



Occidental Permian Ltd.

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Phone 281-552-1000 Fax 281-552-1200

March 5, 2002

New Mexico Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

MAR 11 2002

Attention: Mr. David Catanach, NMOCD Hearing Examiner

Re: ***Authorization to Utilize Treated Effluent from Municipal Waste Treatment Plant
North Hobbs Grayburg-San Andres Unit Pressure Maintenance Project
Hobbs: Grayburg - San Andres Pool
Lea County, New Mexico***

Dear Mr. Catanach:

Occidental Permian Limited Partnership, as operator of the North Hobbs Unit, respectfully requests authorization from the New Mexico Oil Conservation Division to use treated effluent from the City of Hobbs' Industrial Waste Treatment Plant in Hobbs, New Mexico. We propose to mix this water with produced water before it is distributed throughout the current water injection system in the North Hobbs Unit. Attached is a recent water analysis of this fluid which shows a total dissolved solids content of almost 4000 mg/L. We expect to handle a maximum of 15,000 barrels per day of this effluent at the North Hobbs Unit, which would represent less than 10% of current daily water injection volume in the North Hobbs Unit.

Approval of this request will allow the City of Hobbs to avoid capital expenditures for handling this effluent in other ways. It will also allow us to inject more volume into this reservoir than was originally planned at this time, improving the short-term oil recovery. This same arrangement has been ongoing for the Occidental Permian Limited Partnership/South Hobbs Unit since 1981. Since we are not sure that the NMOCD has been asked recently to authorize the use of this same effluent in the South Hobbs Unit, Occidental Permian Limited Partnership also requests that South Hobbs Unit be included in the scope of this request.

A copy of the draft agreement between Occidental Permian Limited Partnership and the City of Hobbs related to this activity is attached for your information. It spells out more particulars about this arrangement, as well as minimum quality standards for delivery of this fluid to us before we mix it with produced water and inject it into the Hobbs-Grayburg San Andres pool.

If you need anything else, please don't hesitate to call me at 281-552-1303.

Sincerely,

Richard E. Foppiano
Senior Advisor – Regulatory Affairs

Cc: Mr. Leo Wilson, City Utility Dept., Hobbs, NM.
Ms. Lori Wrotenbery, NMOCD Director, Santa Fe, NM
Mr. Chris Williams, NMOCD District Supervisor, Hobbs, NM

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AGREEMENT FOR PURCHASE AND SALE OF WATER

This AGREEMENT FOR PURCHASE AND SALE OF WATER is made by and between the City of Hobbs, a municipal corporation, of Lea County, New Mexico (hereinafter known as the "City") and Occidental Permian, Ltd., as current operator of the South Hobbs (Grayburg-San Andres) Unit and the North Hobbs (Grayburg-San Andres) Unit (hereinafter known as "Consumer").

WITNESSETH

WHEREAS, the City has available for sale certain industrial water that currently has no beneficial use for the City;

WHEREAS, such industrial water that meets the minimum quality standards set forth in Article V herein is a desirable product for the Consumer that can be beneficially used in Consumer's business operations; and

WHEREAS, the City and Consumer desire to enter into an arrangement whereby the City will provide to Consumer as much of such water as the City has available for sale and that the Consumer can purchase and use;

NOW, THEREFORE, for and in consideration of the mutual covenants, promises and agreements herein contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1. The term "day", as used in this Agreement, shall mean a period of twenty—four (24) consecutive hours beginning and ending at seven (7:00) o'clock A.M. (MST).

Section 2. The term "month", as used in this Agreement, shall mean the period beginning at seven o'clock (7:00) A. M. (MST) on the first day of a calendar month and ending at seven o'clock (7:00) A.M. (MST) on the first day of the next succeeding calendar month.

Section 3. The term year, as used in this Agreement, shall mean the period beginning at seven o'clock (7:00) A.M. (MST) on the first day of a month and ending at seven o'clock (7:00) A.M. (MST) on the first day of the same month of the next succeeding year.

Section 4. The term "barrel" shall mean a volume equivalent to forty-two (42) U.S. gallons.

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ARTICLE II

Effective Date

The effective date of this Agreement shall be _____ ("Effective Date").

ARTICLE III

Delivery Point and Pressure

Consumer shall provide, construct and maintain all equipment, pipelines and facilities necessary to receive the industrial water at a point on the City's property on the existing fourteen (14) inch pipeline at a mutually agreeable point. Pressure at the point of delivery is not guaranteed.

ARTICLE IV

Quantity

Section 1. Subject to Article VIII, Section 3 and other articles of this Agreement which allow for the increase or decrease of the quantities stated in this Section, the minimum quantity of industrial water to be delivered and received under this Agreement, designated as "Monthly Contract Quantity", shall be as listed.

Monthly Contract Quantity

<u>Contract Year</u>	<u>Contract Quantity</u>
2002	10,000 barrels/month – 420,000 gallons/month
2003	10,000 barrels/month – 420,000 gallons/month
2004	10,000 barrels/month – 420,000 gallons/month
2005	10,000 barrels/month – 420,000 gallons/month
2006	10,000 barrels/month – 420,000 gallons/month

Section 2. The Consumer shall not be required to take a continuous equal daily flow of industrial water and the City shall not be required to produce a minimum daily quantity of industrial water, provided the minimum quantity available for delivery during each monthly period shall equal the amount of industrial water that the Consumer covenants to purchase. Unless the City is provided with a tentative schedule of industrial water demand by the Consumer, and this tentative schedule is acceptable to both parties, it will be assumed that yearly industrial water demand will be twelve (12) times the monthly contract quantity.

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Section 3. The Consumer shall have the first call on any quantity in excess of contract amounts, at the existing contract price, that the City has available for sale.

Section 4. Subject to Article VII, Section 3 and Article X herein, the Consumer shall pay for a minimum quantity of 2,500 barrels (105,000 gallons) per month, even if the actual quantity of industrial water taken by the Consumer that month is less than 2,500 barrels (105,000 gallons). So long as Consumer is not in default, any minimum quantity of industrial water paid for but not taken in any monthly period may be accumulated and taken in any succeeding monthly period at no additional cost to the Consumer; provided that City will not be required to produce such industrial water over and above its normal operating capacity to meet such accumulated demand.

Section 5. It is appreciated by both parties to this Agreement that mechanical failures are possible and that production and delivery problems may be encountered by the City in its system and by the Consumer in its pipeline system or injection wells, and each agrees to cooperate with the other in efforts to remedy any system failures. Any failures of the types described in this Section shall be subject to the force majeure provisions of Article X herein.

ARTICLE V

Quality

The City will provide industrial water with the following minimum quality standards:

<u>Parameter</u>	<u>Maximum Concentration</u>
CL2	0.5 Mg/L
SS	20 ppm
Particle Size	25 Microns

ARTICLE VI

Metering

Consumer, at its sole cost, risk and expense shall install and maintain, at the point of delivery on the City's property, a flow meter of sufficient size and type to measure the contracted quantities of industrial water. Such flow meter is to be tested and calibrated annually within thirty (30) days of the Agreement's effective date. Such flow meter testing and calibration shall be performed by a qualified, independent testing contractor approved in advance by Contractor at the sole cost, risk and expense of the Consumer. The City hereby grants to Consumer and its

employees, contractors, agents and other representatives the right of ingress and egress for the purpose of access to the meter, equipment and associated pipelines to fulfill the requirements and purposes of this Agreement.

Meter readings shall be taken daily by the City and shall be available to the Consumer upon Consumer's request. These readings will be used to compute the quantity for the billing period.

If for any reason, any of the measuring equipment is out of service, or out of repair, so that the volume of industrial water purchased can not be ascertained or computed from readings thereof, the volume of industrial water purchased during the period such equipment is out of service or repair shall be estimated and agreed upon by the parties hereto on the basis of the best data available.

ARTICLE VII

Price

Section 1. The City will sell and the Consumer will purchase the industrial water quantities indicated in Article IV based on a measured monthly quantity and a price of three and two-tenths cents (\$0.032) per barrel.

Section 2. So long as the Consumer is not in default, the Consumer may request an additional quantity of industrial water to be delivered, at the existing contract price, that the City has available for sale; provided that the City shall not be required to produce such industrial water over and above its normal operating capacity.

Section 3. The City should have available for consumption at the point of discharge into Consumer's facilities, an amount of industrial water equal to the quantity the Consumer agrees to purchase monthly. Any failure of the City to produce and have available such quantity of industrial water during any monthly period shall excuse the Consumer from its covenant to pay the minimum monthly charge for that month, the Consumer being liable only for the quantity delivered.

Section 4. Subject to all of the other provisions in this Article, Consumer shall pay, or cause to be paid, all taxes that may be appropriate from this sale.

ARTICLE VIII

Term

Section 1. The Consumer shall purchase the mentioned minimum quantities of industrial

water for a minimum period commencing when Consumer is ready to receive such industrial water, but not later than the Effective Date indicated in Article II.

Section 2. The Consumer shall have, and the City hereby grants to the Consumer, the right at Consumer's option, at any time prior to six (6) months before the expiration of the Agreement, to renew and extend this Agreement for an additional term of five (5) years, and for successive such terms thereafter. However, Consumer's failure to give such notice shall not be construed as evidence of Consumer's intent not to renew this Agreement, and the City hereby agrees to offer such renewal to Consumer prior to committing the subject industrial water to another party.

Section 3. In case the Consumer elects to renew and extend this Agreement, it shall signify its election by written notice mailed to the Hobbs City Manager by the deadline stated above. All terms, conditions and covenants contained in this Agreement shall be applicable to such extensions, excepting that the annual contract quantity may be adjusted downward by Consumer, and excepting that the price per barrel of industrial water may be adjusted upward or downward based on any increase or decrease in operational costs or capital investment to supply such industrial water. For purposes of such price adjustment, only such direct operational costs and capital investments as are necessary for production and availability of industrial water shall be considered, and only a prorated portion of such costs and investments based on the total quantities of industrial water produced and available (whether or not sold) at said facility shall be attributed to industrial water sold under this Agreement. Consumer shall have a minimum of ninety (90) days notice and be supplied all records and/or design and economic data pertinent to increases in operational costs and additional capital investments and full information as to the total quantities of industrial water produced and available.

ARTICLE IX

Payment

The City shall bill Consumer at the address referenced in Article XII, Section 4, on a monthly basis for the quantity of industrial water consumed during the calendar month; however at no time shall the amount paid be less than the minimum quantity as required herein, subject to Article VII, Section 3 and Article X of this Agreement.

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ARTICLE X

Force Majeure

Section 1. The term “force majeure” as employed herein shall mean an Act of God, strikes, lockouts, or other industrial disturbances, act of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints, and orders of the government, either Federal or State, civil or military, civil disturbances, explosions, sabotage, malicious mischief, breakage or accident of machinery or lines of pipe, freezing of wells or lines of pipe, temporary failure of water supply, temporary or permanent plugging of injection wells, inability of any party hereto to obtain necessary materials, supplies or permits due to existing or future rules, regulations, orders, laws or proclamations of governmental authorities (both Federal and State), including both civil and military, and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension of obligations by reason of force majeure.

Section 2. It is understood and agreed that the settlement of strikes or other labor difficulties shall be entirely within the discretion of the party having the difficulty and that any requirement that force majeure shall be remedied with all reasonable dispatch shall not require the settlement of labor difficulties by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

Section 3. In the event either party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, it is agreed that such party shall give notice and full particulars of such force majeure in writing to the other party; thereupon, the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall strive to remedy the force majeure with all reasonable dispatch.

Section 4. It is specifically agreed that in the event Consumer is at any time rendered unable, by reason of any action or inaction by Federal or State or governmental authorities or other force majeure, to inject into the South Hobbs (Grayburg—San Andres) Unit during any month a quantity of industrial water equal to 1/12 of the current minimum annual contract quantity, such minimum annual contract quantity shall be reduced for the current year by the number of barrels Consumer is unable to inject during each such month. It is further agreed that if such disability continues for any period of six (6) consecutive months or more, Consumer shall

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have the right, at its option, to terminate this Agreement effective upon written notice to the City thereof.

ARTICLE XI

Defaults

Section 1. It is covenanted and agreed that if either party hereto shall fail to perform any of the covenants or obligations imposed upon it under and by virtue of this Agreement, for any reason other than a force majeure, then in such event the other party hereto may, at its option, terminate this Agreement by proceeding as hereinafter provided.

Section 2. The party not in default shall cause a written notice to be served on the party in default stating specifically the cause for terminating this Agreement and declaring it to be the intention of the party giving the notice to terminate the same; whereupon, the party in default shall have thirty (30) days after the service of the aforesaid notice in which to remedy or remove the cause or causes stated in the notice for terminating the Agreement, and if, within said period of thirty (30) days, the party in default does so remedy or remove said cause, then such notice shall be withdrawn and this Agreement shall continue in full force and effect. In the case where the party in default does not so remedy or remove the cause or causes, or does not indemnify the party giving the notice for any monies or industrial water due under this Agreement as a consequence of such breach, within said period of thirty (30) days, then, at the option of the party giving the notice, this Agreement shall become null and void from and after the expiration of said period.

Section 3. Any cancellation of this Agreement pursuant to the provisions of this Article XI shall be without prejudice to the right of the City to collect any amounts then due from the Consumer for industrial water delivered prior to the time of cancellation and shall be without prejudice to the right of the Consumer to receive any industrial water for which it has paid, but has not received, although entitled thereto, prior to the time of cancellation. The parties waive all other remedies under the law for violation of this Agreement.

ARTICLE XII

Miscellaneous

Section 1. Each party (the "indemnifying party") hereby agrees to indemnify, defend and hold the other party (and, as applicable, its officers, directors, parents, subsidiaries, partners, employees, agents, contractors, subcontractors and representatives) free and harmless from and

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against any and all damages, claims, losses, demands, suits, causes of action, judgments, payments, costs, expenses (including court costs and attorney fees) that may arise by reason of any negligence, gross negligence, willful misconduct or strict liability on the part of the indemnifying party, its agents or employees, in going about the premises in performance of this Agreement, for any damage to personal or real property or mixed, and for personal injury, bodily damage, casualties, accidents or death resulting to any person or persons. In case any action is brought against such other party for any acts solely involving the employees, contractors or other agents of the indemnifying party, the indemnifying party shall assume full responsibility for the defense thereof.

Section 2. Neither party to this Agreement shall assign this Agreement in whole or in part without the written consent of the other, provided that Consumer's rights and obligations hereunder may at any time be formally assigned and transferred to its partner, parent, subsidiary or affiliate or to a new operator of the unit(s), without approval of the City.

Section 3. This Agreement is executed by Occidental Permian Ltd. as operator of the South Hobbs (Grayburg—San Andres) Unit and North Hobbs (Grayburg-San Andres) Unit, both in Lea County, New Mexico, acting for and on behalf of the units' working interest owners. It is hereby agreed that unless (1) this Agreement has been approved by said working interest owners and (2) all necessary rights of way have been obtained by the units, this Agreement shall then be terminated and be of no further force or effect unless otherwise mutually agreed by the parties hereto. If it should appear to Consumer at any time substantially in advance of said date that said preconditions will not be met, Consumer shall notify the City thereof, and if requested by the City, this Agreement shall then be terminated by mutual agreement of the parties.

Section 4. All notices and billings required under this Agreement shall be considered as given when deposited in the U. S. Mail with sufficient postage thereon, sent by a courier service, a facsimile transmission or by electronic mail, and addressed as follows:

CITY MANAGER
City of Hobbs
300 N. Turner
Hobbs, New Mexico 88240

Occidental Permian Ltd.
1017 Stanolind Road
Hobbs, New Mexico 88240

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Section 5. This Agreement shall supersede all prior agreements, contracts, arrangements and understandings of the parties dealing with the purchase and sale of industrial water to the unit(s) identified herein.

IN WITNESS WHEREOF, the parties hereto execute this Agreement the day and year first above written.

Approved as to form:

The CITY OF HOBBS
A Municipal Corporation

CITY ATTORNEY

MAYOR

ATTEST:

CITY CLERK

Occidental Permian Ltd.
Operator of the South Hobbs
(Grayburg—San Andres) Unit
and the North Hobbs (Grayburg-San
Andres) Unit

Team Leader-South Hobbs RMT

Team Leader-North Hobbs RMT