

GAS PURCHASE AGREEMENT

dated June 1, 1985

between

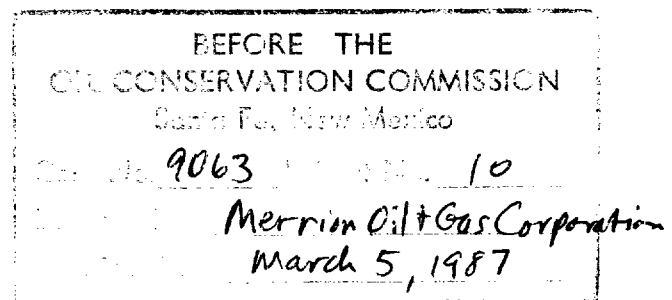
EL PASO NATURAL GAS COMPANY

Buyer

and

DUGAN PRODUCTION CORP.

Seller



covering gas produced in
San Juan and Rio Arriba Counties, New Mexico

El Paso
Natural Gas Company

EX 02-T 12
604M 55
P. O. BOX 1492
EL PASO, TEXAS 79978
PHONE 915-541-2600

November 22, 1985

Dugan Production Corp.
709 Bloomfield Road
P. O. Box 208
Farmington, New Mexico 87499-0208

Gentlemen:

El Paso Natural Gas Company ("El Paso") and Dugan Production Corp. and Thomas A. Dugan ("Dugan") have entered into this Letter Agreement in order to set forth the understanding between them regarding the price to be paid for natural gas sold and delivered by Dugan and purchased by El Paso.

The parties hereto have recently concluded a broad renegotiation of all contracts between them, as set forth in that certain Amendatory Agreement dated June 1, 1985 ("the Amendatory Agreement"). As part of that renegotiation, the parties agreed that the price to be paid for gas sold and delivered by Dugan and purchased by El Paso from Dugan's properties in the San Juan Basin area of New Mexico and Colorado, which gas (i) was subject to price regulation under the Natural Gas Policy Act of 1978 ("NGPA"); (ii) qualified as "stripper well natural gas" under Section 108 of the NGPA; and (iii) was subject to the provisions of a gas purchase agreement between Dugan and El Paso which, as of the date of the Letter Agreement, had remaining term, would be \$3.50/MMBTU, plus state severance taxes, during the period commencing May 1, 1985 and continuing through March 31, 1987 during which time such incentive price would be exempt from the Alternate Price provisions under the applicable contracts.

For valuable consideration known to the parties to be sufficient, Dugan agrees, effective as of October 1, 1985, to waive the provision for \$3.50/MMBTU, plus state severance taxes, as it applies to "stripper well natural gas" produced and sold by Dugan to El Paso in the San Juan Basin area of New Mexico and Colorado. The parties hereto agree that the provisions of this Letter Agreement shall become void ab initio in the event that any court determines that the price differential granted by El Paso to those sellers agreeing to specific contract amendments pursuant to El Paso's notice of implementation of an "Alternate Price" dated September 27, 1985 is illegal or invalid; provided, however, that any such judicial determination must be final and non-appealable and provided, further, that such determination must occur on or before October 1, 1987.

As herein supplemented and amended, the provisions of the Amendatory Agreement shall continue in full force and effect. If the foregoing meets with your approval, please so indicate by executing this Letter Agreement in the space provided below.

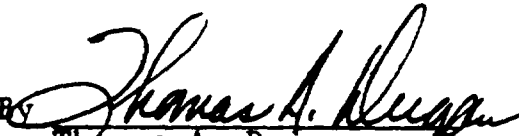
Very truly yours,

EL PASO NATURAL GAS COMPANY

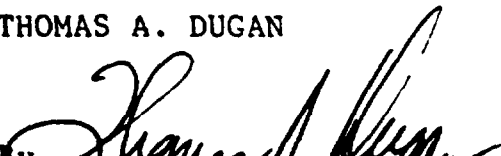
By 
Michael C. Holland
Vice President

Agreed to and Accepted:

DUGAN PRODUCTION CORP.

By 
Thomas A. Dugan
President

THOMAS A. DUGAN

By 
Thomas A. Dugan

0071

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the 7th day of January 1986, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985 (hereinafter referred to as "Agreement"), covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba Counties, New Mexico, as more particularly described in Exhibit "A" thereto; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement, hereinafter referred to as "Letter Agreement", committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be amended and supplemented by adding thereto Seller's interest in the following described properties:

SELLER'S PROPERTIES:

Township 25 North, Range 3 West

Section 12: Southwest Quarter (SW/4)

13: Northwest Quarter (NW/4), West Half of the Northeast Quarter (W/2 NE/4) and North Half of the Southwest Quarter (N/2 SW/4)

14: South Half of the Northwest Quarter (S/2 NW/4), Northeast Quarter (NE/4) and the South Half (S/2)

Located in Rio Arriba County, New Mexico; limited, however, to gas production from the surface of the earth to the base of the Dakota formation.

II.

Promptly after the date of this agreement, Buyer and Seller shall proceed diligently to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that said gas is subject to the provisions of said Letter Agreement dated June 1, 1985.


III.

This Supplemental Gas Purchase Agreement shall become effective as of the date hereof. The Agreement shall remain in full force and effect in accordance with its terms and provisions.

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) counterparts, by their duly authorized officers, as of the date hereof.

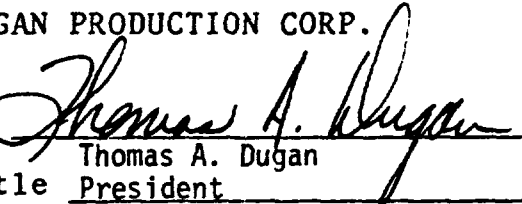
"BUYER"

EL PASO NATURAL GAS COMPANY

By 
Michael C. Holland
Vice President

"SELLER"

DUGAN PRODUCTION CORP.

By 
Thomas A. Dugan
Title President

Taxpayer I. D. No. 85-0171448

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the 15TH day of November 1985, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985 (hereinafter referred to as "Agreement"), covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba Counties, New Mexico, as more particularly described in Exhibit "A" of said Gas Purchase Agreement; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement (hereinafter referred to as "Letter Agreement") committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be and the same is hereby amended and supplemented by adding thereto Seller's interest in the following described properties:

SELLER'S PROPERTIES:

Old Hickory #1 well

Located in Section 33, Township 26 North, Range 12 West, San Juan County, New Mexico; limited, however, to gas production from the Farmington and Fruitland formations underlying the proration unit acreage assigned to this well.

COBH #1 well

Located in Section 22, Township 24 North, Range 2 West, Rio Arriba County, New Mexico; limited, however, to gas production from the Pictured Cliffs formation underlying the proration unit acreage assigned to this well.

La Rose #1 well

Located in Section 22, Township 31 North, Range 13 West, San Juan County, New Mexico; limited, however, to gas production from the Dakota formation underlying the proration unit acreage assigned to this well.

Storey #3 well

Located in Section 34, Township 32 North, Range 11 West, San Juan County, New Mexico; limited, however, to gas production from the Undesignated Nacimiento formation underlying the proration unit acreage assigned to this well.

Lucky Billy Charlie #2 well

Located in Section 22, Township 27 North, Range 13 West, San Juan County, New Mexico; limited, however, to gas production from the Gallup formation underlying the proration unit acreage assigned to this well.

II.

Promptly after the date of this agreement, Buyer and Seller shall diligently proceed to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that said gas is subject to the provisions of said Letter Agreement dated June 1, 1985.

III.

This Supplemental Gas Purchase Agreement shall become effective as of the date first above written and said Agreement and Letter Agreement dated June 1, 1985 shall remain in full force and effect in accordance with the terms and provisions thereof.

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) counterparts, by their duly authorized officers, as of the day and year first set forth herein.

"BUYER"

EL PASO NATURAL GAS COMPANY

By


Michael C. Holland
Vice President

"SELLER"

DUGAN PRODUCTION CORP.

By


Thomas A. Dugan
Title President

Taxpayer I. D. No. 85-0171448

El Paso
Natural Gas Company

P. O. BOX 492
EL PASO TEXAS 79978
PHONE 915-541-2600

July 18, 1985

Dugan Production Corp.
P. O. Box 208
709 Bloomfield Rd.
Farmington, New Mexico 87499

Re: Gas Purchase Agreements With
El Paso Natural Gas Company

Gentlemen:

Concurrently herewith, El Paso Natural Gas Company ("El Paso") and Dugan Production Corp. ("Producer") have entered into various agreements respecting amendments to existing gas purchase agreements, rollover gas purchase agreements and/or gas purchase agreements for new gas supplies (such amended and new agreements to be collectively referred to herein as "the subject agreements"). This Letter Agreement shall set forth the understanding and agreement of El Paso and Producer respecting the matters contained herein.

El Paso and Producer acknowledge that the Federal Energy Regulatory Commission has recently issued a Notice of Proposed Rulemaking in Docket No. RM85-1-000, the effect of which may be to impose upon El Paso or Producer conditions not otherwise anticipated and beyond the control of the affected party, which may include:

- (i) Conditions prohibiting, preventing, limiting or restricting the recovery by El Paso of gas costs and payments which would otherwise be incurred and paid by El Paso under the subject agreements;
- (ii) Conditions impairing the ability of El Paso to market gas which El Paso would otherwise purchase, or pay for, under the subject agreements; or
- (iii) Conditions which would otherwise frustrate the economic purpose of either party in performing under the subject agreements.

Accordingly, El Paso and Producer agree that, in the event the Commission issues an Order promulgating final rules in Docket No. RM85-1-000 which, in the sole judgment of either El Paso or Producer, prescribes conditions of like or similar nature as

those described in subparagraphs (i), (ii) or (iii) above, then either party shall have the right, exercisable within thirty (30) days following the date that the Commission issues an order promulgating said final rules, to request renegotiation of the subject agreements. In the event any such request is made, the parties shall attempt in good faith to renegotiate the subject agreements, toward the end of achieving contractual arrangements for the purchase and sale of the gas covered by such agreements that will enable maximum quantities of Producer's gas to be purchased and marketed by El Paso, consistent with the current gas supply and market environment and applicable governmental regulations. If the parties are unable to agree upon renegotiated terms within a period of sixty (60) days following the date a renegotiation request is made, then either party shall have the right, exercisable within thirty (30) days following the end of said sixty (60) day renegotiation period, to terminate any or all of the subject agreements, which termination shall be effective as of the effective date of such final rules. In the event the parties agree upon renegotiated terms, the terms and provisions of each of the subject agreements shall continue to govern the purchase and sale of gas until the effective date of such agreed-upon renegotiated terms. In the event the subject agreements are terminated, the price or prices to be paid for any gas delivered following the effective date of termination of the subject agreements shall be the price or prices provided under such agreements for the sale of natural gas.

If the foregoing correctly sets forth the understanding and agreement of our two parties respecting the matters set forth herein, please cause this Letter Agreement to be executed in duplicate originals in the space provided below.

Very truly yours,

EL PASO NATURAL GAS COMPANY

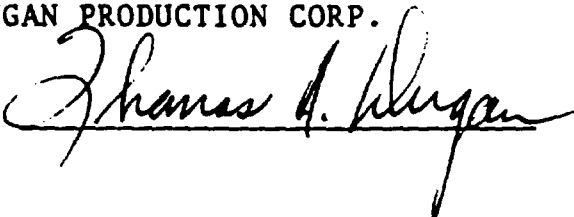
By


Michael C. Holland
Vice President

Agreed to and Accepted:

DUGAN PRODUCTION CORP.

By



June 1, 1985

Dugan Production Corp.
P. O. Box 208
709 Bloomfield Rd.
Farmington, New Mexico 87499

DK 85-472
604M sl

Gentlemen:

Contemporaneously and of even date herewith, El Paso Natural Gas Company, as Buyer, and Dugan Production Corp. as Seller, made and entered into a certain Amendatory Agreement (hereinafter referred to as "said Agreement") which amends the Price and Quantities provisions of certain contracts between Buyer and Seller, as more particularly described in Exhibit "A" attached to said Agreement.

In consideration of the foregoing Agreement, Buyer agrees to offer to Seller a contract providing for the purchase and sale of gas to be developed from Seller's heretofore undedicated properties pursuant to Seller's planned development during calendar years 1985 through 1987 in the San Juan Basin of New Mexico and Colorado. Such contract(s) shall contain Buyer's contractual provisions then generally in use. In no event shall Buyer be obligated to accept new dedications which shall cause the total deliveries from Seller to Buyer to exceed the following annual sales limits:

<u>Year</u>	<u>Sales Limit</u>
1985	135% of 1984 sales by Seller to Buyer
1986	135% of 1985 sales limit
1987	135% of 1986 sales limit

If the foregoing is in accordance with your understanding and agreement, please so indicate by signing this Letter Agreement in the space provided below.

Very truly yours,

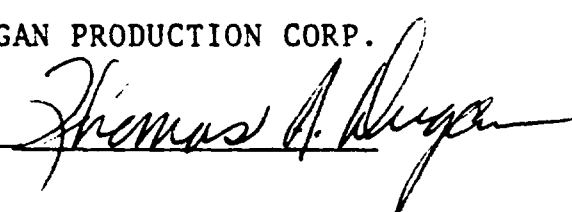
EL PASO NATURAL GAS COMPANY

By


Michael C. Holland
Vice President

Agreed to and Accepted:

DUGAN PRODUCTION CORP.

By 

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GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the 1st day of June 1985, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

That, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE I
COMMITMENT

Seller hereby commits to the performance of this Agreement the gas in and under and to be hereafter produced during the term of this Agreement from Seller's interest as of the date hereof in Seller's properties as herein defined and as identified in Exhibit "A" hereto.

ARTICLE II
QUANTITIES

1. Commencing as of the date of first deliveries of gas hereunder and continuing during the term hereof, Seller shall sell and deliver to Buyer from Seller's wells which are classified as gas wells by the State Jurisdictional Agency ("gas wells") at the point or points of delivery provided herein, and Buyer shall purchase and receive from Seller from said gas wells or pay for whether or not received, during each year, subject to the further provisions of this Article, a minimum daily quantity of gas, averaged over each year, equal to sixty percent (60%) of the lesser of (i) the aggregate daily producing ability of Seller's gas wells to deliver gas at the point or points of delivery hereunder against the operating pressure of Buyer's gathering system; or (ii) the maximum rate of production permitted by law, rule or order (other than allowables based on nominations made to regulatory authorities); provided, that if

Seller's interest in any gas well is less than one hundred percent (100%), Seller's and Buyer's obligations hereunder shall be reduced proportionately. The minimum quantities of gas so described shall hereinafter be referred to as the "Contract Quantity." Each gas well's daily producing ability shall equal, for any year, the total annual production of such well divided by the time (the number of days, rounded to the nearest tenth of a day) that such gas well was open to the line and permitted to deliver into Buyer's facilities.

2. Buyer shall have the right to purchase and receive from Seller during the term of this Agreement such quantities of gas produced from said Seller's gas wells in addition to the Contract Quantity as Buyer may desire, and Seller shall sell and deliver the same to Buyer; provided that the rate of production from Seller's gas wells shall not exceed the maximum rate of production established therefor by any state or federal regulatory body having jurisdiction; and provided further, that Seller shall not be required to deliver gas from Seller's gas wells in quantities which would, in the sole judgment of Seller, damage Seller's gas wells or the reservoir from which said gas is produced.

3. Should Buyer fail to purchase and receive from Seller during any year the Contract Quantity pursuant to the provisions of paragraphs 1. or 4. of this Article, as applicable, which failure was not due, in whole or part, to physical non-availability of gas, causes within the control of Seller, regulation by governmental authority or force majeure intervention, then Seller shall have the right to collect from Buyer a deficiency payment for that quantity of gas which represents the difference between the Contract Quantity for such year and the quantities of gas actually purchased and received by Buyer from Seller's gas wells during such year. Such deficiency payment shall be calculated at the average price, weighted as to volume, paid by Buyer hereunder for gas during such year. If no request for payment pursuant to this paragraph 3. is received by Buyer within six (6) months following the end of any year, the parties

agree that Buyer shall be deemed to have purchased the Contract Quantity during such year. Buyer shall have the right at any time during the remaining term of this Agreement to make up any such deficiency payments by crediting such payments against payments due for quantities of gas received during any succeeding year which are in excess of the Contract Quantity during any of such succeeding years.

4. Notwithstanding paragraph 1. of this Article, during any year when the production of gas from Seller's gas wells is subject to allocation under the laws, orders, rules or regulations of duly constituted governmental authorities based on nominations made to regulatory authorities, the Contract Quantity shall be the lesser of (i) the volumes of gas so allocated to Seller's gas wells, or (ii) the Contract Quantity.

5. Buyer agrees that its takes of gas from Seller's gas wells will be at least ratable with Buyer's takes of gas from other gas wells completed in the same reservoir in which Seller's wells are completed. Determination of whether or not production is ratable shall be in accordance with the applicable rules and regulations established by duly constituted governmental authorities having jurisdiction.

6. Buyer shall utilize its best efforts to purchase and receive from Seller one hundred percent (100%) of the gas available from Seller's wells which are classified as oil wells by the State Jurisdictional Agency.

ARTICLE III DELIVERY POINT

The point or points of delivery for all gas sold and delivered to Buyer hereunder shall be upstream of Buyer's facilities, which may be located at the mouth of Seller's well or wells or at the outlet of Seller's separator or separators, compressor or compressors, or dehydrator or dehydrators, or meter or meters, if installed. Title to and ownership of all gas, so delivered hereunder, shall pass to and vest in Buyer at such point or points of delivery where Buyer's facilities commence.

ARTICLE IV
DELIVERY PRESSURE

1. Subject to the right granted Buyer pursuant to SECTION J of Exhibit "B" hereof, Buyer shall be obligated to purchase gas hereunder from Seller's wells at the point(s) of delivery only so long as the natural well flowing pressure of such wells is sufficient to allow delivery of gas to Buyer at its then prevailing gathering system pressure at such delivery point(s), the wells have the collective capability to produce into Buyer's facilities at least three hundred thousand (300,000) cubic feet in any month attributable to Buyer's aggregate contracted interest, and the gas otherwise meets the requirements of this Agreement. In the event the wells fail to satisfy any one or more of the foregoing requirements, then the gas thereafter produced from said wells from the reservoirs in which said wells are completed and the gas reserves contained in said reservoirs underlying the acreage attributable to said wells shall be released from the provisions of this Agreement if either party shall give the other sixty (60) days prior written notice of its desire to obtain such release.

2. Should the natural well flowing pressure of any well become insufficient to allow delivery of gas to Buyer at its then prevailing gathering system pressure at such well's delivery point, Seller may provide sufficient wellhead compression to allow such well or wells to deliver gas into Buyer's gathering system; provided that, if required by Buyer, Seller shall install, at its sole cost, such pulsation dampening devices as may be necessary to assure accuracy of gas measurement.

ARTICLE V
PRICE

1. Subject to the further provisions of this Agreement, the price to be paid by Buyer to Seller for gas delivered or for which payment is otherwise due hereunder shall be as follows:

(A) Base Rate

The Base Rate shall be three dollars (\$3.00)

per MMBTU; provided, however, such Base Rate shall not exceed any maximum lawful rate prescribed by any governmental body having jurisdiction.

(B) Adjustment to Base Rate

The Base Rate shall be adjusted to the extent necessary to permit Seller to recover one hundred percent (100%) of severance, production or similar tax, fee or other levy imposed on the natural gas delivered and borne by Seller; provided, however, such adjustment shall not include any amount of tax which results from a provision of state law enacted on or after December 1, 1977, unless such provision of law is equally applicable to natural gas produced within the state and delivered in interstate commerce and to natural gas produced within the state and not so delivered.

2. On or before the first (1st) day of February of each year during the term hereof ("Notice Date"), Buyer shall notify Seller in writing of the Base Rate it will pay Seller for gas hereunder for the twelve (12) month period effective beginning on the first (1st) day of April of such year; provided, however, that:

- (A) Buyer shall, in no event, state a Base Rate hereunder which is less than ninety-five percent (95%) of the price, excluding tax reimbursements and any other adjustments, then being paid for gas delivered under this Agreement;
- (B) The Base Rate stated in any notice required under this paragraph 2. shall, in no event, be less than the base price (excluding tax reimbursements and any other adjustments) predominantly paid by Buyer on the day before

the Notice Date under contracts, if any, entered into during the twelve (12) month period preceding said Notice Date for new gas (not previously committed to Buyer) of similar quantity, quality and pressure located in the San Juan Basin Area, situated in McKinley, San Juan, Sandoval and Rio Arriba Counties, New Mexico and Archuleta, La Plata and Montezuma Counties, Colorado, and subject to similar physical delivery conditions (including consideration of any necessary third-party transportation) and minimum quantity provisions; and

- (C) The Base Rate stated in any notice required under this paragraph 2. shall, in no event, be less than the Base Rate stated by Buyer, to be effective for the same period, under similar pricing provisions, if any, covering gas of similar quantity, quality and pressure located in the San Juan Basin Area, situated in McKinley, San Juan, Sandoval and Rio Arriba Counties, New Mexico and Archuleta, La Plata and Montezuma Counties, Colorado, under contracts subject to similar physical delivery conditions (including consideration of any necessary third-party transportation) and minimum quantity provisions.

3. Notwithstanding any other provision of this Agreement, it is expressly understood and agreed that if at any time and from time to time either:

- (A) Pursuant to an order of the Federal Energy Regulatory Commission, its successor administrative agency or other governmental authority having jurisdiction, Buyer, for any reason, is not permitted or allowed to include in its filed rates the full price

(including any adjustments or add-ons) paid Seller for all or any portion of gas delivered hereunder; or

- (B) Buyer, acting in good faith and in accordance with prudent business practices, determines, in its sole discretion, that its gas supply and market demand environment indicates a downward change in the value to Buyer of the gas to be purchased from Seller hereunder;

Then, in either event, upon the giving of written notice to Seller specifying the gas involved, Buyer shall have the right to reduce the price otherwise payable hereunder for such gas to equal, as the case may be, either that price which Buyer is so permitted or allowed to include in its filed rates, or that price indicative of Buyer's then existing gas supply and market demand environment, including consideration of any necessary third-party transportation. Said reduced price shall become effective hereunder on the first (1st) day of the month following the month in which Buyer's notice hereunder is given. The reduced price specified by Buyer in any such notice given pursuant to the event specified in subparagraph (B) above is hereinafter referred to as the "Alternate Price."

If the event specified in subparagraph (A) above occurs, then Seller shall refund to Buyer, within ninety (90) days following the giving of Buyer's said notice, any amount paid to Seller that was not permitted or allowed to be included in Buyer's filed rates, with interest thereon calculated in accordance with Section 154.102(c) of the Regulations under the Natural Gas Act, or succeeding interest provisions prescribed from time to time by the Commission, or successor governmental body.

The purchase and sale of the gas subject to Buyer's Alternate Price notice shall continue hereunder at the Alternate Price either (i) until the last day of the month in which Buyer's right of first refusal under paragraph 4. hereof expires, at which time this Agreement shall, except as otherwise provided

below, terminate as to such gas, or (ii) only for so long as Buyer, in its sole discretion, determines that the event specified in subparagraph (B) above requires such an Alternate Price. If, at the time Buyer's right of first refusal under paragraph 4. hereof expires, there exists an outstanding deficiency payment pursuant to any minimum purchase obligation, then at Buyer's option, the delivery of gas from Seller's properties shall continue until such time as either Buyer has received gas therefrom (without making payment therefor) having a value, calculated at the Alternate Price in effect at the time Buyer's right of first refusal under paragraph 4. expires, equal to the then outstanding deficiency payment, or Seller refunds to Buyer in cash the amount of such deficiency payment. On the first (1st) day of the month following the month in which Buyer determines that the event specified in subparagraph (B) above no longer requires any Alternate Price, the last price that was in effect and payable for such gas under the terms of this Article shall become the price payable hereunder for such gas.

Buyer represents to Seller that it will not serve an Alternate Price notice on Seller under the foregoing provisions of this paragraph 3. unless Buyer shall, in conjunction therewith, serve Alternate Price notices on other similarly situated sellers pursuant to similar provisions contained in other gas purchase agreements, by which notices Buyer would reduce the price or prices payable under such other agreements to a level indicative of the value to Buyer of the gas delivered under such agreements.

4. Buyer and Seller agree that, at any time within sixty (60) days following the date any Alternate Price notice is given under paragraph 3. hereof, Seller may elect to seek another buyer for the gas subject to such notice. In the event Seller obtains a bona fide offer to purchase the gas subject to such notice from any buyer which is ready, willing and able to purchase said gas at a price higher than the price specified in such notice, then, within the above-prescribed sixty (60) day period, Seller shall give Buyer notice of such offer, including in such

notice a description of the quantity, quality, price, pressure and delivery provisions thereof. Buyer shall have the right, by giving written notice within twenty (20) days following receipt of said notice from Seller, to elect to continue purchasing the gas subject thereto under the terms specified in said bona fide offer, but otherwise pursuant to all the terms of this Agreement. The higher price specified in said bona fide offer shall become effective commencing on the first (1st) day of the month following the giving of Buyer's notice of exercise of its right of first refusal hereunder. In the event Buyer does not elect to so continue purchasing the gas subject to such a bona fide offer, then this Agreement shall terminate as to such gas as of the last day of the month in which Buyer's right of first refusal hereunder expires. Upon Seller's request, or in the absence of such request at Buyer's option, the gas affected by such termination shall be transported through Buyer's pipeline system on behalf of Seller or such new buyer to a mutually-agreeable point on Buyer's pipeline system; provided that such transportation service shall be rendered at Buyer's gathering, processing, transportation and other applicable rates then on file with the Federal Energy Regulatory Commission (or any successor authority having jurisdiction), or otherwise published rates, as revised from time to time, and shall be conditioned upon the availability of capacity sufficient to provide such service without detriment or disadvantage to Buyer's customers and shippers with firm transportation rights.

5. Notwithstanding paragraphs 1., 2. and 3.(B) of this Article, during the one (1) year period commencing as of January 1, 1985, the price to be paid by Buyer to Seller for gas delivered hereunder, which is subject to price regulation by any governmental authority and which qualifies as stripper well natural gas under Section 108 of the Natural Gas Policy Act of 1978, shall be three dollars and fifty cents (\$3.50) per MMBTU, plus tax reimbursement in accordance with paragraph 1.(B) of this Article. At the end of said one (1) year period, the price payable for such stripper well natural gas shall be the

price established in accordance with the other provisions of this Article.

ARTICLE VI TERM

This Agreement shall become effective as of the date hereof and shall continue in full force and effect for a primary term ending on the tenth (10th) anniversary of the first (1st) day of the month following the date of first deliveries of gas hereunder; provided, however, that in the event at the time of such termination, there exists an outstanding deficiency payment made by Buyer to Seller pursuant to the provisions of Article II hereof, then, at Buyer's option, deliveries of gas from Seller's properties shall continue until such time as Buyer receives gas therefrom without making payment therefor having a value equal to the outstanding deficiency payment, or Seller reimburses Buyer in cash the amount of such outstanding deficiency payment.

ARTICLE VII NOTICES

Formal notices to be given hereunder shall be deemed sufficiently given and served when and if deposited in the United States mail, postage prepaid and certified or registered, addressed to Seller at P. O. Box 208, Farmington, New Mexico 87499, or to Buyer, Attention: Contract Administration Department at P. O. Box 1492, El Paso, Texas 79978, as the case may be, or to such other address as either party shall respectively hereafter designate in writing.

Routine notices and communications, including, but not limited to, monthly statements and payments and notices pursuant to Article V, paragraph 2., shall be considered as duly delivered when mailed by ordinary first class mail, postage prepaid.

ARTICLE VIII MISCELLANEOUS

1. Notwithstanding any other provisions of this Agreement, if at any time and from time to time the Federal Energy Regulatory Commission, its successor administrative agency

or any other governmental authority having jurisdiction, should in any manner and for any reason prohibit Buyer from including in its cost of service or otherwise recovering through its jurisdictional rates all or any portion of the cost (including capital costs and expenses) of compressing, gathering, processing, treating, liquefying or transporting the natural gas purchased from Seller hereunder, which activities were conducted by Buyer, or for Buyer at its expense, pursuant to the terms of this Agreement, Seller shall reimburse Buyer for such disallowed cost within ninety (90) days following receipt of notice from Buyer requesting reimbursement.

2. No waiver by either party hereto of any one or more defaults by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature.

3. Buyer and Seller expressly agree that the laws of the State of New Mexico shall govern the validity, construction, interpretation and effect of this Agreement. If any provision hereof conflicts with such laws or with public policy that cannot be or is not waived hereby, then, to the extent of such conflict, this Agreement shall be deemed modified to conform therewith.

4. The topical headings used herein are inserted for convenience only and shall not be construed as having any substantive significance or meaning whatsoever or as indicating that all of the provisions of this Agreement relating to any particular topic are to be found in any particular article.

5. The provisions of Exhibits "A", "B" and "C" constitute an integral part of this Agreement and are to be construed herewith.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed in duplicate originals as of the day and year first above written.

"BUYER"

EL PASO NATURAL GAS COMPANY

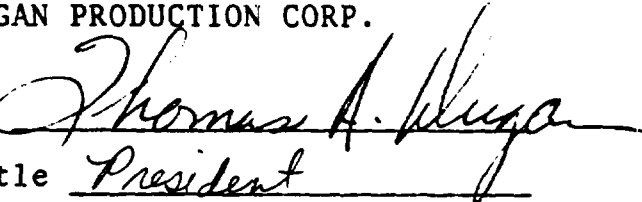
By


Michael C. Holland
Vice President

"SELLER"

DUGAN PRODUCTION CORP.

By


Title President

Taxpayer I. D. No. 85-0171448

STATE OF TEXAS)

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared Michael C. Hilland, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said EL PASO NATURAL GAS COMPANY, a corporation, and that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 5th day of August, 1985.

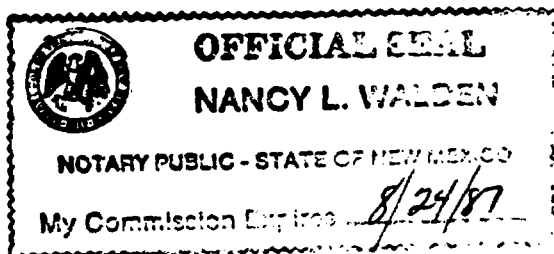
Camela C. Murray
Notary Public In and For the
State of Texas

My Commission Expires:

5/13/88

STATE OF NEW MEXICO)
COUNTY OF SAN JUAN) ss.

The foregoing instrument was acknowledged before me this 13th day of August, 1985, by Thomas A. Dugan, President of Dugan Production Corp., a New Mexico corporation, on behalf of said corporation.



Nancy L. Walden
Notary Public

EXHIBIT "A"

This Exhibit "A" is attached to and made a part of the Gas Purchase Agreement between EL PASO NATURAL GAS COMPANY and DUGAN PRODUCTION CORP., dated June 1st, 1985:

SELLER'S PROPERTIES

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
LH-1896 Wit's End	T-23-N, R-10-W Sec. 2: N/2 N/2, S/2	Surface to base of Gallup	477.92
NM-42740 Olson Lease	T-23-N, R-10-W Sec. 10: E/2 Sec. 11: S/2	Surface to base of Gallup	640.00
NM-41650 Lee's Ferry	T-24-N, R-8-W Sec. 19: S/2	Surface to base of Gallup	320.69
NM-40643 Phantom Ranch	T-24-N, R-8-W Sec. 21: E/2 NW/4	Surface to base of Gallup	80.00
NM-45208	T-24-N, R-9-W Sec. 17: E/2	Surface to base of Dakota	320.00
NM-43443 August Aura	T-24-N, R-10-W Sec. 35: All	Surface to base of Gallup	640.00
LG-9804	T-24-N, R-10-W Sec. 36: N/2, NW/4 SW/4, NE/4 SE/4	Surface to base of Gallup	400.00
NM-19816 December Dream	T-23-N, R-9-W Sec. 7: W/2	Surface to base of Gallup	320.72
NM-23470 Fairway	T-23-N, R-10-W Sec. 1: SW/4 SW/4	Surface to base of Gallup	40.00
NM 23744 Olympic	T-23-N, R-10-W Sec. 3: S/2	Surface to base of Gallup	320.00
NM 16762 Witty	T-23-N, R-10-W Sec. 12: All Sec. 13: NW/4, N/2 NE/4, SW/4 NE/4 Sec. 24: NE/4	Surface to base of Gallup	1080.00
SF-078868 Adobe A #1	T-24-N, R-8-W Sec. 29: NW/4	Top of Mesa Verde to 100' below the Gallup formation	160.00

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
NM-16759 Big Bird	T-24-N, R-9-W Sec. 5: Lots 3, 4, S/2 NW/4, N/2 SW/4	Surface to base of Dakota	240.65
NM-45207 Pac Ten	T-24-N, R-9-W Sec. 7: SE/4	Surface to base of Gallup	160.00
14-20-5542 Pacheco	T-24-N, R-9-W Sec. 13: NE/4	Surface to base of Gallup	160.00
14-20-5544	T-24-N, R-9-W Sec. 13: SE/4	Surface to base of Gallup	160.00
NM-36473 WAC	T-24-N, R-9-W Sec. 17: W/2	Surface to base of Dakota	320.00
NM-36474 Muddy Mudda	T-24-N, R-9-W Sec. 21: N/2	Surface to base of Dakota	320.00
NM-51000 Fabulous Feb	T-24-N, R-9-W Sec. 31: Lots 1, 2, E/2 NW/4	Surface to base of Gallup	160.84
NM-15654 Rodeo Rosie TR I	T-24-N, R-10-W Sec. 22: NE/4 NE/4	Surface to base of Dakota	40.00
TR II	Sec. 22: SE/4 NE/4 W/2 NE/4, S/2 Sec. 27: NW/4 Sec. 28: NW/4 Sec. 29: N/2 Sec. 30: Lot 1, E/2 NW/4, NE/4		1358.32
NM-21741 Silver Medal	T-24-N, R-10-W Sec. 27: SW/4 Sec. 28: S/2 Sec. 29: S/2	Surface to base of Gallup	800.00
NM-22044 Gold Medal	T-24-N, R-10-W Sec. 31: All Sec. 33: All Sec. 34: N/2	Surface to base of Gallup	1594.40
SF-078228-B Bedford	T-25-N, R-11-W Sec. 15: NW/4	Surface to base of Gallup	160.00

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
NM-19406 Hana	T-29-N, R-11-W Sec. 18: E/2 NE/4	Surface to base of Pictured Cliffs	80.00
LG-3045-1 Bi-Knobs	T-30-N, R-14-W Sec. 32: N/2, S/2 SW/4, NE/4 SW/4	Surface to base of Pictured Cliffs	444.64
14-20-7307 Bronze Medal	T-23-N, R-10-W Sec. 3: S/2 NW/4, Lots 3, 4	Surface to base of Gallup	160.00
14-20-7308 Marathon	T-23-N, R-10-W Sec. 4: S/2 NE/4 Lots 1, 2	Surface to base of Gallup	160.00
14-20-7309	T-23-N, R-10-W Sec. 4: S/2 NW/4, Lots 3 & 4	Surface to base of Gallup	160.00
14-20-7310	T-23-N, R-10-W Sec. 4: SW/4	Surface to base of Gallup	160.00
14-20-7311	T-23-N, R-10-W Sec. 4: SE/4	Surface to base of Gallup	160.00
NM 4958 April Surprise	T-23-N, R-9-W Sec. 7: E/2 Sec. 6: SE/4 T-24-N, R-9-W Sec. 19: W/2 Sec. 31: E/2	Surface to base of Dakota	960.00
NM 10757 Irish	T-26-N, R-13-W Sec. 11: S/2 SW/4, N/2 SE/4	Surface to base of Pictured Cliffs	160.00
SF 078009C REX	T-27-N, R-13-W Sec. 18: S/2 NW/4, NE/4 NE/4	Surface to base of Gallup	189.96
NM 24661 July Jubilee	T-24-N, R-9-W Sec. 19: SE/4 Sec. 29: All	Surface to base of Dakota	800.00
NM 33040 Faith	T-27-N, R-13-W Sec. 18: SW/4 Sec. 19: NW/4	Base of Pictured Cliffs to base of Gallup Surface to base of Gallup	367.44

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
NM 33044 Baby Doe	T-27-N, R-13-W Sec. 29: S/2	Base of Pictured Cliffs to base of Gallup	320.00
NM 37913 La Lee Ann	T-27-N, R-13-W Sec. 28: All	Base of Pictured Cliffs to base of Gallup	640.00

All located in San Juan County, New Mexico.

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
NM-06855 Leeson Anderson B etc.	T-25-N, R-3-W Sec. 26: NE/4 Sec. 33: SE/4, S/2 SW/4, NE/4 SW/4 Sec. 34: N/2 NW/4, SW/4 NW/4	Base of Pictured Cliffs to base of Dakota	560.00
NM-25427 Slickhorn Gulch	T-24-N, R-7-W, Sec. 8: All	Surface to base of Gallup	640.00
LG-974 Lindrith	T-25-N, R-2-W Sec. 36: S/2	Surface to base of Mancos	160.00
Mesa Grande Gavilan #2	T-25-N, R-2-W Sec. 26: S/2	Surface to base of Dakota	
Mesa Grande Gavilan Howard #1	T-25-N, R-2-W Sec. 23: W/2	Surface to base base of Dakota	
SF 078862A Nageezi #1 Well	T-24-N, R-9-W Sec. 33: SE/4 SW/4	Gallup	40.00

All located in Rio Arriba County, New Mexico.

EXHIBIT "B"
GENERAL TERMS AND CONDITIONS

This Exhibit "B" is attached to and made a part of the Gas Purchase Agreement between EL PASO NATURAL GAS COMPANY and DUGAN PRODUCTION CORP., dated June 1, 1985:

SECTION A
DEFINITIONS

1. The term "Seller's properties" as used in this Agreement shall mean all of Seller's interest as of the date hereof in the oil and gas leases or oil, gas, and mineral leases to the extent such leases cover the properties described in Exhibit "A" attached hereto.

2. The terms "well" or "Seller's well" as used in this Agreement shall mean a well located on Seller's properties classified as a dry gas well or as an oil well by the State Jurisdictional Agency.

3. The term "gas" or the term "natural gas" as used in this Agreement shall mean gas produced from any gas well or oil well.

4. The term "Buyer's facilities" as used in this Agreement shall mean those facilities which are required by Buyer to purchase, measure, and receive the gas in the quantities provided for hereunder.

5. The term "Seller's facilities" as used in this Agreement shall mean those facilities which are required by Seller to deliver gas in accordance with the provisions hereof.

6. The term "Natural Gas Policy Act of 1978" as used in this Agreement shall mean that legislation enacted into law on November 9, 1978, and codified at 15 U.S.C.A. Sections 3301 et seq.

7. The terms "Federal Energy Regulatory Commission" or "Commission" as used in this Agreement shall mean the Federal Energy Regulatory Commission, its predecessor the Federal Power Commission, or any Board, Agency, or Official duly authorized by law to exercise the powers set forth in any applicable

provision of the Natural Gas Act, the Natural Gas Policy Act of 1978, or any subsequent legislation applicable to this Agreement.

8. The term "BTU" as used in this Agreement shall mean British thermal unit.

9. The term "MMBTU" as used in this Agreement shall mean one million (1,000,000) British thermal units.

10. The term "day" as used in this Agreement shall mean a period of twenty-four (24) consecutive hours beginning at seven (7:00) o'clock a.m. local time.

11. The term "month" as used in this Agreement shall mean the period beginning at seven (7:00) o'clock a.m. on the first (1st) day of a calendar month and ending at seven (7:00) o'clock a.m. on the first (1st) day of the next succeeding calendar month.

12. The term "year" as used in this Agreement, unless otherwise specified, shall mean the period beginning at seven (7:00) o'clock a.m. on the first (1st) day of a calendar year and ending at seven (7:00) o'clock a.m. on the first (1st) day of the next succeeding calendar year; provided, however, that the period from the date of first deliveries of gas hereunder until the first (1st) day of the next succeeding calendar year shall be deemed to be a year, and the period from seven (7:00) o'clock a.m. on the first (1st) day of the last calendar year during the term of this Agreement until seven (7:00) o'clock a.m. on the day next succeeding the day when this Agreement terminates shall be deemed to be a year.

SECTION B INSTALLATION OF FACILITIES AND FIRST DELIVERY OF GAS

1. Buyer agrees that it will either construct or cause to be constructed, with reasonable promptness and diligence following the execution of this Agreement, those of Buyer's facilities necessary and adequate to receive gas from Seller in the quantities herein provided.

2. Seller agrees that it will either construct or cause to be constructed, with reasonable promptness and diligence prior to or concurrently with the construction of Buyer's

facilities, those of Seller's facilities necessary and adequate to deliver gas into Buyer's facilities in the quantities herein provided.

3. First delivery of gas hereunder shall commence from the later of (i) the time the construction of the requisite facilities of both Buyer and Seller shall have been completed and the same are ready to be placed in operation, or (ii) the date hereof.

4. Notwithstanding any other provision of this Agreement, it is expressly understood and agreed that Buyer shall never be obligated to connect any well to its gathering system which is incapable of producing at least three hundred thousand (300,000) cubic feet of gas per day, attributable to the aggregate interest committed to Buyer in such well, at a delivery pressure equal to the lesser of one hundred five percent (105%) of Buyer's then prevailing gathering system pressure, or the maximum delivery pressure permitted hereunder, for each one (1) mile or fraction thereof of pipeline required to connect said well to Buyer's existing gathering system. If Buyer elects not to connect such a well, Seller shall have the right, at its option and sole cost, to deliver gas therefrom to Buyer at a delivery point designated by Buyer on its existing gathering system, which such point shall be deemed the delivery point for such gas for all purposes of this Agreement. If Buyer does not elect to connect such a well and if Seller elects not to deliver such gas to Buyer at such designated point, then the gas thereafter produced from such well from the reservoir in which it is then completed and the gas reserves contained in said reservoir underlying the acreage attributable to said well shall be released from the provisions of this Agreement if Seller shall give Buyer written notice of Seller's desire to obtain such release.

5. Notwithstanding paragraph 4. of this Section, Buyer and Seller agree that the delivery point for the following two wells shall be at the mouth of such wells or at the outlet of Seller's separator(s) or compressor(s), if installed:

Muddy Mudda #1 well

NW/4, Section 21, Township 24 North, Range 9 West
San Juan County, New Mexico

Irish #2 well

SE/4, Section 11, Township 26 North, Range 17 West
San Juan County, New Mexico

SECTION C
METERS

1. Buyer, at its sole cost and expense, shall install, maintain and operate at each delivery point a standard type orifice meter or meters by which the quantity of gas delivered hereunder shall be measured. Orifice meters shall be installed and operated in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, dated April 1955, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time. Buyer shall cause the charts on such meters to be changed each eight (8) days and at the end of each month, or at such other times as may be agreed upon by the parties hereto. The meters, meter readings and meter charts shall be accessible at all reasonable times to inspection and examination by Seller.

2. From time to time and at least once each three (3) months, the accuracy of Buyer's measuring equipment shall be verified by and at the expense of Buyer. If either party at any time shall notify the other that it desires a special test of any meter, the other party shall cooperate to secure an immediate verification of the accuracy of such meter and joint observation of any adjustments. If any such test shall be requested by Seller and upon such test, the measuring equipment shall be found to be registering correctly, the cost of such test shall be charged to Seller, otherwise the cost of all such tests shall be borne by Buyer. Buyer shall give notice to Seller of the time of all tests made pursuant to this SECTION C in order that Seller may conveniently have its representative present. Calibration and adjustment of Buyer's meters and changing of charts shall be

done only by Buyer.

3. If, upon any test, the percentage of inaccuracy shall be one percent (1%) or more, the registration of such meter shall be corrected at the rate of such inaccuracy for any period which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half (1/2) of the time elapsed since the date of the last calibration. Following any test, metering equipment found inaccurate shall be immediately restored by Buyer as closely as possible to a condition of accuracy. If, for any reason, any meter is out of service or out of repair so that the amount of gas delivered cannot be estimated or computed from the reading thereof, the amount of gas delivered through the period such meter is out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available, using the first of the following methods which is feasible:

(a) By using the registration of Seller's check meter if installed and accurately registering.

(b) By correcting the error if the percentage of error is ascertainable by calibration test or mathematical calculation.

(c) By estimating the quantity of deliveries by deliveries during preceding periods under similar conditions when the meter was registering accurately.

4. Seller may, at its option and expense, install and operate check meters to check Buyer's meters, but measurement of gas for the purpose of this Agreement shall be by Buyer's meter, except as hereinabove specifically provided to the contrary. Such check meters and equipment shall be so installed as not to interfere with the operation of the meters to be installed and maintained by Buyer at or near the points of delivery.

SECTION D GAS MEASUREMENT

1. The unit of volume for all purposes hereunder shall be one (1) cubic foot of gas at an absolute pressure of fourteen and seventy-three hundredths pounds (14.73#) per square

inch at a temperature of sixty degrees (60°) Fahrenheit.

2. The volumes of gas delivered hereunder shall be computed in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, dated April 1955, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time, applied in a practical and appropriate manner, and appropriate correction shall be made for deviation of the gas from Boyle's Law in accordance with said Gas Measurement Committee Report No. 3.

3. The temperature of the gas flowing through Buyer's meters shall be obtained by the use of a recording thermometer so installed by Buyer that it may properly record the temperature of such gas. The arithmetic average of the hourly temperature during the period gas passed shall be used to make proper computations of volume hereunder.

4. The specific gravity of the natural gas shall be determined by Buyer each six (6) months on or as near the first of each six (6) months' period as practicable, by calculation (compensated for any difference between the specific gravity in the ideal state and in the real state in accordance with published procedures adopted by the Gas Measurement Committee of the American Gas Association) utilizing the analysis of the natural gas determined in accordance with paragraph 5. of this SECTION D. The specific gravity so determined shall be used in computations for the measurement of gas delivered during such six (6) months' period.

5. The gas delivered hereunder shall be sampled by Buyer and tested by appropriate laboratory analyses each six (6) months during the term hereof for purposes of determining the total gross heating value thereof, the BTU content of which shall be utilized for any price adjustment for BTU content of the gas as may be required by Article V hereof.

For purposes of determining the number of BTUs per unit volume of gas hereunder, the BTU content of one (1) cubic foot of gas is the number of BTUs produced by the combustion, at constant pressure, of the amount of gas saturated with water vapor which

would occupy a volume of one (1) cubic foot at a temperature of sixty degrees (60°) Fahrenheit and under a pressure equivalent to that of thirty inches (30") of mercury at thirty-two degrees (32°) Fahrenheit, and under standard gravitational force (at 980.665 centimeters per second squared) with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas and air and when the water formed by combustion is condensed to the liquid state. Copies of each such analysis shall be furnished by Buyer to Seller. Should Seller not be satisfied with the results of such analyses, it shall notify Buyer in writing. Promptly thereafter, representatives of the parties shall obtain simultaneously under normal operating conditions two (2) samples of the gas from the well in question in appropriate sampling devices of the same type. Each of the parties shall take one (1) such sample and subject it to appropriate laboratory analysis to determine the total gross heating value thereof, reporting the results thereof in writing to the other. The average of the total gross heating value shown by such two (2) analyses shall be used for all purposes of this Agreement for the period covered by the analyses made by Buyer which gave rise to the joint determination.

6. Buyer shall give notice to Seller of the time of all tests of gas delivered hereunder or of any equipment used in measuring or determining the nature or quality of such gas in order that Seller may conveniently have its representative present. Should Seller not be satisfied with any such tests, it shall so notify Buyer and Buyer shall perform such retests as may be necessary to assure an accurate test. The costs of any such retests will be borne by Seller.

SECTION E QUALITY

1. The gas to be delivered by Seller to Buyer under the terms of this Agreement shall be natural gas as produced in its natural state from Seller's wells; provided, however, that such gas shall conform to the following specifications (determination as to conformity of the gas with these

specifications shall be made in accordance with the generally accepted procedures of the industry):

(a) Liquids: Seller shall install all drips, separators, and other conventional field devices which may be found necessary to separate crude oil, liquid hydrocarbons, or water in their liquid state at the temperature and pressure at which the gas is delivered hereunder so that such oil, liquid hydrocarbons, or water in the liquid state may be prevented from entering Buyer's gathering lines at the points of delivery hereunder, all such material so removed to remain the property of Seller. Seller shall, if required by Buyer to do so, install, own and operate, at its sole cost, dehydration facilities at the points of delivery hereunder so that said gas shall not contain more than seven pounds (7#) of water per one million (1,000,000) cubic feet.

(b) Sulphur Content: The gas shall not contain more than one-quarter ($1/4$) grain of hydrogen sulphide nor more than five (5) grains total sulphur per one hundred (100) cubic feet.

(c) Carbon Dioxide: The gas shall not contain more than three percent (3%) by volume carbon dioxide.

(d) Oxygen: The gas shall not, at any time have an oxygen content in excess of two-tenths (0.2) of one percent (1%) by volume, and Seller shall make every reasonable effort to keep the gas free of oxygen.

(e) Dust, Gums, etc.: The gas shall be commercially free of dust, gums and other solid matter.

(f) Temperature: The temperature of the gas shall not exceed one hundred twenty degrees (120°) Fahrenheit.

(g) Heating Value: The total gross heating value of the gas deliverable hereunder shall not be less than nine hundred seventy five (975) BTUs per cubic foot.

2. If any gas delivered hereunder shall at any time fail to meet the quality specifications of paragraph 1. of this SECTION E, Buyer may, at its option, refuse to accept deliveries of gas from such well; provided, however, that Seller shall have the right, at its option, at any time within ninety (90) days

after Buyer refuses to accept delivery of such gas from such well to commence the construction, at its sole cost, of treating facilities necessary to cause the gas produced from such well to meet said specifications and shall pursue the construction diligently to completion. In the event Seller so elects to commence the construction of treating facilities, Buyer shall continue to be obligated to purchase gas from such well hereunder so long as the gas tendered from such well continues to meet said specifications and the other requirements of this Agreement. In the event Buyer shall refuse to accept deliveries of gas from any such well and Seller shall not elect to install treating facilities as above provided, the gas thereafter produced from such well from the reservoir in which it is then completed and the gas reserves contained in said reservoir underlying the acreage attributable to said well shall be released from the provisions of this Agreement if Seller shall give Buyer written notice of Seller's desire to obtain such release and Buyer shall not within thirty (30) days thereafter agree to install and operate treating facilities necessary to cause the gas produced from such well to meet said specifications, in which event Buyer shall bear and pay all costs of treating except and to the extent all or a portion thereof is required by regulatory authority to be borne by Seller.

SECTION F BILLING AND PAYMENT

1. On or before the tenth (10th) day of each calendar month, Buyer shall provide Seller a statement showing the quantity of gas purchased by Buyer hereunder during the preceding calendar month. Payment for such quantity of gas, less all applicable taxes paid by Buyer for Seller's account (no taxes shall be paid by Buyer for Seller's account except by agreement between the parties or as required by law), shall be made by Buyer to Seller on or before the last day of the calendar month in which such statement is rendered. Notwithstanding the foregoing, Buyer shall not make any payments to Seller for gas produced from any well subject to this Agreement unless and until

Buyer has received, in form and substance satisfactory to Buyer, a Division Order substantially similar to the form set forth in Exhibit "C" hereof (or other similar document acceptable to Buyer) which sets forth the interests of each owner in such well; provided, however, that in no instance shall Seller's share of proceeds attributable to sales made under this Agreement be withheld or suspended by Buyer due to the failure of other contracted owners in Seller's wells to provide Buyer with a satisfactory Division Order.

2. Should any portions of the gas delivered and sold hereunder be entitled to different prices or require allocation of volumes, Seller shall cause to be furnished to Buyer on or before the fifth (5th) day of each calendar month an allocation percentage of the total volumes of gas delivered in a commingled stream to Buyer at the common points of delivery attributable to the properties described in Exhibit "A" hereto during the preceding calendar month for the account of Seller and Buyer shall be entitled to rely on such allocation percentage in making settlement for gas purchased hereunder.

3. In the event Buyer must rely upon Seller or any third party for any information necessary to compile monthly statements hereunder and, for any reason, Buyer does not receive such information by the fifth (5th) day of the month in which such statements are required to be rendered, then the due date for statement payments shall be extended by one (1) day for each day receipt of such information is delayed unless Buyer is responsible for such delay.

4. Upon request, Buyer shall furnish Seller the measurement charts applicable to any monthly statement. Seller shall return to Buyer all charts after a thirty (30) day period.

5. Any error or discrepancy in charts or statements shall be promptly reported to or by Buyer upon discovery thereof and Buyer shall make proper adjustment thereof within thirty (30) days after final determination of the correct volumes or values involved; provided, however, that if no such errors or discrepancies are reported within two (2) years from the date of such

chart or statement, the same shall be conclusively deemed to be correct. Except as specifically required by valid law, rule or regulation, no interest shall be payable on any such adjustment.

6. Seller shall have access to Buyer's records and books at all reasonable hours so far as they affect measurement and settlement for gas sold hereunder.

SECTION G RIGHTS OF SELLER

Seller expressly reserves for itself, its successors and assigns, the following prior rights with respect to the gas subject hereto:

(a) The right to deliver to lessors under any of the leases subject hereto, gas required in kind to meet the requirements of lessee's obligations under such leases to furnish gas to such lessors.

(b) The right to use gas reasonably required to develop and operate Seller's properties, including, but not limited to, gas for compressor fuel, and for drilling fluid, and the gas lifting of oil (limited, however, to use in a closed gas lift system).

(c) Subject to the other provisions of this Agreement, the control, management and operation of the properties subject to this Agreement shall be and remain the exclusive right of Seller. Seller may, in its sole uncontrolled discretion and as it deems advisable, repair or rework any well, renew or extend in whole or in part any lease or unit, and abandon any well or surrender, terminate or release all or any part of any lease which in Seller's sole opinion is incapable under normal production methods of producing gas in paying or commercial quantities.

(d) The right to pool, consolidate or unitize any of Seller's properties with other properties of Seller and of others, and to alter such consolidated areas or units, in any of which events this Agreement insofar as it pertains to such pooled, consolidated or unitized properties shall cover only Seller's allocated interest in such pool or unit and the gas production attributable thereto to the extent that such interest

relates to Seller's properties.

All gas taken by Seller pursuant to subparagraphs (a) and (b) above shall be taken upstream from Buyer's facilities.

SECTION H TAXES

Subject to the other provisions of this Agreement, Seller shall pay or cause to be paid all taxes and assessments imposed on Seller with respect to the gas delivered hereunder prior to its delivery to Buyer, and Buyer shall pay or cause to be paid all taxes and assessments imposed upon Buyer with respect to gas delivered hereunder after its receipt by Buyer. Neither party shall be responsible or liable for any taxes or other statutory charges levied or assessed against any of the facilities of the other party used for the purpose of carrying out the provisions of this Agreement.

SECTION I RESPONSIBILITY

Buyer shall not be responsible for the gas prior to its delivery hereunder and Seller shall hold Buyer harmless against any damage or injury caused thereby until same has been delivered to Buyer at the delivery point or points hereunder, after which delivery Buyer shall be deemed in exclusive control and possession thereof and responsible for said gas and shall hold Seller harmless against injury or damage caused thereby.

Each of the parties shall indemnify and hold the other harmless against any and all loss, damage, injury, liability, claims, and expense occasioned by damage to or loss of property or injury to or death of any person arising out of or connected with its respective operations and/or facilities installed hereunder.

SECTION J REGULATION OF FLOW

Buyer shall have the right at any and all times to regulate the flow of gas at the delivery points hereunder to meet its fluctuating demands, subject, however, to Seller's control to

the extent necessary to prevent such excessive rates of withdrawal as in Seller's opinion may result in well or reservoir damage. Buyer shall, as to any marginal well requiring continuous production because of water and/or liquid hydrocarbon accumulations in the well bore, cooperate with Seller in regulating the flow of gas from such well to the end that required production rates are maintained.

SECTION K
RIGHTS-OF-WAY

Seller hereby grants and assigns to Buyer, insofar as Seller has the right so to do, under the terms of its oil and gas leases covered hereby, all requisite easements and rights-of-way over, across and under properties covered hereby owned by or under lease to Seller with full right of ingress and egress for the purpose of constructing and operating gas pipelines, meter stations and other equipment necessary or convenient for carrying out the terms of this Agreement and Buyer's obligations hereunder. If Buyer shall deliver to Seller field notes describing any such easement or right-of-way, Seller will execute and deliver to Buyer an appropriate written instrument confirming such easement or right-of-way as so described. Buyer shall have the right to remove, repair and replace all or any part of Buyer's pipelines, meter stations, and other equipment and facilities, at any time during, and within a reasonable time after, the expiration of the term of this Agreement.

SECTION L
TITLE

Seller hereby warrants title to the gas sold by it hereunder and its right to sell the same and warrants that all such gas is owned by Seller free from all liens, encumbrances and adverse claims, including, but not limited to, liens to secure payment of production taxes, severance taxes and other taxes. As between Buyer and Seller, Seller shall at all times have the obligation to make settlement for all royalties, overriding royalties and other payments due to the owners of the mineral,

royalty, and other interests under Seller's leases, as modified by such assignments, unitization agreements and other documents as may appear of record or otherwise be binding upon Seller, and to make settlements with all other persons having any interest in the gas (or the proceeds of the sale thereof) sold by Seller hereunder. Seller shall save and hold Buyer free and harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of adverse claims of any and all persons to the gas sold by it hereunder or to royalties, overriding royalties or other payments with respect thereto, or to taxes, licenses, fees or charges thereon which are applicable before the title to the gas passes to Buyer or which may be levied and assessed upon the sale thereof to Buyer. In case of any adverse claim or claims to the title or proceeds attributable to any gas bought and sold hereunder, Buyer may, without otherwise affecting this Agreement, retain the purchase price thereof without interest, until such claim or claims are finally determined or, at Buyer's option, until Seller shall furnish Buyer a bond, in form and with sureties acceptable to Buyer, conditioned to save Buyer harmless.

SECTION M FORCE MAJEURE

Except for Buyer's obligations to make payment for gas delivered and received hereunder, neither party hereto shall be liable for any failure to perform the terms of this Agreement when such failure is due to force majeure as hereinafter defined. The term "force majeure" as employed in this Agreement shall mean failure of any third party necessary to performance by either party hereunder, acts of God, strikes, lockouts, or industrial disputes or disturbances, civil disturbances, arrests and restraint from rulers or people, interruptions by government or court orders, present and future valid orders of any regulatory body having proper jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure labor or inability to secure materials, including inability to secure materials by reason of allocations promulgated by authorized

governmental agencies, epidemics, landslides, lightning, earthquakes, fire, storm, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming force majeure. Upon the occurrence of an event constituting force majeure, the same shall, so far as possible, be remedied with all reasonable dispatch. The settlement of strikes or lockouts or industrial disputes or disturbances shall be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or industrial disputes or disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the discretion of the party having the difficulty.

SECTION N
RULES AND REGULATIONS

1. This Agreement is subject to all present and future valid laws and valid orders, rules and regulations of the United States, the State of New Mexico, or any duly constituted agency thereof.

2. This Agreement is entered into by the parties hereto with their understanding that the terms and provisions hereof and the gas to be delivered by Seller and received by Buyer hereunder are subject to the provisions of the Natural Gas Policy Act of 1978 and the applicable Rules and Regulations of the Federal Energy Regulatory Commission thereunder. Buyer represents that it holds a Certificate of Public Convenience and Necessity issued by the Federal Energy Regulatory Commission or otherwise has the necessary authority covering the construction, ownership and operation of Buyer's facilities. Seller represents that the gas which is the subject of this Agreement is not subject to the Federal Energy Regulatory Commission's jurisdiction under Section 1(b) of the Natural Gas Act; and, accordingly, pursuant to the provisions of the Natural Gas Policy Act of 1978,

Seller may commence deliveries of gas in interstate commerce to Buyer hereunder without first obtaining Commission authorization therefor.

SECTION 0
SUCCESSORS AND ASSIGNS

This Agreement shall bind and benefit the parties hereto and their respective successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding upon or affect the rights hereunder of the other party until such other party has been furnished with written notice, and certified copy of such recorded conveyance or transfer; provided, further, that either Buyer or Seller, or both, may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto, to a trustee or trustees, individual or corporate, as security for bonds or other obligations or securities, without such trustee or trustees assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee be a corporation, without its being required by the parties hereto to qualify to do business in the State of New Mexico, but no such assignment shall serve to relieve the assigning party of its obligations hereunder. No payment shall be made under this Agreement in accordance with any assignment until Buyer has received a Transfer Order or other appropriate document, in form and substance satisfactory to Buyer, evidencing the new division of interests resulting from said assignment. Payments to said new division of interests shall be made only for gas produced subsequent to the conveyance or transfer being made binding on the party making payments.

EL PASO NATURAL GAS COMPANY

DIVISION ORDER

To: El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79999

Date _____, 19__

Division Order No. _____

The undersigned, and each of us, certify and guarantee that we are the legal owners in the proportions set out below (or on the schedule attached hereto and made a part hereof) of an interest in the natural gas and components thereof, and are authorized to sell such interest in all gas produced from the hereinafter described land, including the royalty interest, which may be purchased by you from wells now or hereafter completed on the following described land:

PROPERTY IDENTITY CODE:

_____ County, State of _____
Effective _____ and until further written notice from you or us, you are hereby authorized to take into your pipe line the natural gas and components thereof produced from the above described acreage and make payment therefor as follows, in accordance with the terms of that certain Gas Purchase Agreement between El Paso Natural Gas Company and _____

_____ and all renewals or modifications thereof, subject to the following conditions as to payment:

PAYEE CODE NO.	CONTRACT CODE	CREDIT TO	ADDRESS	DIVISION OF INTEREST
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NOTICE - SETTLEMENT INFORMATION - Settlement will be made in accordance with this instrument and will be identified on check stubs and Settlement Statements by **PROPERTY IDENTITY (SLC Nos.), PAYEE AND CONTRACT CODES**. These codes should be maintained for payment identification. Questions concerning settlement, should include reference to the above assigned codes, to the attention of Gas Accounting Division.

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the 14th day of April 1986, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985, hereinafter referred to as "Agreement," covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba Counties, New Mexico, as more particularly described in Exhibit "A" thereto; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement, hereinafter referred to as "Letter Agreement," committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be amended and supplemented by adding thereto Seller's interest in the following described properties:

SELLER'S PROPERTIES:

Hill Federal #1 Well located in Section 24, Township 25 North, Range 2 West, Rio Arriba County, New Mexico; limited, however, to Gallup formation casinghead gas production from the proration unit acreage assigned to this well.

II.

Promptly after the date of this agreement, Buyer and Seller shall proceed diligently to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that aid gas is subject to the provisions of said Letter Agreement dated June 1, 1985.

III.

This Supplemental Gas Purchase Agreement shall become effective as of the date hereof. The agreement shall remain in full force and effect in accordance with its terms and provisions.

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) original counterparts, by their duly authorized officers, as of the date hereof.

"BUYER"

EL PASO NATURAL GAS COMPANY

By Charles R. Jack
Charles R. Jack
Vice President

"SELLER"

DUGAN PRODUCTION CORP.

By Thomas A. Dugan
THOMAS A. DUGAN
Title President

Taxpayer I. D. No. 85-0171448

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the first (1st) day of March 1986, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985, hereinafter referred to as "Agreement," covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba Counties, New Mexico, as more particularly described in Exhibit "A" thereto; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement, hereinafter referred to as "Letter Agreement," committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be amended and supplemented by adding thereto Seller's interest in the following described properties:

SELLER'S PROPERTIES:

<u>Lease No.</u>	<u>Location</u>	<u>Formation(s)</u>	<u>Acres</u>
V-1509 Mary Lou	T-24-N, R-10-W Section 32 NE/4, E/2 NW/4, S/2	Surface to Gallup	560
N00-C-1420-5825 Jim Thorpe	T-23-N, R-10-W Section 3 Lots 1 & 2 and S/2 NE/4	Surface to base of Gallup	159.42
N00-C-1420-7312 St. Louis	T-23-N, R-10-W Section 9 NE/4	Surface to base of Gallup	160
N00-C-1420-7313 Seoul	T-23-N, R-10-W Section 9 NW/4	Surface to base of Gallup	160
NM-54983 September	T-24-N, R-10-W Section 24 N/2 NE/4	Surface to Dakota	80
NM-62973	T-24-N, R-10-W Section 24 S/2 NE/4; NW/4	Surface to Dakota	120

II.

Promptly after the date of this agreement, Buyer and Seller shall proceed diligently to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that aid gas is subject to the provisions of said Letter Agreement dated June 1, 1985.

III.

This Supplemental Gas Purchase Agreement shall become effective as of the date hereof. The agreement shall remain in full force and effect in accordance with its terms and provisions.

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) original counterparts, by their duly authorized officers, as of the date hereof.

"BUYER"

EL PASO NATURAL GAS COMPANY

By Charles R. Jack
Charles R. Jack
Vice President

"SELLER"

DUGAN PRODUCTION CORP.

By Jim 1 Jack
Title Vice President

Taxpayer I. D. No. 85-0171448

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS SUPPLEMENTAL GAS PURCHASE AGREEMENT is made and entered into as of the 8th day of September 1986, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985, hereinafter referred to as "Agreement," covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba counties, New Mexico, as more particularly described in Exhibit "A" thereto; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement, hereinafter referred to as "Letter Agreement", committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be amended and supplemented by adding thereto Seller's interest in the following-described properties:

SELLER'S PROPERTIES:

<u>Lease No.</u>	<u>Location</u>
NM-7993 Tapacitos	T-26-N, R-2-W Sec. 13: S/2 S/2 Sec. 23: NE/4 and NW/4 SW/4 Sec. 24: E/2 and SW/4 Sec. 25: W/2 and SE/4 Sec. 26: SE/4, NW/4, N/2 SW/4 Sec. 36: W/2 and SE/4
NM-28709 Divide	T-26-N, R-2-W Sec. 35: All
NM-56650 Wendy	T-26-N, R-2-W Sec. 23: SE/4 and S/2 SW/4 Sec. 26: N/2 NE/4 and SW/4 NE/4
NM-56516	T-26-N, R-2-W Sec. 26: SE/4 NE/4

All located in Rio Arriba County, New Mexico; limited, however, to gas production from the surface of the earth to the base of the Dakota formation.

II.

Promptly after the date of this Supplemental Gas Purchase Agreement, Buyer and Seller shall proceed diligently to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that said gas is subject to the provisions of said Letter Agreement dated June 1, 1985.

III.

This Supplemental Gas Purchase Agreement shall become effective as of the date hereof. This agreement shall remain in full force and effect in accordance with its terms and provisions.

ATTACHMENT TO
LETTER AGREEMENT
DATED DECEMBER 1, 1986
BETWEEN
EL PASO NATURAL GAS COMPANY
AND
DUGAN PRODUCTION CORP.
(Page 2)

WELL NAME	UNIT-SEC-TNSHP-RNG	FORMATION	PRORATION UNIT
Fabulous Feb #1	D-31-24N-9W	Gallup	N/2 NW/4
Fairway #1	M-1-23N-10W	Gallup	SW/4 SW/4
Gold Medal #1	H-34-24N-10W	Gallup	E/2 NE/4
Gold Medal #2	K-33-24N-10W	Gallup	N/2 SW/4
Jim Thorpe #1	G-3-23N-10W	Gallup	W/2 NE/4
July Jubilee #1	G-30-24N-9W	Gallup	S/2 NE/4
July Jubilee #1	G-30-24N-9W	Dakota	E/2
July Jubilee #2	D-29-24N-9W	Gallup	N/2 NW/4
July Jubilee #3	L-29-24N-9W	Gallup	N/2 SW/4
June Joy #2	B-25-24N-10W	Gallup	N/2 NE/4
Lake Placid #1	I-4-23N-10W	Gallup	E/2 SE/4
Marathon #1	A-4-23N-10W	Gallup	E/2 NE/4
Mary Lou #1	A-32-24N-10W	Gallup	E/2 NE/4
Mary Lou #2	G-32-24N-10W	Gallup	W/2 NE/4
Merry May #1	I-24-24N-10W	Gallup	N/2 SW/4
MF #1	L-18-24N-9W	Gallup	N/2 SW/4
MF #2	P-13-24N-10W	Dakota	S/2
MF #3	I-14-24N-10W	Dakota	S/2
MF #3	I-14-24N-10W	Gallup	N/2 SE/4
MF #4	H-14-24N-10W	Gallup	S/2 NE/4
Montreal #1	C-4-23N-10W	Gallup	E/2 NW/4
Oktoberfest #1	A-36-24N-10W	Gallup	E/2 NE/4
Olson #1	I-11-23N-10W	Gallup	E/2 SE/4
Olympic #1	I-3-23N-10W	Gallup	E/2 SE/4
Seoul #88	A-9-23N-10W	Gallup	E/2 NE/4
September #15	A-24-24N-10W	Dakota	N/2
Silver Medal #1	M-27-24N-10W	Gallup	W/2 SW/4
Squaw Valley #1	K-4-23N-10W	Gallup	E/2 SW/4
St. Louis #12	C-9-23N-10W	Gallup	E/2 NW/4
Wit's End #1	O-2-23N-10W	Gallup	S/2 SE/4
Wit's End #2	I-2-23N-10W	Gallup	N/2 SE/4
Wit's End #3	K-2-23N-10W	Gallup	N/2 SW/4
Wit's End #4	M-2-23N-10W	Gallup	S/2 SW/4
Wit's End #5	M-2-23N-10W	Pictured Cliffs	SW/4
Witty #2	G-12-23N-10W	Gallup	S/2 NE/4
Witty #3	E-12-23N-10W	Gallup	S/2 NW/4
Witty #4	C-12-23N-10W	Gallup	N/2 NW/4
Witty #5	A-12-23N-10W	Gallup	N/2 NE/4

All wells located in San Juan County, New Mexico.

Merry May #1	I-24-24N-10W	Dakota	S/2
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ATTACHMENT TO
LETTER AGREEMENT
DATED DECEMBER 1, 1986
BETWEEN
EL PASO NATURAL GAS COMPANY
AND
DUGAN PRODUCTION CORP.

WELL NAME	UNIT-SEC-TNSHP-RNG	FORMATION	PRORATION UNIT
Okie #1	P-8-24N-8W	Pictured Cliffs	SE/4
Mountain #1	J-15-24N-8W	Pictured Cliffs	SE/4
Mesa #2	C-16-24N-8W	Pictured Cliffs	NW/4
Mesa #3	O-16-24N-8W	Pictured Cliffs	SE/4
Bowers #1	A-17-24N-8W	Pictured Cliffs	NE/4
Lee's Ferry #1	L-19-24N-8W	Gallup	NW/4 SW/4
Kaibab Trail #1	M-20-24N-8W	Gallup	SW/4 SW/4
Phantom Ranch #1	F-21-24N-8W	Gallup	SE/4 NW/4
Lava Falls #1	J-27-24N-8W	Gallup	NW/4 SE/4
Bumble #2	D-27-24N-8W	Gallup	NW/4 NW/4
Bright Angel #1	L-27-24N-8W	Gallup	NW/4 SW/4
Buddha Temple #1	I-30-24N-8W	Pictured Cliffs	SE/4
Chaco #3	F-1-24N-9W	Dakota	NW/4
Blanco Wash #5	L-1-24N-9W	Dakota	NW/4 SW/4
Blanco Wash #1	J-2-24N-9W	Dakota	NW/4 SE/4
Blanco Wash #2	F-2-24N-9W	Dakota	SE/4 NW/4
Blanco Wash #3	L-2-24N-9W	Dakota	NW/4 SW/4
Blanco Wash #4	A-2-24N-9W	Dakota	NE/4 NE/4
Pac Ten #1	P-7-24N-9W	Gallup	S/2 SE/4
Elwood P. Dowd #1	P-10-24N-9W	Pictured Cliffs	SE/4
Elwood P. Dowd #2	P-10-24N-9W	Dakota	SE/4 SE/4
Blanco Wash #7	E-11-24N-9W	Dakota	SW/4 NW/4
So. Huerfano Fed #1	M-15-24N-9W	Gallup	SW/4 SW/4
Holly #1	L-16-24N-9W	Gallup	N/2 SW/4
Holly #1	L-16-24N-9W	Dakota	S/2
Ivy League #1	A-17-24N-9W	Gallup	N/2 NE/4
WAC #1	D-17-24N-9W	Gallup	N/2 NW/4
Harvey #2	F-20-24N-9W	Dakota	N/2
Muddy Mudda #1	D-21-24N-9W	Gallup	N/2 NW/4
Muddy Mudda #1	D-21-24N-9W	Dakota	N/2
Largo Federal B #1	A-22-24N-9W	Gallup	NE/4 NE/4
Good Times Gathering System NE (CPD)	A-13-24N-10W		
April Surprise #2	L-30-24N-9W	Dakota	W/2
April Surprise #3	D-19-24N-9W	Gallup	W/2
April Surprise #4	L-19-24N-9W	Gallup	N/2 SW/4
April Surprise #4	L-19-24N-9W	Dakota	S/2
April Surprise #5	B-7-23N-9W	Gallup	W/2 NE/4
April Surprise #6	H-7-23N-9W	Gallup	E/2 NE/4
August #1	M-35-24N-10W	Gallup	W/2 SW/4
Bronze Medal #1	D-3-23N-10W	Gallup	N/2 NW/4
December Dream #1	C-7-23N-9W	Gallup	N/2 NW/4

El Paso
Natural Gas Company

868 D
870 D
5359
4347

P. O. BOX 1492
EL PASO, TEXAS 79978
PHONE 915-541-2600

December 1, 1986

Dugan Production Corp.
609 Bloomfield Road
Farmington, New Mexico 87499-0208

Re: Release Gas
Various Wells

Gentlemen:

Reference is made to your letter dated December 4, 1986 wherein you have requested a release from contract of your attributable interest in gas production from certain wells for sale to an alternate market.

In order to comply with your request, El Paso Natural Gas Company ("Buyer") and Dugan Production Corp. ("Seller") hereby mutually agree to release from contractual dedication those wells listed on the Attachment hereto, subject to the following provisions:

- 1) Those wells which are not subject to the jurisdiction of the Federal Energy Regulatory Commission ("Commission") under Section 1(b) of the Natural Gas Act, shall be released from contract effective as of the date hereof. Those wells which are subject to the Commission's jurisdiction under Section 1(b) of the Natural Gas Act shall be released from contract upon receipt of abandonment authority from the Commission.
- 2) Buyer and Seller agree that, except for Buyer's obligation to pay for gas already taken under the applicable contract(s) for which monthly settlement has not occurred as of the date hereof, both parties shall be deemed to have met any and all of their respective obligations under the contract(s) as to the wells hereby released.

If the foregoing is in accordance with your understanding and agreement, please so indicate by signing this Letter Agreement in the space provided below.

Very truly yours,

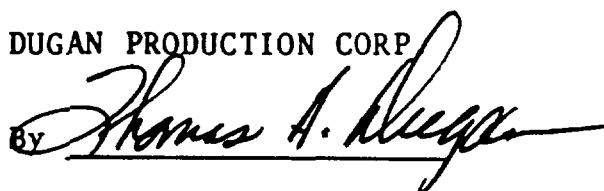
EL PASO NATURAL GAS COMPANY

By


Charles R. Jack
Vice President

Agreed to and Accepted:

DUGAN PRODUCTION CORP

By 

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) original counterparts, by their duly authorized officers, as of the date hereof.

"BUYER"

EL PASO NATURAL GAS COMPANY

By Charles R. Jack
Charles R. Jack
Vice President

7/12

"SELLER"

DUGAN PRODUCTION CORP.

By Thomas A. Dugan
Title Thomas A. Dugan, President

Taxpayer I. D. No. 85-0171448

SUPPLEMENTAL GAS PURCHASE AGREEMENT

THIS SUPPLEMENTAL GAS PURCHASE AGREEMENT is made and entered into as of the 1st day of December 1986, by and between EL PASO NATURAL GAS COMPANY, hereinafter referred to as "Buyer," and DUGAN PRODUCTION CORP., hereinafter referred to as "Seller."

WITNESSETH:

WHEREAS, Buyer and Seller entered into that certain Gas Purchase Agreement dated June 1, 1985, hereinafter referred to as "Agreement," covering the purchase and sale of gas produced from Seller's properties located in San Juan and Rio Arriba counties, New Mexico, as more particularly described in Exhibit "A" thereto; and

WHEREAS, contemporaneously and of even date with said Agreement, Buyer and Seller entered into a certain Letter Agreement, hereinafter referred to as "Letter Agreement," committing Buyer to purchase certain minimum quantities of new gas production attributable to Seller's planned development activities during calendar years 1985 through 1987 in the San Juan Basin area of New Mexico and Colorado; and

WHEREAS, said Agreement and Letter Agreement are in full force and effect; and

WHEREAS, Buyer and Seller now desire to amend said Agreement to cover Seller's interest in additional properties.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, Buyer and Seller agree as follows:

I.

Exhibit "A" of said Agreement shall be amended and supplemented by adding thereto Seller's interest in the following-described properties:

SELLER'S PROPERTIES:

<u>Lease No.</u>	<u>Location</u>	<u>Formation</u>	<u>Acres</u>
LG-3924 Kenny	T23N, R7W Sec. 36: All Sandoval County, NM	Surface to base of Gallup	640.0
NOG-8505-1062 Louie Louie	T23N, R9W Sec. 8: SW/4 San Juan County, NM	Surface to base of Gallup	160.0
NM-54980 Buddha Temple	T24N, R8W Sec. 30: SE/4 San Juan County, NM	Surface to base of Pictured Cliffs	160.0

II.

Promptly after the date of this Supplemental Gas Purchase Agreement, Buyer and Seller shall proceed diligently to do all things necessary to effectuate the delivery and receipt of gas covered hereby, it being understood and agreed by the parties hereto that said gas is subject to the provisions of said Letter Agreement dated June 1, 1985.

III.

This Supplemental Gas Purchase Agreement shall become effective as of the date hereof. This agreement shall remain in full force and effect in accordance with its terms and provisions.

IN WITNESS WHEREOF, the parties have caused this Supplemental Gas Purchase Agreement to be executed in two (2) original counterparts, by their duly authorized officers, as of the date hereof.

"BUYER"

EL PASO NATURAL GAS COMPANY

By Charles R. Jack
Charles R. Jack
Vice President B

"SELLER"

DUGAN PRODUCTION CORP.

By Thomas A. Dugan
Thomas A. Dugan
Title President

Taxpayer I. D. No. 85-0171448