



STATE OF NEW MEXICO  
**ENERGY AND MINERALS DEPARTMENT**  
 OIL CONSERVATION DIVISION  
 HOBBS DISTRICT OFFICE

5-29-87

GARREY CARRUTHERS  
 GOVERNOR

POST OFFICE BOX 1980  
 HOBBS, NEW MEXICO 88241-1980  
 (505) 393-6161

OIL CONSERVATION DIVISION  
 P. O. BOX 2088  
 SANTA FE, NEW MEXICO 87501

RE: Proposed:

MC \_\_\_\_\_  
 DHC \_\_\_\_\_  
 NSL \_\_\_\_\_  
 NSP \_\_\_\_\_  
 SWD  \_\_\_\_\_  
 WFX \_\_\_\_\_  
 PMX \_\_\_\_\_

Gentlemen:

I have examined the application for the:

*Mercoils Inc. (Arco) Mescalero Ridge unit MA #31 L*  
 Operator Lease & Well No. Unit S-T-R *21-19-34*

and my recommendations are as follows:

*OK JJ*

Yours very truly,

*Jerry Sexton*  
 Jerry Sexton  
 Supervisor, District 1

/ed

## Saltwater Disposal Well Conversion Agreement

THIS AGREEMENT, may be executed in one or more counterparts on the various dates set forth below but is effective as of the 1st day of December, 1986, by and between Atlantic Richfield Company, El Paso Natural Gas Company, Pennzoil Company, and Wainoco Oil & Gas Company (hereinafter Mescalero Ridge Unit Partners or "Partners") as the leasehold/working interest owners of certain lands located in Lea County, New Mexico, and a certain well, the Mescalero Ridge Unit MA #31 Well, located 1980' FSL and 660' FWL Section 21, Township 19 South, Range 34 East, NMPM, Lea County, New Mexico (hereinafter "Subject Well"), and MorOil, Inc. ("MorOil") with an address at P. O. Drawer I, Artesia, New Mexico 88210.

WHEREAS, MorOil desires to use the Subject Well for the injection and underground disposal of produced saltwater and brine, and;

WHEREAS the Partners desire to permit MorOil to conduct such operations at its sole cost, risk and expense;

NOW THEREFORE, in consideration of the mutual covenants, agreements and benefits to be derived herefrom, the parties hereto agree as follows:

1. The permission and authority granted hereby is as to the wellbore only of the Subject Well. No leasehold, working interest or operating rights other than those incidental to the exercise of said conversion rights are granted herein and further, such conversion, disposal and injection rights shall pertain only to the Queen and Yates formations and no other formations. MorOil is hereby granted the right to re-enter the Subject Well at its sole cost, risk and expense to conduct such conversion, disposal and injection operations.

2. MorOil shall conduct all such operations at its sole cost, risk and expense and shall save, hold harmless and indemnify the Partners and each of them jointly and severally from any and all loss, injury, damage, claims, demands, liability, lawsuits, and causes of action of every kind and character, arising out of or resulting from MorOil's operations of the Subject Well and wellbore including but not limited to damage to any aquifer or hydrocarbon-bearing formation, spills or other environmental damage and, including reasonable attorneys' fees.
  
3. In connection with such disposal and injection operations, MorOil shall be solely responsible for obtaining all required permits, approvals and permission of any federal, state or local agency having jurisdiction over the operation. MorOil shall safely and lawfully treat, store, inject, dispose, cleanup and make such reports as are required by law. MorOil shall conduct all operations as a prudent operator and in a good and workmanlike manner and it shall comply with all applicable laws, regulations, ordinances and directives of any governmental agency having jurisdiction over its operations hereunder.
  
4. In the event that there is any excess disposal capacity in the Subject Well and wellbore, the Partners shall have a first and preferential right over any third persons as to such excess disposal capacity and shall pay a sum per barrel of produced saltwater or brine disposed in Subject Well and wellbore commensurate with the rates prevailing in the area.

5. MorOil shall give written notice to the Partners at least sixty (60) days prior to the proposed plugging and abandoning of the Subject Well. Such notice may be sent and effective as to the Partners if sent in care of Atlantic Richfield Company, P. O. Box 1610, Midland, Texas 79702, Attention: Operations Department. Within such sixty (60) day period, the Partners shall have the option, but not the obligation, to take over the well at their sole cost, risk and expense, thereby relieving MorOil of any further cost, risk, expense or obligation, and said Partners may obtain the Subject Well and wellbore and appurtenant fixtures, machinery and equipment in its then-existing condition by paying to MorOil the reasonable salvage value of any salvageable material in the hole, less the cost of salvaging same. If the Partners elect not to take over the Subject Well, MorOil shall be required and hereby agrees that it will duly and properly plug and abandon the well in accordance with all applicable rules and regulations, including but not limited to, those established by the New Mexico Oil Conservation Division, and at MorOil's sole cost, risk and expense. Further, MorOil will be responsible for all surface damage caused by MorOil in conducting its operations and shall restore and reclaim the surface in and around the Subject Well to the fullest extent practicable.
6. This Agreement shall be for a term of one (1) year from the effective date hereof and shall thereafter continue in full force and effect on a year-to-year basis and so long thereafter as the Subject Well is properly, safely, lawfully and prudently used for the described disposal operations unless sooner terminated by ARCO for breach of MorOil's obligations and duties hereunder upon sixty (60) days prior written notice, after which all rights and obligations of the parties shall cease except for MorOil's continuing obligation to properly plug and abandon the Subject Well.

7. MorOil shall be responsible to make sure that all waters disposed of in Subject Well are chemically compatible with all other waters disposed of in the Subject Well and that all operations hereunder are conducted properly, safely and lawfully by MorOil. MorOil shall be deemed for all purposes hereunder as an independent contractor and, neither an employee, nor agent nor servant of the Partners; Partners shall have no control or supervision over MorOil's operations hereunder. Title to all waste received by MorOil and further treated or handled by MorOil shall at all times be and remain in MorOil.
8. This Agreement may not be modified or amended except in writing signed by all the parties hereto.
9. This Agreement shall be deemed to covenant running with the Subject Well and lands and shall inure to the benefit of the respective parties' successors and assigns.
10. The Partners agree that they will execute such other and further instruments as may be necessary to allow MorOil full access to and ingress and egress to Subject Well, including the use of any roads and the conveyance of any easements or rights-of-way necessary or incidental to the operation of the Subject Well.
11. This Agreement may be executed in two or more original counterparts, but all such counterparts shall nonetheless be deemed one original for all purposes.

EXECUTED this 1st day of December, 1986, but effective  
as of the date first set forth above.

"PARTNERS"

Atlantic Richfield Company

By: *E. J. ...* *resp*

El Paso Natural Gas Company

By: \_\_\_\_\_

Pennzoil Company

By: \_\_\_\_\_

Wainoco Oil & Gas Company

By: \_\_\_\_\_

"MOROIL"

MorOil, Inc.

By: *Frank A. Murg...*

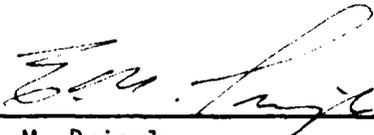




EXECUTED this 1st day of December, 1986, but effective  
as of the date first set forth above.

"PARTNERS"

Atlantic Richfield Company

By:  *ESP*  
E. M. Pringle  
Attorney-in-Fact

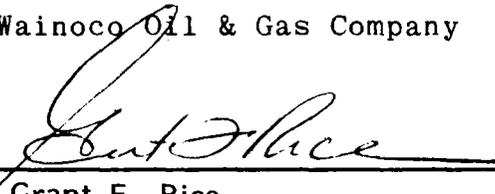
El Paso Natural Gas Company

By: \_\_\_\_\_

Pennzoil Company

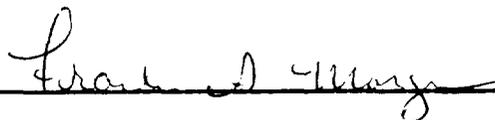
By: \_\_\_\_\_

Wainoco Oil & Gas Company

By:   
Grant F. Rice  
Vice President - Land

"MOROIL"

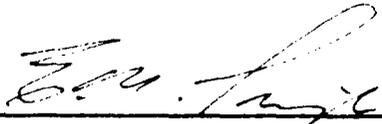
MorOil, Inc.

By: 

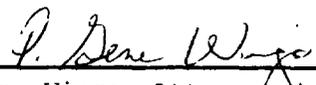
EXECUTED this 1st day of December, 1986, but effective  
as of the date first set forth above.

"PARTNERS"

Atlantic Richfield Company

By:    
E. M. Pringle  
Attorney-in-Fact

El Paso Natural Gas Company

By:   
P. Gene Wingo, Attorney-in-Fact

Pennzoil Company

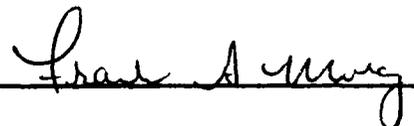
By: \_\_\_\_\_

Wainoco Oil & Gas Company

By: \_\_\_\_\_

"MOROIL"

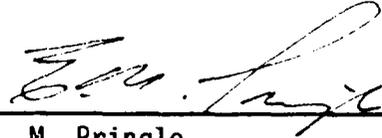
MorOil, Inc.

By: 

EXECUTED this 1st day of December, 1986, but effective  
as of the date first set forth above.

"PARTNERS"

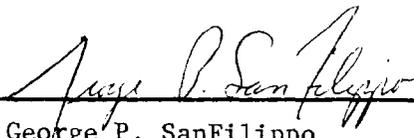
Atlantic Richfield Company

By:  APB  
esp  
E. M. Pringle  
Attorney-in-Fact

El Paso Natural Gas Company

By: \_\_\_\_\_

Pennzoil Company

By:  RUC  
George P. SanFilippo  
Attorney-in-Fact

Wainoco Oil & Gas Company

By: \_\_\_\_\_

"MOROIL"

MorOil, Inc.

By: 