into the strata or atmosphere as a result of drilling activities.

V. Drilling and Casing Program

[Same as current R-111-A]

VI. Drilling Fluid for Salt Section

[Same as current R-111-A]

VII. Plugging and Abandonment of Wells

[Same as current R-111-A]

VIII. Killing of Well Surveys

The OCC may require an oil and gas operator to file a certified directional survey from the surface to a point below the lowest known potash bearing horizon on all wells drilled in the Potash Area. All encounters with flammable gases, including H₂S, shall be reported by the operator to the OCC.

IX. Additional Safety Requirements and Emergency Action

A. All oil and gas drilling activities within the Potash Area shall be performed using appropriate technology, equipment, and procedures to reduce the hazards of such activities to underground mines and miners and be conducted in accordance with the prudent operator standard.

B. Only the minimum number of wells necessary to develop an oil or gas lease will be allowed within the Potash Area.

C. In the event the increased oil and gas drilling activities allowed by this Agreement result in a safety hazard or if data developed in the course of such increased activities make it reasonably appear that such activities are or will become a hazard to underground miners or mining activities, the BLM and/or OCC will, upon request, initiate proceedings in accordance with NMSA 70-2-23 and/or other applicable laws and regulations to review such data and take whatever emergency steps are found necessary to eliminate such hazard. Potash lessees may, in addition, initiate actions for injunctive relief under NMSA 70-2-29. The taking or failure to take such action by the OCC or any potash lessee shall not relieve the oil and gas lessee from liability for any damages caused by its oil and gas activities.

AGREED TO AND APPROVED THIS 23rd DAY OF November,

1987, BY THE FOLLOWING REPRESENTATIVES OF EACH INDUSTRY COMPRISING THE POTASH-OIL AREA SPECIAL RULES STUDY COMMITTEE:

For the Oil and Gas Industry:

James A. ...
Robert F. ...

For the Potash Industry:

W.S. ...
...

Arnold ...

1727L-7

ARCO Oil and Gas Company
Central District
Post Office Box 1610
Midland, Texas 79702
Telephone 915 688 5200



February 12, 1988

Mr. William J. LeMay, Director
Oil Conservation Division
Energy, Minerals and Natural Resources Department
State of New Mexico
P. O. Box 2088
State Land Office Building
Santa Fe, NM 87504

RECEIVED

FEB 16 1988

Re: Revision of Order No. R-111
Oil Potash Agreement

OIL CONSERVATION DIVISION

Dear Mr. LeMay:

We have reviewed the agreement submitted on behalf of the Potash and Oil and Gas Industries. At this time we would like to endorse the general idea of the plan. However, we have several concerns which we would like to bring to your attention.

Section II - Designation of Mine Reserves

Paragraph A. Life-of-Mine Reserves

In the course of designating the Life-of-mine reserves, the Oil and Gas Industry should be notified if these reserves are to extend beyond what is now considered to be the known potash leasing areas. If there are areas of conflict, negotiation should be undertaken to resolve the reservation of disputed areas.

Paragraph C. Revision to LMR's

The Potash Industry should be charged with notifying offset oil and gas lessees of revisions to their original LMR's. If there is conflict between the revisions and existing leases, resolution should be negotiated so as to minimize adverse development to both industries.

Section III - Drilling in the Potash Area

Paragraph B-1. LMR and Buffer zone.

We suggest that the buffer zone areas be clarified. Possibly there could be more than one classification depending on the proximity to active mining areas, abandoned areas and possible future mining areas. We suggest that time frames for possible development and economics might be considered.

February 12, 1988
William J. LeMay
Page two

Paragraph B-2. Outside Buffer Zone but Within 1/2 Mile.

We would like justification for the depth limitations in this area. A prudent oil and gas operator, who wishes to develop their leases, should not object to circulating cement and using other state of the art methods to ensure that gas migration from deeper zones through the well bore does not occur. It is unlikely that gas would migrate naturally through the rock. Directional drilling to the deeper zones of interest, approximately 7500+, would in many cases not be cost effective. It is also not a "simple" task.

Paragraph B-6. Abandoned Mine Workings

The Potash Industry should be responsible for a safety plan and the sealing off of abandoned mine areas. This is their area of expertise. The Oil and Gas Industry should be charged with working with the Potash Industry. If a mine operator would ordinarily be required to seal off an abandoned area they should be responsible for the normal expenses incurred.

Section IV. Location of Wells and Notice to Potash Lessee

Paragraph C.

Failure of a potash leaseholder to object to a location should release the oil and gas operator from at least some liability. The Potash Industry should be charged with being responsible for their action or inaction.

The Potash Industry should monitor the level of gases in their mines so that if there is an intrusion of foreign gases or liquids the change can be accurately determined. Monitoring history would probably also be useful in determining the source of the intrusion. The Oil and Gas Industry should not automatically be held responsible. The offset oil and gas operators should be charged with working with the Potash Industry to determine the source of any foreign intrusion and resolution of the problem.

Section VIII. Filing of Well Surveys

The last statement should be expanded. The words "all encounters" need to be clarified. Does the word "all" literally mean all. We suggest that threshold levels be set. Hydrocarbon and hydrogen sulfide sensors can be installed during drilling operations and on surface facilities.

Section IX. Additional Safety Requirements and Emergency Action

Paragraph C.

Failure of the Potash Industry or the Oil Conservation Commission to take action when they are notified, by an operator, should relieve the Oil and Gas Industry of at least some of the liability for damages caused by oil and gas activities. The Oil and Gas Industry,

February 12, 1988
William J. LeMay
Page three

because of the nature of the potash activities, depends on the Potash Industry for their input and information. Their input is necessary to help ensure that oil and gas activities do not adversely affect potash activities.

We appreciate the opportunity to comment on this agreement. ARCO offers continuing support and cooperation in achieving a mutually satisfactory agreement.

Sincerely,



E. S. Bush
Inventory Control/Regulatory Representative

ESB/ddp

Enclosures

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

February 18, 1988

Statement of Agreement Between Potash and
Oil & Gas Industries on Concurrent
Operations in the Potash Area

L. J. Seeman
District Petroleum Engineer
Texaco U.S.A.
P. O. Box 728
Hobbs, New Mexico 88240

Dear Mr. Seeman:

In reply to your letter of February 2, 1988 Exxon supports the positive changes in the Statement of Agreement as a good step toward more reasonable co-existent development of petroleum and potash reserves, specifically:

- permitting the drilling of wells greater than one mile from "life-of-mine reserves" (LMR) areas with no special casing program.
- permitting the drilling of all wells between one-half and one mile from an LMR with a special casing program.
- permitting the drilling of shallow wells between one-quarter and one-half mile from an LMR with a special casing program.
- eliminating the generally fruitless arbitration step for wells proposed within one mile of a protesting potash lessee.

However, the most recent version of the Statement of Agreement contains three objectionable limitations which we believe must be overcome in any rulemaking or guidelines.

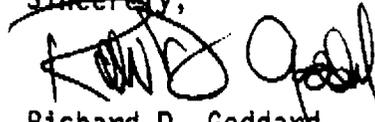
- The "Statement" lacks any provision for NMOCC consideration of exceptions to Part III (APD approval) guidelines (pages 5, 6, and 7).
- The boundaries of LMRs would not be known to the oil and gas industry. This withholds knowledge required to evaluate properties offered for lease and required to effectively develop properties under lease.
- It is inappropriate and unnecessary for NMOCD regulations to attempt to impose liability on oil and gas leaseholders for any damages as a result of drilling activities (page 9).

Mr. L. J. Seeman
Texaco U.S.A.

Page 2

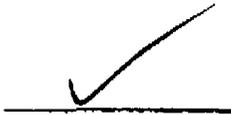
Although we question whether closer agreement can be reached in committee work, Exxon is unable to approve a Statement of Agreement which contains the above limitations. Exxon recommends that the New Mexico Oil Conservation Commission take the positive portions of the Statement of Agreement and correct the above inadequacies in any rulemaking or guidelines which result from the February 18, 1988 hearing. By copy of this letter we are informing the New Mexico Oil Conservation Division of Exxon's intent to appear and present evidence at the above noted hearing (NMOCD Case 9316).

Sincerely,



Richard D. Goddard
Regulatory Affairs Supervisor

RDG:def



Disapprove of "Statement of Agreement between the Potash and Oil & Gas Industries on Concurrent Operations in the Potash Area".

xc: Bill LeMay, Director
New Mexico Oil Conservation Commission



Chevron U.S.A. Inc.
P.O. Box 670, Hobbs, NM 88240

R. C. Anderson
Division Manager
Production Department
Hobbs Division

February 24, 1988

PROPOSED R-111-P, POTASH AREA

State of New Mexico
Oil Conservation Division
P. O. Box 2008
Santa Fe, New Mexico
8705-2088

Attention: Mr. William J. LeMay

Gentlemen:

Chevron U.S.A. Inc. generally supports the revision in Order R-111 as proposed by R-111-P.

As voiced in the Commission hearing on February 18, 1988, however, Chevron objects to the following:

- 1) The reference in R-111-P to the "Oil-Potash Agreement as Exhibit "B" thereto.
- 2) Any reference to liability as stated in the "Agreement".
- 3) The lack of definition of the area to be designated as LMR.

The above stated objections notwithstanding, it is Chevron's further view that the Oil Conservation Division, as the regulatory body, should incorporate pertinent language from the "Potash-Oil Agreement" into R-111-P so that the Order clearly represents the rules for operation in the Potash Area, has the effect of binding regulation, and makes no reference to an "Agreement" binding upon no one.

Chevron appreciates the efforts by the Director to bring about solutions to such a long-standing problem; however, Chevron believes that the areas of concern briefly discussed herein should be addressed when consideration is given to a full endorsement of a revised Order R-111.

Yours very truly,


R. C. ANDERSON

MFC:bg

Engineering
Regulatory
Leasing
Drilling Permits
Oilfield Reports

KNAUF PETROLEUM SERVICES

JAMES A. (JIM) KNAUF
1501 W. Missouri
Artesia, New Mexico 88210
Phone (505) 746-4138
Home (505) 746-4138

STATEMENT

(NMOCD Order R-111-P As Proposed on 2-18-88)

The following is a review of the three different potash areas being referred to in Southeastern New Mexico:

- A. State R-111 Area (now contains approximately 240,000 acres).
Presently this area embraces only proven potash lands and can only be enlarged or reduced by an OCD hearing. Drilling will be allowed if such operations will not duly interfere with mining operations. There are special cementing and casing requirements for this defined area.
- B. Federal KPLA (Known Potash Leasing Area now contains ± 357,800 acres).
This general area outlines the proven potash lands interspersed with non-proven lands plus a "small" buffer zone. This outline has no significance except to determine if new Federal "potash" leases are to be issued competitively or non-competitively. If all mineral leases are to be issued competitively in the future, the KPLA will become redundant and probably will become extinct.
- C. Secretary's Designated Potash Area (now contains ± 497,000 acres).
This general area outlines the proven potash lands interspersed with non-proven lands plus a "broad" buffer zone. This outline has no significance except to determine if new Federal "oil & gas" leases will contain a potash stipulation.

Each of the above potash areas contain about 90% Federal land and 10% State land. Since 10-16-51, all new Federal oil & gas leases in the Designated Potash Area contain a potash stipulation. Such stipulated leases provide that drilling will be allowed only if it is determined that such proposed drilling will not duly interfere with the recovery of the Federal potash reserves. Since 4-15-74, the stipulated leases contain a statement that "it will be departmental policy to deny approval of most applications to drill oil and gas test wells." A lessee holding a Federal oil and gas lease with a potash stipulation does not have a contractual right to develop his lease; whereas a lessee holding a Non-Federal oil and gas lease with no special stipulations does have a contractual right to develop his lease. A Non-Federal potash lessee has no protection from an oil & gas lessee unless the drillsite falls within the R-111 area.

If the proposed order is approved as presented, the amended R-111 will contain two new areas instead of one "defined" area of approximately 240,000 acres in which there is a specified casing and cementing program. One of the new areas will be a general area covering approximately 360,000 acres of proven and non-

proven potash lands. The other new area will be a mysterious, pig-in-a-poke, undefined, LMR area in which the specified casing and cementing program will apply. This pig-in-a-poke area will be a combined area of several potash lessees, each using his favorite parameter.

It was indicated that the potash lessees will surrender their protest rights in 25% of their pig-in-a-poke areas. However, it appears that most of the area being surrendered will be unleased potash land that does not have a lessee, abandoned edge acreage that is impractical to mine because of isolation by secondary mining, or low grade blending ore that never should have been considered commercial ore in the first place.

It may seem appropriate for the OCD to issue an order affecting two parties who have agreed on a private swap-out arrangement between them; but it does not seem appropriate for the OCD to issue an order permanently affecting many present and future oil and gas lessees in a large blanket area when only three oil and gas lessees have signed this LMR agreement prepared by an attorney for the potash industry.

The LMR agreement, which is to be made a part of this amended R-111, states that it is to become null and void if it is not substantially adopted by the BLM in Washington. What will happen if the BLM does not see fit to accept this mysterious pig-in-a-poke area?

If R-111-P is approved as proposed, it will be a black day for the OCD and the oil and gas industry.

It is recommended that CASE 9316 be continued until such time that copies of the proposed Order can be received and reviewed by the general public.


James A. Knauf
Petroleum Consultant

ARCO Oil and Gas Company
Central District
Post Office Box 1610
Midland, Texas 79702
Telephone 915 688 5200



March 2, 1988

Mr. William J. LeMay, Director
Oil Conservation Division
Energy, Minerals and Natural Resources Department
State of New Mexico
P. O. Box 2088
State Land Office Building
Santa Fe, NM 87504

RECEIVED

MAR 8 1988

Re: Revision of Order No. R-111
Oil Potash Agreement

OIL CONSERVATION DIVISION

Dear Mr. LeMay:

In accordance with your decision to accept written comments regarding the proposed Rule R-111-P, we are re-submitting our comments of February 12, 1988.

In addition, we are concerned about attaching the Statement of Agreement as Exhibit B. The differences in content could be the basis for possible future conflict.

Sincerely,

E. S. Bush
Inventory Control/Regulatory Analyst

ESB/ddp

Attachment

xc: Victor T. Lyon
Oil Conservation Division

ARCO Oil and Gas Company
Central District
Post Office Box 1610
Midland, Texas 79702
Telephone 915 688 5200



February 12, 1988

Mr. William J. LeMay, Director
Oil Conservation Division
Energy, Minerals and Natural Resources Department
State of New Mexico
P. O. Box 2088
State Land Office Building
Santa Fe, NM 87504

Re: Revision of Order No. R-111
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We suggest that the buffer zone areas be clarified. Possibly there could be more than one classification depending on the proximity to active mining areas, abandoned areas and possible future mining areas. We suggest that time frames for possible development and economics might be considered.

February 12, 1988
William J. LeMay
Page two

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February 12, 1988
William J. LeMay
Page three

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We appreciate the opportunity to comment on this agreement. ARCO offers continuing support and cooperation in achieving a mutually satisfactory agreement.

Sincerely,



E. S. Bush
Inventory Control/Regulatory Representative

ESB/ddp

Enclosures



James F. Trickett
Regional Environmental
Affairs and Safety Manager

March 2, 1988

File: JCA-986.51-465

Re: Comments on Case 9316
Amendments to Order R-111
(Potash Area)

Excellent comments

Amoco Production Company

Houston Region
501 WestLake Park Boulevard
Post Office Box 3092
Houston, Texas 77253

713-556-2000

③

RECEIVED

MAR 8 1988

OIL CONSERVATION DIVISION

Mr. William J. LeMay
Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Attention: Mr. Vic Lyon

Dear Mr. Lyon:

Amoco Production Company has followed with great interest the joint industry committee meetings and the recent NMOCD hearing on the issue of Order R-111 pertaining to rules on the development of the potash area. Amoco did not sign the joint agreement and we did not take a position at the February 18, 1988 hearing. However, Amoco submits herein its comments on the proposed amended Order R-111-P and hopes the NMOCD will address our concerns in its final rule.

Amoco lauds the accomplishments of the NMOCD in bringing together key personnel from each industry and fostering better communication and understanding of each other's concerns and objectives. We definitely have a much higher degree of sensitivity to the special problems of underground miner safety as well as the economic pinch the potash industry is feeling now. We support the concept of multiple use of the potash area of southeast New Mexico, to the extent possible, and a better definition of what is available for exploration and development drilling activity.

We urge the NMOCD to incorporate in the proposed Order R-111-P the language of the agreement to a limited extent. We simply do not see much enforceability as to the terms of the agreement if it is not made a part of the regulatory language. We recognize that the administrative and interpretive capacity of your agency may not be delegated to private

Mr. William J. LeMay
March 2, 1988
Page 2

concerns, but since Mr. Lyon was the chairman of the joint committee, we believe the NMOCD had adequate influence on the outcome of the final language. It is now proper to adopt the language in the final version of the amended order as to the following specifics.

We are strongly in favor of making the R-111 potash area coterminous with the Known Potash Leasing Area as determined by the U. S. Bureau of Land Management. This will simplify the handling of APD's and eliminate maintaining one more boundary line.

We further recommend that the language of Section II of the joint agreement be incorporated directly into Order R-111-P. This is the section entitled "Designation of Mine Reserves". Since the proposed order intends to delineate areas (LMR's) where APD's will be disapproved and where they will be approved, this section provides the necessary framework to define LMR's, regardless of whether it be on State or Federal land. We recommend no changes to this wording and suggest that Section II, paragraphs A, B, C, and D, be adopted as Section VII (1) of Order R-111-P.

Section III of the joint agreement, "Drilling in the Potash Area", is the cornerstone of the entire industry negotiations. Your proposed Section VII (4) states that APD's for locations outside the LMR and associated buffer zones will be approved as indicated in the guidelines established in the agreement. Amoco believes that this language should be written into the rule, since the intent is to apply it in context with approving or disapproving APD's. We strongly recommend that the exception provision as contained in your proposed Section VII (4) be retained in the final rule. We cannot claim to be upholding the rights of our royalty interest owners and working interest partners if we agree to forfeit the right of due process for exception permits. Likewise, due process ought to be guaranteed to the potash lessees. Therefore, Section IV (B) should be included in the amended order.

Sections IV (C) and IX of the joint agreement, dealing with liability and safety requirements, do not appear to be appropriate for inclusion in Order R-111-P and we agree with you that they should be excluded. The rule has been and should continue to be limited to the procedural steps to achieve prudent development of the potash area.

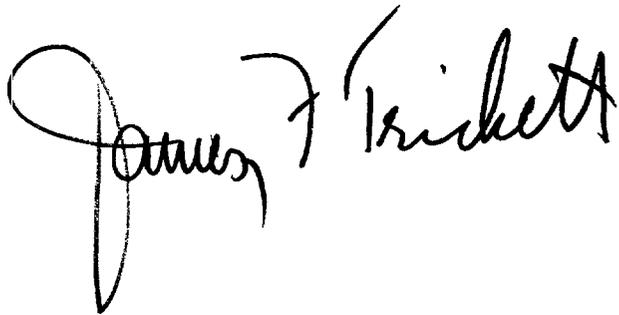
As a general comment, Amoco feels that the agreement is weakened by the concept of shifting LMR's notwithstanding the potash industry's witness testimony that LMR boundaries move slowly. Identifying prospects, bidding on leases, drilling and bringing a field into production is also a slow process that can be disrupted if an LMR is enlarged and /or reshaped, regardless of how frequently it occurs. We don't see a way to accommodate the risk of buying acreage which is potentially off limits to drilling activity. This is why Amoco is a relatively small lessee inside the potash area, even though we believe the hydrocarbon potential is high.

Mr. William J. LeMay
March 2, 1988
Page 3

Finally, Amoco recommends that this rule be set for review at hearing periodically, perhaps as often as annually in the beginning. This would allow testimony regarding operators' success in obtaining approved APD's as a sort of post appraisal of the rule.

Amoco appreciates this opportunity to comment on this issue and we again wish to commend the NMOCD for the progress achieved in these negotiations.

Yours very truly,

A handwritten signature in black ink, reading "James F. Trickett". The signature is written in a cursive style with a large initial "J" and a distinct "F".