



UNIT AGREEMENT  
FOR THE OPERATION OF THE  
GRAMA RIDGE MORROW UNIT AREA  
LEA COUNTY, NEW MEXICO

SIGNED  
AGREEMENT

State  
of  
NM

THIS AGREEMENT entered into as of the 25th day of April, 1973 by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto".

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as "Commissioner") is authorized by law to consent to and approve the operation of state lands under agreements made by lessees of state lands jointly or severally with other lessees where such agreements provide for the unit operation of part of or all of any oil or gas pool, field or area (Section 7-11-39, 7-11-40 N.M.S.A. 1953 Comp.); and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law to amend with the approval of lessee, evidenced by lessee's execution of such agreement or otherwise, any oil and gas lease embracing state lands so that the length of the term of said lease may coincide with the term of such agreement for the unit operation of part or all of any oil or gas pool, field or area (Section 7-11-41 N.M.S.A. 1953 Comp.); and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as "Commission") is authorized by law to approve this agreement and the conservation provisions thereof (Art. 3, Chap. 65, Vol. 9, Part 2 N.M.S.A. 1953 Comp.); and

WHEREAS, the parties hereto hold sufficient interest in the Grama Ridge Morrow Unit Area covering the lands hereinafter described

to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, store gas and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms and conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 21 South, Range 34 East, N.M.P.M.

Section 34 - All

Township 22 South, Range 34 East, N.M.P.M.

Section 3 - All

containing 1287.16 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in the unitized formation as hereinafter defined are unitized under the terms of this agreement and herein are called unitized substances.

3. UNITIZED FORMATION: That subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 as shown on the Schlumberger Sonic Log - Gamma Ray Log of said well dated July 5, 1965, which said well is located 1980 feet from the North line and 660 feet from the west line of Section 3, Township 22 South, Range 34 East, is unitized under this agreement and is hereinafter referred to as the "unitized formation".

4. UNIT OPERATOR: Llano, Inc. with offices at Hobbs, New Mexico (P.O. Drawer 1320) is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth on Exhibit "B" and agrees and consents to accept the duties and obligations of unit operator for the operation of the Grama Ridge Morrow Unit Area. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time, but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 6 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of

unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS: The unit operator shall pay all costs and expenses incurred in conducting unit operations hereunder. In the event the ownership of the unitized formation should hereafter be divided or owned in whole or in part by parties other than unit operator, from and after such time unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right of obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided.

Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. PURPOSE OF UNIT AND PLAN OF OPERATION: It is recognized and agreed by the parties hereto that the unitized formation as to all of the lands subject to this agreement is reasonably proven to be productive of unitized substances or necessary for unit operations and that the object and purpose of this agreement is to formulate and put into effect a secondary recovery and gas storage project in order to effect the greatest economic recovery of unitized substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. The parties hereto agree that the unit operator may, subject to the approval of a plan of operation by the Commissioner, inject gas produced from lands other than the unit area into the unitized formation through the Shell Oil Company State GRA Well No. 1 located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$  Section 3, Township 22 South, Range 34 East and the Shell State GRB Well No. 1 located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$  Section 34, Township 21 South, Range 34 East for secondary recovery and storage purposes. Unit operator shall furnish the Commissioner, between the first and twentieth of each month, reports showing the amount of gas produced and injected into the unitized formation for the preceding month.

A plan of operation shall be filed with the Commissioner concurrently with the filing of this unit agreement for final approval. Said plan of operation and all revisions thereof shall be as complete

and adequate as the Commissioner may determine to be necessary in connection with operations hereunder. Upon approval of this agreement and the aforementioned plan of operation by the Commissioner, said plan and all subsequently approved plans shall constitute the operating obligations of the unit operator under this agreement for the period specified in the plan. Thereafter, from time to time before the expiration of any existing plan, the unit operator shall submit for approval a plan for an additional specified period of operation. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. The unit operator shall furnish to the Commissioner, within 30 days from the expiration of each 6 month period, a report giving full factual information as to the manner in which the plan in effect for such period has been carried out.

If the unit operator should fail to comply with any approved plan of operation or supplement to or modification thereof, this agreement may be terminated by the Commissioner; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by Section 7-11-14 N.M.S.A. 1953 of intention to cancel because of any alleged breach of said plan of operation and any decision entered therein shall be subject to appeal in the manner prescribed by Section 7-11-17 N.M.S.A. 1953; and provided further in any event unit operator shall be given a reasonable opportunity after a final determination within which to remedy said default, failing in which this agreement shall be terminated.

10. TRACT PARTICIPATION: Exhibit "B" attached hereto shows the percentage of participation of each of the tracts embraced by leasehold interests which are committed to this agreement. These participation factors have been obtained by dividing the number of acres contained in each tract by the total number of acres contained in the unit area.



The unitized substances produced from the unit area shall be allocated to the respective tracts as hereinafter set forth in accordance with said percentages of participation and such unitized substances shall be deemed to have been produced from the respective tracts to which allocated.

11. ALLOCATION OF PRODUCTION:

A. PHASE I: It is recognized that there is still some primary gas and liquid hydrocarbons left in the unitized formation underlying the unit area which would otherwise be produced in the normal producing life of the existing wells before they reach their economic limit upon which the state would be entitled to royalty. It is contemplated that gas produced from lands outside the unit area will be injected into the unitized formation for a considerable length of time before any appreciable amounts of gas are withdrawn. The primary production which would normally have been produced from May 1, 1975 to its economic limit has been determined by B.H.P/Z method based upon prior production, and Exhibit "C" attached hereto shows the royalty gas to which the state is entitled. In order that the State of New Mexico will continue to receive royalties on the same basis as if the existing wells had continued normal production until they reached their economic limits, the amount of gas shown for the respective months on Exhibit "C" shall be allocated to the tracts in accordance with the percentages set forth on Exhibit "B" and unit operator shall pay to the state royalties on the gas allocated to the respective tracts on the basis provided in the leases covering said tracts exactly the same as if the gas had actually been produced therefrom. Such payments based upon the gas for each of the months shown on Exhibit "C" shall be considered as full payment to the state for all remaining primary gas reserves. The period from May 1, 1973 through the months shown on Exhibit "C" shall constitute Phase I.

*Produced  
10/1/73*

B. PHASE II: It is contemplated that after the unitized formation has been reasonably repressured by the injection of gas produced from lands outside the unit area, there will be withdrawals from time to time. Unit operator shall install and at all times operate and maintain metering equipment and other facilities approved by the Commissioner so that an accurate cumulative account can be kept of the quantity of gas as well as the total number of British Thermal Units in the gas injected into the unitized formation through the existing wells. Operator shall also keep an accurate cumulative account of the total number of British Thermal Units in all gas withdrawn from the unitized formation.

Operator shall also install, operate and maintain at all times the necessary separation equipment to separate the gas from the liquid hydrocarbons produced in connection with the withdrawal of gas from the respective wells, as well as all other related equipment which may be required to transfer all liquids so separated.

Operator shall cause monthly analyses by chromatograph or other mutually acceptable method of all the gas injected into or withdrawn from the reservoir in order to compute the net change in British Thermal Unit content.

Operator shall pay royalties to the state at the rates provided in the respective leases on all liquid hydrocarbons which are separated from the gas withdrawn and allocated to the respective tracts in accordance with the percentages of participation set forth on Exhibit "B" regardless of the time said gas is withdrawn. In addition, should the total cumulative British Thermal Units in the gas withdrawn exceed the total British Thermal Units in the gas

injected plus the pre-determined number of British Thermal Units in the remaining primary gas reserves and for which the state has been or will be paid during Phase I, then operator shall pay royalties on said increase in British Thermal Units at the prevailing market price in Lea County, New Mexico as set by the Federal Power Commission for gas of like quality. Payment for British Thermal Unit enrichment as set forth herein shall be made on a monthly basis as the result of the chromatograph analyses.

In addition to the rental and royalty provided in the leases covering the respective tracts beginning with the first of the month following the end of Phase I as shown on Exhibit "C" unit operator shall pay an annual storage fee or rental of \$1.00 per acre plus 1/2¢ per thousand cubic fee of gas withdrawn from the reservoir, which shall be allocated to the respective leasehold interests on the basis of the percentage of participation set forth on Exhibit "B". Said storage fee or additional rental of \$1.00 per acre shall be paid during the month of February of each year and the 1/2¢ per thousand cubic feet for gas withdrawn shall be based on the monthly withdrawals, payments to be made in the month following the month in which withdrawals are made.

All gas produced from the lands outside the unit area and injected into the unitized formation, as well as all primary gas if, as and when produced, except for the payments to be made to the state in accordance with Phase I, may be withdrawn from the unitized formation from time to time royalty free except as to any enhancement in value through an increase in <sup>value</sup> British Thermal Units. Notwithstanding the above, royalty shall be paid on all liquid hydrocarbons separated from gas withdrawn.

12. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling,

development or operation for oil or gas of the lands committed to this agreement shall, as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the respective lessees shall be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and term of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The continued operation or production of a well or wells for unitized substances on the unit area or for gas storage purposes shall be construed and considered as the continued operation or production on each of the leasehold interests committed to this agreement and operations or production or gas storage pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement.

Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed and the terms of such leases shall apply separately as to such segregated portions

commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil and gas, or either of them, are capable of being produced from or gas is being stored within some part of the unitized formation covered by the leases committed to this agreement at the expiration of the secondary term thereof.

13. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery and storage of said substances without waste, as defined by or pursuant to state laws or regulations.

14. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

15. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working, royalty or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

16. EFFECTIVE DATE AND TERM: This agreement shall become effective as of April 25, 1973 upon approval by the Commissioner and shall remain in effect so long as unitized substances are being produced from or stored within the unitized formation. This agreement may be terminated at any time by not less than seventy-five per cent (75%) on an acreage basis of the owners of working interests signatory hereto with the approval of the Commissioner.

17. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

18. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

19. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

20. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to produce unitized substances from or

16. EFFECTIVE DATE AND TERM: This agreement shall become effective as of April 25, 1973 upon approval by the Commissioner and shall remain in effect so long as unitized substances are being produced from or stored within the unitized formation. This agreement may be terminated at any time by not less than seventy-five per cent (75%) on an acreage basis of the owners of working interests signatory hereto with the approval of the Commissioner.

17. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

18. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

19. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

20. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to produce unitized substances from or

store gas within the unitized formation covered by this agreement shall be suspended while, but only so long as, the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, federal, state or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

21. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payment of funds due the State of New Mexico shall be withheld. Unit operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

22. RE-NEGOTIATION OF STORAGE OR RENTAL FEE: The gas storage fee paid on gas withdrawn under Section 11B shall be valid for a period of three (3) years from the effective date of this agreement. During the final year of the first three (3) year period that this agreement is in force the fee set out in Section 11B shall be re-negotiated between the parties hereto, each such re-negotiated rate to be in effect for the succeeding five (5) year period. If the parties hereto are unable to agree to re-negotiated new fees sixty (60) days prior to the



expiration of the first three (3) year period and at least sixty (60) days prior to the first day of any such succeeding five (5) year period, payment of the fees on the basis of prior rates shall continue and this agreement shall terminate upon expiration of not more than two (2) years from said first day (during which time the parties hereto may remove the metered and injected gas not previously withdrawn and equipment and facilities installed under this agreement) unless during such two (2) year period the parties hereto agree upon a re-negotiated rate to be effective retroactively to said first day. Any gas or facilities not then removed by the termination date shall become the property of the State of New Mexico if it so elects.

23. HOLD HARMLESS CLAUSE: Notwithstanding any of the provisions contained herein, unit operator shall save, hold and protect the Commissioner of Public Lands and the State of New Mexico harmless from all claims and liabilities of whatsoever kind, nature or description arising from or growing out of operations carried on by unit operator pursuant to this agreement.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

ATTEST:

LIANO, INC.

By

President

UNIT OPERATOR AND WORKING INTEREST OWNER

Address: P. O. Box 1320

Hobbs, New Mexico 88240

Date: June 7, 1973

LESSEES OF RECORD

ATTEST:

~~SHELL OIL COMPANY~~ LLANO, INC.

By R. F. Montgomery  
President

Date: 8/22/73

Address: P. O. Box 1320  
Hobbs, New Mexico 88240

ATTEST:

GULF OIL CORPORATION

By W. B. Hopkins

Asst. Secretary  
Date: 7-2-73

Attorney-in-Fact  
Address: P. O. Box 1150  
Midland, TX 79701

ATTEST:

TEXACO INC.

By SEE PAGE 16-A  
President

Secretary  
Date: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

STATE OF NEW MEXICO )  
: ss  
COUNTY OF LEA )

The foregoing instrument was acknowledged before me this 7th  
day of June 1973 by R. F. Montgomery President of  
Llano, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:  
October 30, 1976

Larry L. Huey  
Notary Public

STATE OF NEW MEXICO )  
: ss  
COUNTY OF LEA )

The foregoing instrument was acknowledged before me this 22  
day of August 1973 by R. F. Montgomery President  
of ~~Shell Oil Company~~, a ~~Delaware~~ corporation, on behalf  
of said corporation. Llano, Inc. New Mexico

My Commission Expires:  
Oct 30, 1976

Larry L. Huey  
Notary Public

STATE OF TEXAS )  
: ss  
COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 20  
day of July 1973 by W. B. HOPKINS, Attorney-in-Fact  
of Gulf Oil Corporation, a Pennsylvania corporation, on  
behalf of said corporation.

My Commission Expires:  
6-1-75

Emily Jones BILLY JONES  
Notary Public

CONSENT AND RATIFICATION  
GRAMA RIDGE MORROW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Grama Ridge Morrow Unit Area embracing lands situated in Lea County, New Mexico, which is dated the 25th day of April, 1973, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. As to unitized substances in the unitized formation defined in said Unit Agreement, the undersigned owns no interest whatsoever. However, the undersigned does own the official record title to an oil and gas lease from the State of New Mexico as lessor, which lease is more particularly described in said Unit Agreement. Said lease is subject to certain operating rights and working interest owned by another. The undersigned understands that the owner of said operating rights and working interest desires to commit the same to said Unit Agreement. Pursuant to policies and practices of the State Land Office for the State of New Mexico, the Commissioner of Public Lands for the State of New Mexico requires consent and joinder of the official record title holders or lessees of record of State of New Mexico oil and gas leases before the Commissioner will approve the above Unit Agreement. In its capacity as owner of the official record title, or as lessee of record, to a State of New Mexico oil and gas lease, and in that capacity only, and as an accommodation to said owner of operating rights and working interest under said lease, the undersigned desires to consent, ratify and join in the execution of said Unit Agreement. By these presents the undersigned does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof, in the undersigned's capacity as official record title holder or lessee of record of a State of New Mexico oil and gas lease.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

Date: July 18, 1973

TEXACO INC.

By: [Signature]

ATTORNEY-IN-FACT

APPROVED AS TO

Terms [Signature]  
Form [Signature]

STATE OF TEXAS       )  
                          ) ss.  
COUNTY OF MIDLAND   )

The foregoing instrument was acknowledged before me this 18th day of July, 1973, by V. F. Dullberg, of TEXACO INC., a Delaware corporation, on behalf of said corporation.

[Signature]  
Notary Public

My Commission Expires:

6-1-75

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of January, 1973 by \_\_\_\_\_  
of Texaco Inc., a \_\_\_\_\_ corporation, on behalf of said cor-  
poration.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

R 34 E

Llano  
K-3592-1  
(Shell)

Tr. 4

T  
21  
S

34  
Llano  
E-9659  
(Gulf)

Tr. 3

State

Llano  
E-9141  
(Shell)

Tr. 2

3  
Llano  
B-158-3  
(Texaco)

Tr. 1

State

T  
22  
S

LLANO, INC.

GRAMA RIDGE MORROW UNIT  
LEA COUNTY, NEW MEXICO

UNIT OWNERSHIP MAP

SCALE IN FEET

0 1000' 2000' 3000' 4000' 5000' 6000' 7000' 8000'

EXHIBIT "B"  
GRAMA RIDGE MORROW UNIT AGREEMENT

Tract No.	Description	No. Surface Acres	Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty or Prod. Pymt.	Working Int. Owner and Percentage	Percentage Tract Partl- cipation
1	S $\frac{1}{4}$ Sec. 3, T. 22 S., R. 34 E.	320.00	B-158-3	12 $\frac{1}{2}$ %	Texaco Inc.	None	Llano, Inc. 100%	24.861
2	N $\frac{1}{4}$ Sec. 3, T. 22 S., R. 34 E.	327.16	E-9141	12 $\frac{1}{2}$ %	Shell Oil Company	None	Llano, Inc. 100%	25.417
3	S $\frac{1}{4}$ Sec. 34, T. 21 S., R. 34 E.	320.00	E-9659	12 $\frac{1}{2}$ %	Gulf Oil Corporation	None	Llano, Inc. 100%	24.861
4	N $\frac{1}{4}$ Sec. 34, T. 21 S., R. 34 E.	320.00	K-3592-1	12 $\frac{1}{2}$ %	Shell Oil Company	None	Llano, Inc. 100%	24.861
Total		1287.16						100.000

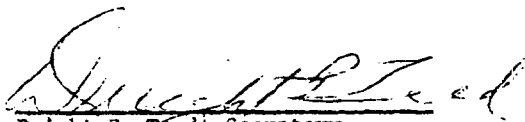
EXHIBIT "C"

Composite Royalty Production - BHP/Z Method - Grama Ridge Morrow Unit Area, Lea County, New Mexico

<u>1973</u>			<u>1974</u>			<u>1975</u>			<u>1976</u>			<u>1977</u>		
<u>Equivalent</u>			<u>Equivalent</u>			<u>Equivalent</u>			<u>Equivalent</u>			<u>Equivalent</u>		
<u>Gas</u>			<u>Gas</u>			<u>Gas</u>			<u>Gas</u>			<u>Gas</u>		
<u>Production</u>			<u>Production</u>			<u>Production</u>			<u>Production</u>			<u>Production</u>		
<u>MCF</u>			<u>MCF</u>			<u>MCF</u>			<u>MCF</u>			<u>MCF</u>		
<u>Month</u>			<u>Month</u>			<u>Month</u>			<u>Month</u>			<u>Month</u>		
May	1,860		Jan.	1,060		Jan.	810		Jan.	610		Jan.	460	
June	1,770		Feb.	1,040		Feb.	790		Feb.	600		Feb.	450	
July	1,660		Mar.	1,010		Mar.	775		Mar.	590		Mar.	445	
Aug.	1,590		April	990		April	750		April	575		April	430	
Sept.	1,510		May	960		May	740		May	550		May	425	
Oct.	1,450		June	950		June	710		June	540		June	410	
Nov.	1,380		July	925		July	700		July	525		July	400	
Dec.	1,090		Aug.	900		Aug.	690		Aug.	510		Aug.	395	
			Sept.	890		Sept.	675		Sept.	500		Sept.	390	
Total	12,310		Oct.	860		Oct.	650		Oct.	495		Oct.	375	
			Nov.	840		Nov.	640		Nov.	490		Nov.	370	
Cum.	12,310		Dec.	825		Dec.	625		Dec.	475		Dec.	360	
			Total	11,250		Total	8,555		Total	6,460		Total	4,910	
			Cum.	23,560		Cum.	32,115		Cum.	38,575		Cum.	43,485	

<u>1978</u>			<u>1979</u>		
<u>Equivalent</u>			<u>Equivalent</u>		
<u>Gas</u>			<u>Gas</u>		
<u>Production</u>			<u>Production</u>		
<u>MCF</u>			<u>MCF</u>		
<u>Month</u>			<u>Month</u>		
Jan.	350		Jan.	270	
Feb.	345		Feb.	270	
Mar.	340				
April	330				
May	325				
June	310				
July	305				
Aug.	300				
Sept.	295				
Oct.	290				
Nov.	280				
Dec.	275				

I, Dwight P. Teed, Secretary of Llano, Inc. do hereby  
certify that the Agreement attached hereto, consisting of sixteen  
(16) pages and exhibits and entitled "Unit Agreement For The  
Operation Of The Grama Ridge Morrow Unit Area, Lea County, New  
Mexico", entered into on April 25, 1973, is a true and correct  
copy of said Agreement.

  
Dwight P. Teed, Secretary



CERTIFICATE OF APPROVAL

BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

AMENDMENT OF UNIT AGREEMENT

GRAMA RIDGE-MORROW UNIT

LEA COUNTY, NEW MEXICO


There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Amendment of Unit Agreement for the development and operation of the Grama Ridge-Morrow Unit Area, Lea County, New Mexico for the purpose of expanding the Unit Area.

The attached Amendment of Unit Agreement was entered into as of September 1, 1976 by and between the parties to the original Unit Agreement for the purpose of expanding the unit area to include all of Section 33, Township 21 South, Range 34 East, N.M.P.M. The Amendment also ratifies and confirms the Original Unit Agreement as amended and upon examination of said Amendment, the Commissioner finds:

- (a) That such Amendment to this Agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed amended Agreement the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such Agreement is in other respects for the best interests of the State, with respect to State lands..

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Amendment, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 26th. day of January, 1977.

  
COMMISSIONER OF PUBLIC LANDS  
Of the State of New Mexico

AMENDMENT TO UNIT AGREEMENT  
FOR OPERATION OF THE GRAMA  
RIDGE-MORROW UNIT AREA  
LEA COUNTY, NEW MEXICO

RECEIVED  
DEC 17 8 52 AM '76  
STATE LAND OFFICE  
SANTA FE, N.M.

THIS AMENDMENT entered into as of the first day of September, 1976, by and between the parties subscribing, ratifying or consenting hereto and herein referred to as the "parties hereto".

WHEREAS, as of April 25, 1973 the Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area was entered into by and between Llano, Inc. as unit operator and as a working interest owner and by Gulf Oil Corporation and Texaco Inc. as record title owners of oil and gas leases embracing lands in the unit area, which said agreement was approved by the Commissioner of Public Lands of the State of New Mexico, herein referred to as "Commissioner", on August 27, 1973, and

WHEREAS, the original unit agreement covered all of Section 34, Township 21 South, Range 34 East and all of Section 3, Township 22 South, Range 34 East and was entered into for the purpose of formulating and putting into effect a secondary recovery and gas storage project as to the Morrow formation which was unitized under said agreement and which is specifically defined in Section 3 thereof, and

WHEREAS, the unit operator has injected gas into wells located on the unit area which has resulted in a pressure increase in the South Wilson Deep Unit No. 1 gas well producing from the unitized formation located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 33, Township 21 South, Range 34 East and has likewise resulted in an increase in pressure in the Llano Federal GR-4 No. 1 Morrow gas well located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 4, Township 22 South, Range 34 East and such communication indicates that said wells are located in the same reservoir as the two gas wells within the unit area, which wells

have been used for the injection and withdrawal of gas pursuant to the terms of said unit agreement, and

WHEREAS, it now appears that the Morrow gas reservoir underlies Sections 33 and 34, Township 21 South, Range 34 East and Sections 3 and 4, Township 22 South, Range 34 East, and

WHEREAS, all of Section 33 is owned by the State of New Mexico except the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of said section which is fee land and the minerals underlying said 40 acres, subject to the existing lease, are owned 32.37% by Don E. Gridley and wife, Alice F. Gridley, John E. Bosserman and wife, Carol Jean Bosserman and 67.63% by The Merchant Livestock Company, and

WHEREAS, all of Section 4, Township 22 South, Range 34 East is federal land and Llano, Inc. has entered into an agreement with the United States, acting by and through the Secretary of the Interior, effective as of November 1, 1975 for the storage of gas in the Morrow formation which is unitized under the terms of said unit agreement. Said gas storage agreement with the United States recognizes that the gas reservoir underlies the 4 sections hereinabove referred to and also provides that all injection and withdrawal fees payable to the United States shall be based upon 1/4 of all gas injected or withdrawn from the reservoir through any wells located on the 4 sections above referred to, and

WHEREAS, it is the purpose of this amendment to expand the unit area to include all of Section 33, Township 21 South, Range 34 East so that the unit agreement, taken into consideration with the gas storage agreement with the United States covering Section 4, will cover the entire reservoir, and

WHEREAS, the unit agreement recognized that there was still some primary gas and liquid hydrocarbons left in the unitized formation when the unit agreement was entered into and said agreement provided for the payment of royalty thereon on a monthly basis beginning in May, 1974 through February, 1979 and the unit operator has agreed to pay in full all royalty payments provided for in Exhibit "C"

attached to the unit agreement, as well as the royalty for the remaining 318,519 MCF of primary gas and the liquid hydrocarbons attributable thereto underlying said Section 33 (15/16 of which is to be allocated to Tract 5 and 1/16 to Tract 6 shown on Exhibit "B") so that Phase I provided for in Section 11(a) of the original agreement will no longer be applicable; and

WHEREAS, the parties are desirous of amending said unit agreement to provide for the same gas injection and withdrawal fees (on an average basis) as are provided under the terms of the gas storage agreement with the United States covering Section 4 as to 1/4 of the gas injected and withdrawn from said reservoir; subject, however, to the right of the unit operator to withdraw gas previously injected from extraneous sources up to and including August 31, 1976 amounting to 6,727,987 MCF at a pressure base of 15.025 psia without payment of withdrawal fees as to any portion thereof withdrawn prior to March 1, 1979.

NOW, THEREFORE, in consideration of the premises, the parties hereby mutually agree that the Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area shall be and is hereby amended as hereinafter set forth:

1. Section 1 of the unit agreement is amended as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 21 South, Range 34 East, N.M.P.M.  
Section 33 - All  
Section 34 - All  
Township 22 South, Range 34 East, N.M.P.M.  
Section 3 - All  
containing 1,927.16 acres, more or less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests

in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. Section 9 of the unit agreement is amended as follows:

9. PURPOSE OF UNIT AND PLAN OF OPERATION: It is recognized and agreed by the parties hereto that the unitized formation as to all of the lands subject to this agreement is reasonably proven to be productive of unitized substances or necessary for unit operations and that the object and purpose of this agreement is to formulate and put into effect a secondary recovery and gas storage project in order to effect the greatest economic recovery of unitized substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. The parties hereto agree that the unit operator may, subject to the approval of a plan of operation by the Commissioner, inject gas produced from lands other than the unit area into the unitized formation through the following wells for secondary recovery and storage purposes:

Shell Oil Company State GRA Well No. 1 - SW $\frac{1}{4}$ NW $\frac{1}{4}$  Section 3  
Township 22 South, Range 34 East (Llano, Inc. operator)

Shell State GRB Well No. - NW $\frac{1}{4}$ SW $\frac{1}{4}$  Section 34, Township 21  
South, Range 34 East (Llano, Inc. operator)

South Wilson Deep Unit No. 1 well - NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 33,  
Township 21 South, Range 34 East (Llano, Inc. operator)

Llano Federal GR-4 No. 1 Morrow - SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 4,  
Township 22 South, Range 34 East (Llano, Inc. operator)

Unit operator shall furnish the Commissioner, between the first and twenty-fifth of each month, reports showing the amount of gas produced and injected into the unitized formation for the preceding month.

Unit operator shall have the right to rework or recondition the wells now located on the unit area or to drill additional wells to inject gas into or produce gas from the gas storage reservoir area to the extent that such work shall be approved by the Commissioner as necessary or incident to the rights granted to unit operator pursuant to this agreement. Unit operator shall conduct all operations hereunder in accordance with all applicable laws and regulations and shall comply with all the terms and conditions of the respective leases.

A plan of operation shall be filed with the Commissioner concurrently with the filing of this unit agreement for final approval. Said plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner may determine to be necessary in connection with operations hereunder. Upon approval of this agreement and the aforementioned plan of operation by the Commissioner, said plan and all subsequently approved plans shall constitute the operating obligations of the unit operator under this agreement for the period specified in the plan. Thereafter, from time to time before the expiration of any existing plan, the unit operator shall submit for approval a plan for an additional specified period of operation. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. The unit operator shall furnish to the Commissioner, within 30 days from the expiration of each 6 month period, a report giving full factual information as to the manner in which the plan in effect for such period has been carried out.

If the unit operator should fail to comply with any approved plan of operation or supplement to or modification thereof, this

agreement may be terminated by the Commissioner; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by Section 7-11-14 N.M.S.A. 1953 of intention to cancel because of any alleged breach of said plan of operation and any decision entered therein shall be subject to appeal in the manner prescribed by Section 7-11-17 N.M.S.A. 1953; and provided, further, in any event unit operator shall be given a reasonable opportunity after a final determination within which to remedy said default, failing in which this agreement shall be terminated.

3. Section 10 of the unit agreement is amended as follows:

10. TRACT PARTICIPATION: For the purposes of this agreement "extraneous gas" shall mean the total amount of gas from other sources injected into the reservoir less the amount which has been withdrawn. Any gas produced in excess of the extraneous gas injected prior to or after the effective date hereof shall be considered as "indigenous gas". All such indigenous gas shall be apportioned to the tracts within the unit area in the proportions set forth on Exhibit "B" attached hereto, which is based on the percentage that the acreage covered by each tract bears to the total acreage within the unit area. Royalties shall be paid to the State of New Mexico at the rates provided in the respective leases on all indigenous gas allocated to such tracts.

4. Section 11 of the unit agreement shall be amended as follows:

11. GAS STORAGE -- STORAGE, INJECTION AND WITHDRAWAL FEES:

A. Gas Storage: It is contemplated that the extraneous gas which has been injected will be withdrawn from time to time. Unit operator shall be under no obligation to inject or withdraw any particular quantity of gas other than such as it in its sole discretion deems advisable. Unit operator shall install

and at all times operate and maintain metering equipment and other facilities approved by the Commissioner so that an accurate cumulative account can be kept of the quantity of gas, as well as the total number of British Thermal Units in the gas, injected into the unitized formation through the existing wells. Operator shall also keep an accurate cumulative account of the total number of British Thermal Units in all gas withdrawn from the unitized formation.

Operator shall also install, operate and maintain at all times the necessary separation equipment to separate the gas from the liquid hydrocarbons produced in connection with the withdrawal of gas from the respective wells, as well as all other related equipment which may be required to transfer all liquids so separated.

Operator shall cause monthly analyses by chromatograph or other mutually acceptable method of all gas injected into or withdrawn from the reservoir in order to compute the net change in British Thermal Unit content.

Operator shall pay royalties at the rates provided in the respective leases on 3/4 of all liquid hydrocarbons which are separated from the gas withdrawn and allocated to the respective tracts in accordance with the percentages of participation set forth on Exhibit "B"; provided, however, operator shall not be required to pay royalties on that portion of all liquid hydrocarbons which are separated from the first 318,519 MCF of gas withdrawn subsequent to the effective date of this amendment as payment for such liquid hydrocarbons has been included in the payment for the remaining primary gas underlying said Section 33 referred to in the preamble to this amendment. In addition, should the total cumulative British Thermal Units in the gas withdrawn exceed the total British Thermal Units in the gas injected, then operator shall pay royalties on said increase



in British Thermal Units at the prevailing market price in Lea County, New Mexico for gas of like quality. Payment for British Thermal Unit enrichment as set forth herein shall be made on an annual basis as determined by the cumulative chromatograph analyses.

B. Storage, Injection and Withdrawal Fees: In addition to the rental provided in the leases covering the respective tracts, for each year after the effective date of this amendment, unit operator shall pay an annual storage fee of \$1.00 per acre for the number of surface acres owned by the respective surface owners as shown on Exhibit "C" attached hereto. Said storage fee shall be paid in advance during the month of September of each year.

As to all gas injected or withdrawn subsequent to the effective date of this amendment, unit operator shall pay to the State of New Mexico an injection fee equal to  $47/64$  of \$.00625 per MCF and a withdrawal fee equal to  $47/64$  of \$.00625 per MCF on all gas injected or withdrawn from the reservoir through any wells located on the unit area or on Section 4, Township 22 South, Range 34 East during each calendar month; provided, however, no withdrawal fees shall be required on 6,727,987 MCF at 15.025 psia for gas injected prior to the effective date of this amendment if said gas is withdrawn prior to March 1, 1979.  $1/64$  of said injection and withdrawal fees on all of the gas shall be paid to Don E. Gridley and wife, Alice F. Gridley, John E. Bosserman and wife, Carol Jean Bosserman, and The Merchant Livestock Company in the proportions owned by said parties. All injection and withdrawal fees shall be paid during the month following the month in which injection or withdrawals are made.

5. Section 16 of the unit agreement is amended as follows:

16. EFFECTIVE DATE AND TERM: This amendment shall become effective as of September 1, 1976 upon approval by the Commissioner

and shall remain in effect so long as unitized substances are being produced from or stored within the unitized formation. The unit agreement may be terminated at any time by not less than seventy-five (75%) percent on an acreage basis of the owners of working interests signatory hereto with the approval of the Commissioner.

6. Section 22 of the unit agreement is amended as follows:

22. RE-NEGOTIATION OF INJECTION AND WITHDRAWAL FEES:

The injection and withdrawal fees provided for in Section 11 hereof shall be effective for a period of 5 years from the effective date of this amendment; provided, however, that during the 4th year of the first 5 year period and during the 4th year of each successive 5 year period this agreement is in force and effect said fees shall be subject to re-negotiation between the parties hereto so that said fees will be commensurate with fees being paid on similar projects, such re-negotiated rate to be in effect for the succeeding 5 year period. If the parties hereto are unable to agree to re-negotiate new fees 60 days prior to the expiration of the 4th year of any 5 year period, payment of the fees on the basis of prior rates shall continue and this agreement shall terminate upon expiration of not more than 3 years from the expiration of the preceding 5 year period. During said 3 year period the parties hereto may remove the metered and injected gas not previously withdrawn and equipment and facilities installed under this agreement, unless during such 3 year period the parties hereto agree upon a re-negotiated rate to be effective retroactively. Any gas or facilities not then removed by the termination date shall become the property of the State of New Mexico if it so elects.

7. COMMITMENT OF INTERESTS TO UNIT AND RATIFICATION OF

OTHER UNIT PROVISIONS: By the execution of this amendment, the parties hereto commit to the unit agreement their respective interests of whatsoever kind, nature or description in and to the unitized forma-

tion underlying the unit area. Except as amended herein, all of the other terms and conditions of the original Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area shall remain in full force and effect and are ratified and confirmed by the parties or by those consenting hereto by separate instrument.

8. COUNTERPARTS: This amendment may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties have caused this agreement to be executed as of the respective dates set opposite their signatures.

ATTEST:

*Larry L. Davis*  
Assistant Secretary  
Date: 12-16-76

LLANO, INC.

By

*Donald L. Larey*  
President  
Address: P. O. Box 1320  
Hobbs, New Mexico 88240

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

GULF OIL CORPORATION

By

\_\_\_\_\_  
President  
Address: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

TEXACO INC.

By

\_\_\_\_\_  
President  
Address: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

WILSON OIL COMPANY

By

\_\_\_\_\_  
President  
Address: \_\_\_\_\_

tion underlying the unit area. Except as amended herein, all of the other terms and conditions of the original Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area shall remain in full force and effect and are ratified and confirmed by the parties or by those consenting hereto by separate instrument.

8. COUNTERPARTS: This amendment may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties have caused this agreement to be executed as of the respective dates set opposite their signatures.

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

LLANO, INC.

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_

ATTEST:

CEBULL  
Asst. Secretary  
Date: \_\_\_\_\_

GULF OIL CORPORATION

By NE Galt  
Attorney-in-fact  
Address: PO Box 1150  
Midland, Texas 79701



ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

TEXACO INC.

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

WILSON OIL COMPANY

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_

tion underlying the unit area. Except as amended herein, all of the other terms and conditions of the original Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area shall remain in full force and effect and are ratified and confirmed by the parties or by those consenting hereto by separate instrument.

8. COUNTERPARTS: This amendment may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties have caused this agreement to be executed as of the respective dates set opposite their signatures.

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

LLANO, INC.

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

GULF OIL CORPORATION

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

APPROVED:

Terms: me  
Form: CD  
Date: NOVEMBER 5, 1976

TEXACO INC  
By A. F. Clarke  
Attorney-in-fact  
Address: Box 3109  
Midland, Texas 79701

ATTEST:

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

WILSON OIL COMPANY

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

tion underlying the unit area. Except as amended herein, all of the other terms and conditions of the original Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area shall remain in full force and effect and are ratified and confirmed by the parties or by those consenting hereto by separate instrument.

8. COUNTERPARTS: This amendment may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties have caused this agreement to be executed as of the respective dates set opposite their signatures.

ATTEST:

LLANO, INC.

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

ATTEST:

GULF OIL CORPORATION

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

ATTEST:

TEXACO INC.

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

By \_\_\_\_\_  
President  
Address: \_\_\_\_\_  
\_\_\_\_\_

ATTEST:

WILSON OIL COMPANY

*Francis Chidsey*  
Secretary  
Date: 29 Nov 76

By *Robert Wilson*  
President  
Address: P.O. Box 1297  
Hunts R. New Mexico 815.

Date: December 2 1976

FRANCES P. BOLTON, dba WYOMING OIL  
COMPANY  
Address: Frances P Bolton  
810 Hanna Building  
Cleveland, Ohio 44115  
NEW MEXICO ELECTRIC SERVICE COMPANY

ATTEST:

\_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

Address: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Secretary

TUCO, INC.

By \_\_\_\_\_  
President

Address: \_\_\_\_\_

STATE OF NEW MEXICO )  
: ss  
COUNTY OF LEA )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
President of Llanos, Inc., a New Mexico corporation, on behalf of  
said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Gulf Oil Corporation, a Pennsylvania corpora-  
tion, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Texaco Inc. a Delaware corporation, on behalf  
of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

Date: \_\_\_\_\_

FRANCES P. BOLTON, dba WYOMING OIL  
COMPANY  
Address: \_\_\_\_\_

ATTEST:

Robert M. Wright  
Secretary

NEW MEXICO ELECTRIC SERVICE COMPANY

By [Signature]  
President

Address: P. O. Box 920  
Hobbs, New Mexico 88240

ATTEST:

\_\_\_\_\_  
Secretary

TUCO, INC.

By \_\_\_\_\_  
President

Address: \_\_\_\_\_  
\_\_\_\_\_

STATE OF NEW MEXICO )  
: ss  
COUNTY OF LEA )

The foregoing instrument was acknowledged before me this 16  
day of December 1976 by Donald L. Garey  
President of Llano, Inc., a New Mexico corporation, on behalf of  
said corporation.

My Commission Expires:  
3-20-80

Anna L. Clark  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Gulf Oil Corporation, a Pennsylvania corpora-  
tion, on behalf of said corporation.

My Commission Expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Texaco Inc. a Delaware corporation, on behalf  
of said corporation.

My Commission Expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public



Date: \_\_\_\_\_

FRANCES P. BOLTON, dba WYOMING OIL  
COMPANY  
Address: \_\_\_\_\_

ATTEST:

NEW MEXICO ELECTRIC SERVICE COMPANY

\_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

Address: \_\_\_\_\_

ATTEST:

TUCO INC.

*Carol Webb*  
Assistant Secretary

By *Carroll D. Beaman*  
President

Address: P. O. Box 1261  
Amarillo, Texas 79170

STATE OF NEW MEXICO )  
: ss  
COUNTY OF LEA )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
President of Llano, Inc., a New Mexico corporation, on behalf of  
said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Gulf Oil Corporation, a Pennsylvania corpora-  
tion, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_  
day of \_\_\_\_\_ 1976 by \_\_\_\_\_  
of Texaco Inc. a Delaware corporation, on behalf  
of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public



GRAMA RI

30 UNIT AGREEMENT

Tract No.	Description	No. Surface Acres	Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty	Working Int. Owner and Percentage	Percentage Tract Participation
1	S $\frac{1}{2}$ Sec. 3, T. 22 S., R. 34 E.	320.00	B-158-3	12 $\frac{1}{2}$ %	Texaco Inc.	None	*New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20%	16,60475
2	N $\frac{1}{2}$ Sec. 3, T. 22 S., R. 34 E.	327.16	E-9141	12 $\frac{1}{2}$ %	Llano, Inc.	None	New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20	16.97627
3	S $\frac{1}{2}$ Sec. 34, T. 21 S., R. 34 E.	320.00	E-9659	12 $\frac{1}{2}$ %	Gulf Oil Corp.	None	**New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20%	16.60475
4	N $\frac{1}{2}$ Sec. 34, T. 21 S., R. 34 E.	320.00	K-3592-1	12 $\frac{1}{2}$ %	Llano, Inc.	None	New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20%	16.60475

Tract No.	Description	No. Surface Acres	Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty	Working Int. Owner and Percentage	Percentage Tract Participation
5	S $\frac{1}{2}$ , NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ Sec. 33, T. 21 S., R. 34 E.	600.00	E-7574-1	12 $\frac{1}{2}$ %	Wilson Oil Co. and Frances P. Bolton, dba Wyoming Oil Co.	Amoco Production Co. - .0102041 Myles A. Colligan .0005102 Estelle L. Lake .0004081 F. W. Lake .0002041 Mary E. Lake .0002041 M. A. Machris .0032653 C. L. Milburn .0005102 Wilson Oil Co. .0081314 Frances P. Bolton dba Wyoming Oil Co. .0081314 Llano, Inc. .0280611	***New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20%	31.13389
6	SW $\frac{1}{4}$ NE $\frac{1}{4}$ Sec. 33, T. 21 S., R. 34 E.	40.00		The Merchant Livestock Company - 67.63% of 12 $\frac{1}{2}$ % Don E. Gridley and wife and John E. Bosserman and wife - 32.37% of 12 $\frac{1}{2}$ %	Wilson Oil Co. and Frances P. Bolton, dba Wyoming Oil Co.	Amoco Production Co. - .0102041 Myles A. Colligan .0005102 Estelle L. Lake .0004081 F. W. Lake .0002041 Mary E. Lake .0002041 M. A. Machris .0032653 C. L. Milburn .0005102	New Mexico Electric Service Co. 40% TUCO INC. 40% Llano, Inc. 20%	2.075559

NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

GRAMA RIDGE MORROW UNIT AGREEMENT


LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated April 25, 1973, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 27th. day of August, 19 73.

  
COMMISSIONER OF PUBLIC LANDS  
of the State of New Mexico

Tract No.	Description	No. Surface Acres	Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty	Working Int. Owner and Percentage	Percentage Tract Participation
						Wilson Oil Co. .0081314 Frances P. Bolton dba Wyoming Oil Co. .0081314 Llano, Inc. .0280611		
Total		1,927.16						100.0000

\* Rights within vertical limits of the Morrow Sand formation between 12,720 and 13,257 feet.

\*\*\* From the surface to the top of the Silurian.

\*\*\*From 5,200 to 13,503 feet.

## EXHIBIT "C"

Description	Surface Ownership	Acreage	Rental
W $\frac{1}{2}$ E $\frac{1}{2}$ Section 33, S $\frac{1}{2}$ S $\frac{1}{2}$ Section 34, Township 21 South, Range 34 East	The Merchant Livestock Company	320.00	\$ 320.00
W $\frac{1}{2}$ , E $\frac{1}{2}$ E $\frac{1}{2}$ Section 33, N $\frac{1}{2}$ , N $\frac{1}{2}$ S $\frac{1}{2}$ Section 34, Township 21 South, Range 34 East	State of New Mexico	960.00	960.00
All Section 3, Township 22 South, Range 34 East	State of New Mexico	647.16	647.16
		1607.16	\$1927.16

AGREEMENT FOR SUBSURFACE  
STORAGE OF GAS, MORROW  
FORMATION, GRAMA RIDGE AREA,  
LEA COUNTY, NEW MEXICO

NO. 14-08-0001-14277

*Fel*

THIS AGREEMENT made and entered into as of the 26<sup>th</sup> day of November, 1975 with an effective date as of the 1st day of November, 1975, by and between the United States of America, acting by and through the Secretary of Interior, hereinafter referred to as the "United States", and Llano, Inc., a New Mexico corporation, with offices at Hobbs, New Mexico, hereinafter referred to as "Llano".

WITNESSETH:

WHEREAS, Llano is the Unit Operator of the Grama Ridge Morrow Unit Agreement covering all of Section 34, Township 21 South, Range 34 East and all of Section 3, Township 22 South, Range 34 East, Lea County, New Mexico which are lands of the State of New Mexico and which said agreement was approved by the Commissioner of Public Lands of the State of New Mexico on August 27, 1973, and which was entered into for secondary recovery and gas storage purposes, which is permitted under New Mexico statutes, and

WHEREAS, gas has been injected into the wells on said unit area since the effective date of said unit, and

WHEREAS, Llano is the owner and holder of the following describe oil and gas leases embracing lands of the United States issued under and pursuant to the provisions of the Mineral Leasing Act as amended:

(a) Oil and gas lease effective September 1, 1961 bearing serial number NM 058678, covering the N $\frac{1}{2}$  Section 4, Township 22 South, Range 34 East, containing 320 acres, more or less;

(b) Oil and gas lease effective May 1, 1963, bearing serial number NM 0381970, covering the SW $\frac{1}{4}$  Section 4, Township 22 South, Range 34 East, containing 160 acres, more or less;

(c) Oil and gas lease effective March 4, 1958, bearing serial number NM 03312-A, covering the SE $\frac{1}{4}$  Section 4, Township 22 South, Range 34 East, containing 160 acres, more or less, and



WHEREAS, Llano is the operator of Federal GR-4 No. 1 gas well producing from the Morrow formation located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 4, Township 22 South, Range 34 East, being a part of the lands hereinabove described, and said well had reached its economic limit prior to the time gas was first injected into the wells on the Grama Ridge Morrow Unit Area, and

WHEREAS, the State of New Mexico is the owner of all the oil, gas and other minerals in and under and that may be produced from the Morrow formation of Pennsylvanian age under Section 33, Township 21 South, Range 34 East, except the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section, which is fee land and the minerals underlying said 40 acres are owned 32.37% by LBM Cattle Company, Inc. and 67.63% by Merchant Livestock Company, and

WHEREAS, Llano is the operator of a gas well producing from the Morrow formation located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 33, known as the South Wilson Deep Unit No. 1 well, and

WHEREAS, it is believed that the Morrow gas reservoir into which gas is being injected in the wells on the Grama Ridge Morrow Unit covers not only the two sections within said unit but also Section 4, Township 22 South, Range 34 East and Section 33, Township 21 South, Range 34 East, and

WHEREAS, Llano proposes to enter into a separate agreement with the Commissioner of Public Lands of the State of New Mexico for the subsurface storage of gas underlying said Section 33 which will be supplemental to the storage of gas under and pursuant to the Grama Ridge Morrow Unit Agreement, and

WHEREAS, Llano is desirous of utilizing the Morrow formation underlying Section 4, Township 22 South, Range 34 East for the subsurface storage of gas regardless of the original source of such gas, which storage would be supplemental to and in addition to the area covered by the Grama Ridge Morrow Unit Agreement and the area covered

by the subsurface gas storage agreement which Llano proposes to enter  
into with the Commissioner of Public Lands of the State of New Mexico  
covering portions of Section 33, Township 21 South, Range 34 East, and

WHEREAS, Llano desires to store said gas under Section 4 in  
the vertical interval between 12,778 feet and 13,255 feet below the  
surface in the Morrow formation of Pennsylvanian age as shown by the  
Gamma Ray-Sonic Log in connection with the Federal GR-4 No. 1 well  
hereinafter referred to as the "gas storage reservoir area" and

WHEREAS, the Mineral Leasing Act as amended (Mineral Leasing  
Act Revision of 1960) provides that:

"The Secretary of the Interior, to avoid waste  
or to promote conservation of natural resources,  
may authorize the subsurface storage of oil or  
gas, whether or not produced from federally owned  
lands, in lands leased or subject to lease under  
this Act".

NOW, THEREFORE, it is mutually agreed as follows:

SECTION 1: The United States, in consideration of the condi-  
tions and covenants to be observed as herein set forth, does hereby  
authorize the exclusive use by Llano of the gas storage reservoir area  
or underground gas storage purposes and does hereby exclusively  
authorize Llano to store gas and at will to inject gas into and with-  
draw gas from said storage area. Llano shall be under no obligation  
to inject or withdraw any particular quantity of gas other than such  
gas as it shall, in its sole discretion, deem advisable. The United  
States does hereby authorize Llano to enter upon the surface of the  
said gas storage reservoir area to the extent that said surface is  
owned by the United States for the purpose of injecting gas into said  
storage area and withdrawing such gas by means of any well now existing  
or which may hereafter be drilled as provided by Section 2 hereof.

SECTION 2: Llano shall have the right to rework or recondition  
the well now located upon the gas storage reservoir area or to drill  
additional wells to inject gas into or produce gas from the gas

*not withdraw*

storage reservoir area to the extent that such work shall be approved by the Oil and Gas Supervisor of the United States Geological Survey as necessary or incident to the rights granted to Llano pursuant to this agreement. Llano agrees to conduct all operations herein authorized for the lands subject to this agreement in accordance with the Oil and Gas Operating Regulations generally applicable to federally owned lands (30 CFR 221). Subject to any necessary protection of environmental values as determined by the Supervisor, the United States does hereby authorize Llano to construct, install, maintain, and remove structures, pipelines, casing, drips, valves and other appliances necessary, useful or convenient for the purpose of this agreement.

SECTION 3: This agreement shall remain in force and effect for a period of five years and so long thereafter as Llano shall continue to use the lands for underground gas storage purposes unless sooner terminated as provided in Section 9 hereof, and the leases hereinabove described shall be and are hereby extended for the life of this agreement.

SECTION 4: Nothing in this agreement shall be construed as limiting the right of the oil and gas lessee to relinquish at any time his oil and gas lease covering all or part of the lands either within or outside the gas storage reservoir area.

Should a federal lease covering lands within the gas storage reservoir area be relinquished the United States reserves the right to issue a new lease or leases therefor, subject to the condition that the Morrow formation shall be excluded from such new lease or leases and provided further that all operations conducted thereon shall be done in a good and workmanlike manner so as to prevent the loss of gas out of the Morrow formation underlying the gas storage reservoir area.

If Llano demonstrates to the satisfaction of the Area Oil and Gas Supervisor of the United States Geological Survey that stored gas is migrating from the Morrow formation to other formations or that stored gas is expanding beyond the limits of the gas storage reservoir area, then with the concurrence of the affected lessees (if other than Llano) under outstanding oil and gas leases covering such lands and/or formations, this agreement may be amended to include such lands and/or formations subject to the same terms and conditions then applicable to the lands and formations previously committed to this agreement.

In the event that it should be determined that lands and formations subject to this agreement are no longer needed for the purposes herein stated, said lands may be eliminated from the gas storage reservoir area by filing a request and supporting geologic and engineering data, with a suggested effective date, with the Area Oil and Gas Supervisor.

SECTION 5: All stored gas shall be measured when injected into and withdrawn from storage, and a record thereof shall be kept. Llano agrees to render to the United States on or before thirty days after each calendar year quarter a statement by Llano showing the total amount of gas injected into and withdrawn from said gas storage reservoir during that preceding calendar year quarter. The amount of gas reported as injected and withdrawn each quarter shall be computed at a standard pressure of 15.025 pounds per square inch absolute and a standard temperature of 60 degrees Fahrenheit, regardless of the pressure and temperature at which the gas was actually measured. Said statement herein provided for shall be filed in duplicate with the Area Oil and Gas Supervisor of the United States Geological Survey.

SECTION 6: Llano agrees after execution and the effective date of the within agreement, either:

(a) To furnish forthwith, and maintain at all times thereafter, as may be required by the United States, a bond in the penal sum of \$15,000.00 with approved corporate surety, conditioned upon compliance with the terms of this agreement; or

(b) To deposit with the United States security in the sum of \$15,000.00 in such form as is acceptable to the United States to guarantee compliance with the terms of this agreement.

SECTION 7: As of the effective date of this agreement, the economically recoverable reserves of native natural (primary) gas to 500 psi shut-in tubing pressure remaining in that part of the reservoir underlying Section 4 was zero (0) MCF. As of the effective date of this agreement <sup>Nov 1, 1975</sup> Llano had injected a net total of 4,861,773 MCF of extraneous gas into the wells on the Grama Ridge Morrow Unit. For the purposes of this agreement it is assumed that 1/4 of said net injected gas has migrated to that portion of the reservoir underlying Section 4 and therefore Llano agrees to pay to the United States upon execution of this agreement for its (lessor's) share as royalty a lump sum of \$27,985.57.

Twenty-five percent of the previously injected gas referred to above is economically recoverable from the federal leases embracing Section 4. Said twenty-five percent, being 1,215,443 MCF, may be withdrawn from the reservoir without the payment of additional royalty or withdrawal fees. It is further agreed that the first 4,861,773 MCF of gas withdrawn after the effective date hereof shall be considered as that which was injected prior to such date.

For the purposes hereof, "extraneous gas" shall mean the total amount of gas from other sources injected into the reservoir less the amount which has been withdrawn. Any gas produced in excess of the extraneous gas injected prior to or after the effective date hereof shall be considered as "indigenous gas". All such indigenous gas shall be apportioned to the tracts within the gas storage project in the same ratio as the acreage interest of each tract bears to the

total acreage within the gas storage project and as to the federal leases in Section 4 shall be subject to royalty at the rate specified in the respective leases. The production of all indigenous gas shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor of the Geological Survey and the Commissioner of Public Lands of the State of New Mexico.

SECTION 8: Llano agrees to pay the United States an injection fee of \$.0025 per MCF and a withdrawal fee of \$.01 per MCF on 1/4 of all gas injected or withdrawn from the reservoir through any wells located on the Grama Ridge Unit Area or on Section 33, Township 21 South, Range 34 East or Section 4, Township 22 South, Range 34 East during each calendar quarter; provided, however, that no withdrawal fee shall be required on withdrawn gas considered to be indigenous reservoir gas. Such quarterly injection and withdrawals fees shall be paid on or before 30 days after the end of each calendar quarter. Llano further agrees to pay an advance annual storage fee of \$640.00. Such payment represents a fee of \$1.00 per acre and shall be paid not later than 30 days after the effective date hereof and on each subsequent anniversary date.

SECTION 9 (a): The amount of the injection, withdrawal and storage fees set out in Section 8 hereof shall be subject to renegotiation 20 years from the effective date hereof and at the end of successive 10 year periods thereafter. In the event of a failure to renegotiate new fees on terms mutually acceptable to both parties, Llano shall forfeit its right to inject new gas but the payment of withdrawal and storage fees at the prior rates shall continue and Llano shall have not more than 10 years from such date of renegotiation in which to complete the withdrawal of gas and to remove its facilities, at the end of which period this agreement shall terminate. Any gas remaining in the Morrow formation beneath the federal tracts or any facilities not removed from the surface of the federal lands at the termination of this agreement shall become the property of the United States.

(b) The United States reserves the right to terminate this agreement at any time if Llano shall violate and shall continue to violate any of the terms, conditions or provisions of this agreement for more than 30 days after receipt by Llano of notice of such violation by registered or certified mail from the United States.

SECTION 10: In connection with the performance of work under this agreement, Llano agrees to comply with all the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319) as amended, which are hereby incorporated by reference in this agreement.

SECTION 11: Llano agrees to keep open at all reasonable times for the inspection of any duly authorized officer of the United States, the premises covered hereby and all wells, improvements, machinery and fixtures thereon, and all books, accounts, meter charts and records pertaining to operations hereunder or the payments herein provided.

SECTION 12: It is understood and agreed that the United States expressly reserves the right to utilize the surface, lease, sell or otherwise dispose of, the surface of any of the above described lands so far as said surface is owned by the United States and is not necessary for the use of Llano in the injecting, storing and removing of gas therefrom.

SECTION 13. It is also further agreed that no member of or delegate to Congress or resident commissioner after his election or appointment or either before or after he has qualified and during his continuance in office, and that no officer, agent or employee of the Department of the Interior shall be admitted to any share or part in this agreement or derive any benefit that may arise therefrom, and the provisions of Section 3741 of the Revised Statutes of the United States, as amended (41 U.S.C. Sec. 22) and Sections 431, 432 and 433, Title 18 U. S. Code, relating to contracts, enter into and form a part of this agreement so far as the same may be applicable.

SECTION 14: It is further covenanted and agreed that each obligation hereunder shall extend to and be binding upon and every benefit hereof shall inure to, the successors or assigns of the respective parties hereto.

IN WITNESS WHEREOF, the United States, acting by and through the Secretary of the Interior, and Llano by its president and secretary, have executed the foregoing instrument and said Llano has caused its corporate seal to be affixed on the date of execution.

THE UNITED STATES OF AMERICA

By Kent Drizzell  
Secretary of the Interior

LLANO, INC.

By Donald L. Garey  
President

ATTEST:

Larry L. Heig  
Assistant Secretary of the Interior  
6/24/76  
2/23/76

STATE OF NEW MEXICO )  
COUNTY OF LEA ) : ss

The foregoing instrument was acknowledged before me this 25 day of February, 1976 by Donald L. Garey, President of Llano, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

Jan 14, 1978

Donie Males  
Notary Public



AMENDMENT TO THE AGREEMENT  
FOR SUBSURFACE STORAGE OF GAS, MORROW FORMATION,  
GRAMA RIDGE AREA, LEA COUNTY, NEW MEXICO  
AGREEMENT NO. 14-08-0001-14277

THIS AMENDMENT amends the Agreement For The Subsurface Storage of Gas, Morrow Formation, Grama Ridge Area, Lea County, New Mexico, Agreement No. 14-08-0001-14277. This amendment is made and entered into as of this 15th day of April 1981, with an effective date of 1st day of April 1981, by and between the United States of America, acting by and through the Secretary of the Interior, hereinafter referred to as the "United States", and Llano, Inc., a New Mexico corporation whose principal place of business is Hobbs, New Mexico, hereinafter referred to as "Llano".

WHEREAS, there exists an Agreement For Subsurface Storage of Gas, Morrow Formation, Grama Ridge Area, Lea County, New Mexico, Agreement No. 14-08-0001-14277, made and entered into as of the 24th day of November, 1975, with an effective date of the 1st of November, 1975, by and between the United States of America, acting by and through the Secretary of Interior, and Llano, Inc., a New Mexico corporation, hereinafter the "Storage Agreement", and

WHEREAS, Llano is the unit operator under the Unit Agreement For The Operation Of The Grama Ridge Morrow Unit Area covering all of Sections 33 and 34, T21S, R34E, and all of Section 3, T22S, R34E, Lea County, New Mexico, which are lands of the State of New Mexico, and which said Agreement was approved by the Commissioner of Public Lands of the State of New Mexico on August 27, 1973, as amended by Amendment dated September 1, 1976, to include the above referenced Section 33, and

FURTHER, such Unit Agreement provides for secondary recovery and gas storage purposes, all of which is permitted under New Mexico statutes, and

WHEREAS, Section 4, T22S, R34E, was added to the Gramma Ridge Morrow Unit Area by approval through the Secretary of Interior of the Agreement For Subsurface Storage Of Gas, Number 14-08-0001-14277, and

WHEREAS, Section 4 of the Storage Agreement provides, among other things, that the Storage Agreement may be amended to include other lands and formations to the gas storage reservoir area, subject to the same terms and

conditions then applicable to the lands and formations previously committed to the Storage Agreement, if Llano demonstrates to the satisfaction of the Deputy Conservation Manager, Oil & Gas, United States Geological Survey that stored gas is migrating from the Morrow formation to other formations or that stored gas is expanding beyond the limits of the gas storage reservoir area.

WHEREAS, Llano is the owner and holder of the following oil and gas leases embracing lands of the United States issued under the Mineral Leasing Act of 1920 as amended:

a. Oil and gas lease effective April 1, 1958, bearing serial number NM-033312 covering the W $\frac{1}{2}$  and SE $\frac{1}{4}$  of Section 10, T22S, R34E, and containing 480 acres, more or less.

b. Oil and gas lease effective April 1, 1960, bearing serial number NM-049943 covering the NE $\frac{1}{4}$  of Section 10, T22S, R34E, and containing 160 acres, more or less.

WHEREAS, Llano is the operator of a gas well producing from the Morrow formation located in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 10, known as the Llano-Government "A" No. 1, through this amendment, desires to add the Llano-Government "A" No. 1 well and the 640 acres of Section 10 to the Agreement For The Subsurface Storage Of Gas in accordance with Section 4 of the original Agreement.

WHEREAS, Llano acquired the interest of The Superior Oil Company in the Government "A" No. 1 well effective February 1, 1978, said well being dedicated to interstate commerce by Contract dated June 13, 1966, between The Superior Oil Company and Phillips Petroleum Company and Contract dated August 31, 1964, between Phillips Petroleum Company and El Paso Natural Gas Company. Subsequent to the acquisition of the Government "A" No. 1 well, Llano, through geological and reservoir studies, determined that the well, which produces from the Morrow formation, was receiving gas by migration from the Grana Ridge Storage Unit. Llano, with the desire to add the Section 10 acreage to the unit area, then filed an application with the Federal Energy Regulatory Commission, Docket No. CI 79- pursuant to Section 7 (b) of the Natural Gas Act and Sections 157.30 and 250.7 FERC regulations, requesting permission to abandon sale of gas to Phillips Petroleum Company into interstate commerce. Said application was approved by

Order issued October 29, 1979, by the FERC, hereinafter "FERC Order", subject to the stipulations that the remaining recoverable reserves of 413 MMCF of gas (at 15.025 psia) as of September 1, 1978, shall be delivered to Phillips from the Government "A" No. 1 well or from the Grama Ridge Storage Project at rates up to 750 MCFPD until the remaining reserves have been delivered and Phillips shall pay for the gas delivered at the same price per MCF which would have been paid under the June 13, 1966, percentage of proceeds contract.

NOW THEREFORE, it is mutually agreed as follows:

SECTION 1: Section 8 of the Agreement For Subsurface Storage Of Gas shall be amended to read: Llano agrees to pay the United States an injection fee of \$.0025 per MCF and a withdrawal fee of \$.01 per MCF on two-fifths (2/5ths) of all gas injected or withdrawn from the reservoir through any wells located on the Grama Ridge Unit Area or on Section 33, Township 21 South, Range 34 East, or Section 4, Township 22 South, Range 34 East, or Section 10, Township 22 South, Range 34 East, during each calendar quarter; provided, however, that no withdrawal fee shall be required on withdrawn gas considered to be indigenous reservoir gas. Such quarterly injection and withdrawal fees shall be paid on or before 30 days after the end of each calendar quarter. Llano further agrees to pay an advance annual storage fee of \$1,280.00. Such payment represents a fee of \$1.00 per acre and shall be paid not later than 30 days after the effective date hereof and on each subsequent anniversary date thereafter.

SECTION 2: Llano agrees to prepay the royalty due on the balance of the 413 MMCF remaining recoverable reserves which have not been produced from the Government "A" No. 1 well as of the effective date of this Amendment, such prepayment to be based on the gas price as set forth in the FERC Order.

SECTION 3: All other provisions of the Agreement For Subsurface Storage Of Gas, Morrow Formation, Grama Ridge Area, Lea County, New Mexico, No. 14-08-0001-14277, shall remain unchanged.

IN WITNESS WHEREOF, the United States, acting by and through the  
Secretary of the Interior, and Llano, by its President and Secretary-Treasurer,  
have executed the foregoing instrument and Llano has caused its corporate seal  
to be affixed on the date of execution.

THE UNITED STATES OF AMERICA

By Ronald Paul Hood AUG 17 1981  
Acting Secretary of the Interior

ATTEST:

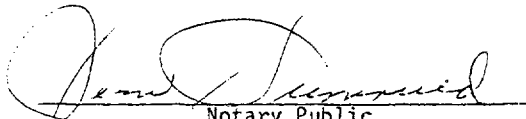
LLANO, INC.

By Paul L. Greig  
President

Paul L. Greig  
Secretary-Treasurer

STATE OF NEW MEXICO    )  
                              ) SS  
COUNTY OF LEA         )

The foregoing instrument was acknowledged before me this 15<sup>th</sup>  
day of April, 1981, by Donald L. Garey, President  
of Llano, Inc., a New Mexico corporation, on behalf of said corporation.

  
Notary Public

My Commission Expires:

8-30-82