

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

NO. 14-08-0001-14277

THIS AGREEMENT made and entered into as of the 26th 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 described 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 conditions 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 withdraw 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 purpose 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 ^{Nov 1, 1975} 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 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 \$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.

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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 Dizzell
Secretary of the Interior

LLANO, INC.

By Donald S. Gray
President

ATTEST:

Larry L. Greig
Assistant Secretary
6/24/76
2/23/76

STATE OF NEW MEXICO)
 : ss
COUNTY OF LEA)

The foregoing instrument was acknowledged before me this 25th day of February, 1976 by Donald S. Gray, 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 NW $\frac{1}{2}$ 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 Grama 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 Hodel AUG 17 1981
Acting Secretary of the Interior

ATTEST:

Lucy L. Greig
Secretary-Treasurer

LLANO, INC.

^{by} By Paul J. Farley
President

STATE OF NEW MEXICO)
) SS
COUNTY OF LEA)

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



Donald L. Garey
Notary Public

My Commission Expires:
8-30-82