

DALLAS, TEXAS

NATURAL GAS PURCHASE CONTRACT

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THIS AGREEMENT, made and entered into as of the 1st day of January, 1956, by and between HUMBLE OIL & REFINING COMPANY, a Texas corporation (hereinafter called "Seller"), and SOUTHERN UNION GAS COMPANY, a Delaware corporation (hereinafter called "Buyer"),

W I T N E S S E T H :

WHEREAS, Seller represents that it is the unqualified owner and holder of one or more valid and subsisting oil and gas leases or interests in leases which cover and affect the lands subject to this agreement, and that it has full power and authority to enter into this agreement so as to be binding upon Seller and its successors and assigns; and

WHEREAS, Seller by virtue of its aforesaid leases has an interest in certain wells which have been drilled and completed on the lands subject to this agreement and are capable of producing natural gas in commercial quantities from the Pictured Cliffs and deeper formations; and

WHEREAS, Seller desires to sell and Buyer desires to purchase, under the terms and conditions of and to the extent provided in this agreement, merchantable natural gas producible to Seller's interest from the existing wells and from other wells hereafter completed on the lands subject to this agreement which are capable of producing natural gas in commercial quantities:

NOW, THEREFORE, in consideration of the premises and the mutual covenants and promises herein contained, the parties hereto agree as follows:

I.

SUBJECT LANDS

The lands subject to this agreement (hereinafter referred to as the "Subject Lands"), all located in Rio Arriba and Sandoval Counties, New Mexico, and the oil and gas leasehold interests which Seller represents that it owns and holds in the various portions thereof, are set forth in Exhibits "A" and "B" annexed hereto and made a part hereof for all purposes.

II.

CONNECTION OF WELLS

Section 1. Buyer agrees to proceed, as soon as is practicable, with the construction of a gathering pipeline from a point of connection with its gas transmission system in northwestern New Mexico to a point immediately adjacent

to each of the existing wells located on the Subject Lands described in Exhibit "A" hereto, at which point same will be connected with Seller's delivery line extending from such well, or if Seller so elects, from the outlet side of Seller's field separator serving such well. Buyer will complete such gathering lines and commence the purchase of gas hereunder from each of said existing wells within ninety (90) days after the date of this contract.

Section 2. Buyer shall, at its own cost and expense, lay a similar gathering pipe line within ninety (90) days after having been requested by Seller in writing to do so, to each additional well or group of wells of Seller, whether now or hereafter drilled, on any of the Subject Lands, which shall be capable of delivering hereunder at least five hundred (500) M.C.F. of gas per day against the working pressure then being maintained by Buyer in its lines pursuant to the provisions of Article VII hereof for each mile of new gathering line required to be constructed by Buyer for the connection of such well or wells; provided, however, that Buyer shall not be required so to extend its gathering system to any well unless such well is capable of delivering hereunder against the aforesaid working pressure at least four hundred (400) M.C.F. of gas per day.

Section 3. If for any reason any well located on the Subject Lands described in Exhibit "A" hereto shall not be connected to Buyer's pipeline within ninety (90) days after Buyer is notified in writing by Seller of the completion thereof, then such well and the drilling unit upon which it is located shall, at Seller's option, be released from this contract if Seller gives Buyer written notice to such effect and Buyer fails to connect said well to its pipe line within thirty (30) days after receipt of such notice.

Section 4. If for any reason any well located on the Subject Lands described in Exhibit "B" hereto shall not be connected to Buyer's pipe line within ninety (90) days after (a) Buyer has completed construction of a gathering pipe line crossing or extending within one (1) mile of any portion of the lease block upon which the well is located, or (b) Buyer is notified in writing by Seller of the completion of such well, whichever date is the later, or, in the absence of construction of such a gathering pipe line by Buyer, within two (2) years after the date of this contract, then such well and the drilling unit upon which it is located shall, at Seller's option, be released from this contract if Seller gives Buyer written notice to

such effect and Buyer fails to connect said well to its pipeline within thirty (30) days after receipt of such notice.

III.

SALE AND PURCHASE OF GAS

Subject to the terms and conditions of this agreement, Seller will produce, sell and deliver to Buyer and Buyer will purchase, receive and pay for all natural gas lawfully produced from time to time to Seller's interest from the wells on the Subject Lands which are connected to Buyer's lines.

IV.

POINTS OF DELIVERY

The point(s) of delivery of gas hereunder shall be at the point(s) of connection between Buyer's facilities and those of Seller, and gas shall be considered delivered to and taken by Buyer at said point(s). Seller shall be responsible for the safe conduct and handling of gas until it reaches the point of delivery, at which point title to such gas, as well as the responsibility for its safe conduct and handling, shall pass to Buyer. Each party hereto shall maintain the facilities owned by it and located on the Subject Lands in good, safe, efficient operating condition and repair.

V.

UNIT OF MEASUREMENT

Section 1. The unit of measurement of natural gas for all purposes of this contract shall be one thousand (1,000) cubic feet (1 M.C.F.) of gas at a base temperature of sixty degrees Fahrenheit (60^o F.) and at a base pressure of fifteen and twenty-five one-thousandths (15.025) pounds per square inch absolute, and the readings and registrations of the metering equipment herein provided for shall be computed into such units in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, dated April, 1955, of the American Gas Association, except that deviation from the Ideal Gas Laws will be considered only when the pressure of gas passing through Buyer's meters is in excess of one hundred (100) pounds per square inch gauge.

Section 2. In the measurement of gas hereunder the following factors shall be given due consideration:

(a) Having due regard for the difference in altitude and location of the various portions of the Subject Lands, it is agreed that for purposes of measurement calculations the average atmospheric pressure at all points of delivery hereunder shall be deemed to be

eleven and four-tenths (11.4) pounds per square inch.

(b) The temperature of the gas passing through Buyer's meters shall be determined by the use of recording thermometers of standard type so installed and maintained by Buyer that they may properly record the flowing temperature of the gas at each point of delivery hereunder. The arithmetical average of the temperatures recorded during each meter chart period shall be used in computing gas volumes for such period.

(c) The specific gravity of the gas delivered hereunder shall be determined by spot tests made with an Edwards type balance or by such other method as shall be agreed upon between the parties. The specific gravity of the gas delivered hereunder shall be determined at least once every ninety (90) days or at such other intervals as may be agreed to by the parties hereto as appropriate to insure accurate measurement. Each test shall determine the specific gravity to be used in computation for the measurement of natural gas delivered until the next succeeding test. Not less than fifteen (15) days prior to the making of any such test, Buyer shall give Seller written notice of the time and place thereof so that Seller, if Seller so elects, may have a representative present to observe the tests.

Section 3. It is agreed that if by reason of valid law, order or regulation, there shall be prescribed as to any gas delivered hereunder any basis for measurement or computation of gas volumes differing from that set forth above in this Article V, then the applicable prices set forth and/or provided for in Articles VIII and IX hereof shall forthwith be adjusted and corrected to compensate for the change(s) thus effected in the basis of measurement or computation of volumes of gas delivered hereunder, it being the intention of the parties that no change so effected in the basis of measurement or computation of gas volumes shall affect in any way the total price to be paid for volumes of gas delivered hereunder.

VI.

METERS

Section 1. All gas delivered to Buyer hereunder shall be measured by means of orifice meters of standard type which shall be installed, operated and maintained by Buyer together with all appurtenant field equipment necessary accurately to measure and record the volumes of gas delivered. Such meters shall be placed in

Buyer's gathering lines at points to be determined by Buyer as near as may be practicable to the respective points of delivery hereunder. From time to time and at least once in each three (3) months, the accuracy of Buyer's measuring equipment shall be verified by and at the expense of Buyer in the presence of Seller's representative(s) in the event Seller elects to have same present, and Seller's said representative(s) shall have the right to observe any adjustments which are made in such measuring equipment by 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 a joint observation of any adjustment. Buyer shall give Seller not less than fifteen (15) days advance written notice of the time of all tests in order that Seller may conveniently have its representative(s) present. Reading, calibration and adjustment of Buyer's meters and the changing of charts shall be done only by Buyer. The records from Buyer's measuring equipment shall remain the property of Buyer, but upon request Buyer shall submit to Seller its records and charts, together with its calculations therefrom, for inspection and verification, subject to return by Seller within twenty (20) days after its receipt thereof. All such charts and other similar records (or microfilm copies thereof) shall be preserved by Buyer for a period of at least five (5) years.

Section 2. Buyer shall keep all meters and other measuring equipment installed by it hereunder in good operating condition. Such meters shall be kept in condition to register accurately all gas passing through same, but errors not exceeding two per cent (2%) in the registration of a meter shall not be considered as rendering the meter inaccurate within the meaning of this agreement. Following any test, metering equipment found to be inaccurate shall be immediately repaired and/or adjusted so as to reflect zero error when checked with appropriate test equipment. If for any reason a meter should become inaccurate or out of service or repair so that the amount of gas delivered through same cannot be accurately ascertained or computed by the reading thereof, the gas delivered during the period such meter is inaccurate, out of service or repair, shall be estimated and agreed upon by the parties upon the basis of the best data available, using the first of the following methods that shall be feasible:

(a) By using the registration of Seller's check meter, if one has been installed and is accurately registering, it being understood that Seller may, at its option and expense, install check meters and appurtenant equipment upstream of Buyer's measuring equipment for the purpose of checking against the registration of the meters installed by Buyer; or

(b) By correcting the error if the extent thereof is ascertainable by calibration test or mathematical calculation; or

(c) By estimating the quantity of delivery from comparison with deliveries made during preceding periods under similar conditions during which the meter was registering accurately.

Section 3. Adjustments between the parties to correct for inaccuracies in measurement shall be limited to the period during which the inaccuracy is definitely known to have existed, and if such period is not definitely ascertainable, adjustments shall be limited to a period of one-half (1/2) of the time elapsed since the date of the last calibration.

VII.

DELIVERY PRESSURE

Section 1. Except as hereinafter in this Article VII provided, Buyer shall take gas hereunder at natural well-head pressures, and shall have the right to operate its gathering system(s) to which Seller's wells on the Subject Lands are connected on such a basis as will produce a working pressure at each point of delivery up to but not exceeding six hundred (600) pounds per square inch gauge.

Section 2. As to each of the gathering systems by means of which Buyer may from time to time be purchasing gas produced from any portion of the Subject Lands, Buyer represents that it contemplates a gradual reduction in the pressure in such gathering system consistent with the decline in pressure in the reservoir from which the gas covered hereby is being produced, and agrees from time to time to lower the working pressure in such gathering system consistent with such decline in reservoir pressure to such a pressure (herein referred to as the "Maximum Gathering Pressure") as is necessary to permit at least eighty per cent (80%) of all wells producing from such reservoir at the time and connected to Buyer's said gathering system to deliver gas into such gathering system; provided, however, that Buyer shall never in any event be obligated to reduce such Maximum Gathering Pressure to less than two hundred (200) pounds per square inch gauge or be required to take or pay for gas not deliverable into Buyer's gathering system against the Maximum Gathering Pressure maintained therein from time to time in accordance with the provisions of this Article; and provided further that Seller, at its option and own expense, may at any time increase by compression the pressure of gas from any well or wells covered by this agreement so as to make same deliverable into Buyer's gathering system.

Section 3. It is further recognized by the parties hereto that when there has been a sufficient decline in the pressure of the wells connected to any

gathering system of Buyer it may be necessary for Buyer to install and operate compression facilities to increase the pressure of the gas delivered to Buyer from the wells of Seller covered hereby and from the wells of other producers connected to the same gathering system. In the event compression facilities are so installed and operated by Buyer, the price to be paid by Buyer for gas delivered hereunder shall be adjusted as provided in Section 2 of Article VIII hereof.

Section 4. The foregoing provisions of Sections 1 and 3 of this Article shall be applicable only to the production, gathering and compression of gas produced from the Subject Lands described in Exhibit "A" hereto.

VIII.

PRICE

Section 1. Subject to adjustment as provided in Section 2 of this Article and in Articles IX and XI hereof, the price to be paid by Buyer to Seller for all gas purchased by Buyer hereunder which is produced from the Pictured Cliffs Formation and/or any deeper gas horizon(s) underlying the Subject Lands described in Exhibit "A" hereto shall be as follows:

(a) Twelve Cents (12¢) per M.C.F. during the period commencing with the date of first deliveries hereunder and ending December 31, 1958;

(b) Thirteen Cents (13¢) per M.C.F. during the period commencing January 1, 1959, and ending December 31, 1963;

(c) Fourteen Cents (14¢) per M.C.F. during the period commencing January 1, 1964, and ending December 31, 1968;

(d) Fifteen Cents (15¢) per M.C.F. during the period commencing January 1, 1969, and ending December 31, 1973;

(e) Thereafter for each five (5) year period the price shall be fixed at the fair market value thereof, pressure of delivery, quality of gas, quantity of delivery, and field prices for like gas in other fields connected to Buyer's northwestern New Mexico pipe line considered, but in no event shall the price be less than Fifteen Cents (15¢) per M.C.F.

Section 2. In the event, as contemplated by Section 3 of Article VII hereof, Buyer installs compression facilities to increase the pressure of gas deliverable hereunder from one or more of Seller's wells located on the Subject Lands described in Exhibit "A" hereto, the price of all gas thereafter delivered hereunder and compressed in such facilities by Buyer shall be reduced as follows:

<u>Maximum Gathering Pressure in pounds per square inch gauge</u>	<u>Reduction in Price per M.C.F.</u>
500 or over	None
At least 400 but less than 500	3/4¢
At least 300 but less than 400	1-1/4¢
At least 200 but less than 300	1-3/4¢

Section 3. Subject to adjustment as provided in Articles IX and XI hereof, the price to be paid by Buyer to Seller for all gas purchased by Buyer hereunder which is produced from the Pictured Cliffs and/or any deeper gas horizon(s) underlying the Subject Lands described in Exhibit "B" hereto shall be as follows:

(a) Ten Cents (10¢) per M.C.F. during the period commencing with the date of first deliveries hereunder and ending December 31, 1958;

(b) Eleven Cents (11¢) per M.C.F. during the period commencing January 1, 1959, and ending December 31, 1963;

(c) Twelve Cents (12¢) per M.C.F. during the period commencing January 1, 1964, and ending December 31, 1968;

(d) Thirteen Cents (13¢) per M.C.F. during the period commencing January 1, 1969, and ending December 31, 1973;

(e) Thereafter for each five (5) year period the price shall be fixed at the fair market value thereof, pressure of delivery, quality of gas, quantity of delivery, and field prices for like gas in other fields connected to Buyer's northwestern New Mexico pipe line considered, but in no event shall the price be less than Thirteen Cents (13¢) per M.C.F.

IX.

PRICE EQUALIZATION

Any other provision in this agreement to the contrary notwithstanding, if at any time while this agreement remains in effect Buyer shall purchase at the wells in San Juan or Rio Arriba Counties, New Mexico, gas which is produced by any other(s) than Seller at a higher price (including, for this purpose, Buyer's reimbursement, if any, of tax cost to such other seller(s)) than is being paid to Seller for any portion of the gas delivered hereunder (including, for this purpose, Buyer's reimbursement, if any, of direct tax cost to Seller) and said portion of Seller's gas delivered hereunder is equivalent to or better than such other gas, giving due consideration to quality, volume and pressure, then Buyer shall pay such higher price to Seller for said portion of its gas delivered hereunder, for so long as Buyer shall pay that price to such other(s). In determining whether any higher price is being paid by Buyer for purposes of this Article the units of gas measurement shall be computed to the same pressure base and there shall be disregarded any excess of premium amounts paid or required to be paid to the holders of royalty or overriding royalty interests or paid on account of liquefiable hydrocarbon content of the gas specifically recognized.

X.

PAYMENTS

Section 1. On or before the 25th day of each calendar month, Buyer shall submit to Seller a statement showing the gas taken from each well connected under this agreement during Buyer's fiscal month immediately preceding (such fiscal month to correspond as nearly as may be practicable to the calendar month) together

with Buyer's check(s) in payment of the amount due in accordance with the provisions hereof.

Section 2. In the event any payment due hereunder shall be delinquent and Buyer shall fail to make such payment after thirty (30) days written notice by Seller to Buyer of such delinquency sent by registered mail, Seller shall have the right and option of suspending delivery of gas hereunder until all delinquent payments are made in full; provided, however, that such right of suspension shall not apply pending settlement of a bona fide dispute concerning the amount payable by Buyer if Buyer shall have made timely payment of all amounts not in dispute; and provided further that in the event any adverse claim is made against the interest of Seller or against any other interest in any gas delivered hereunder, Buyer may retain without interest any sums accruing with respect to such interest until such claim or claims shall be finally adjudicated or settled or until the person or persons against whose interest(s) any such claim is made shall furnish to Buyer adequate and satisfactory indemnity against all loss, liability, costs or damage which Buyer may suffer or incur by reason of such claim.

Section 3. In the event, pursuant to the provisions of this Article X, Seller suspends delivery of gas hereunder for a period of thirty (30) or more consecutive days, Seller, in addition to any other right or rights available to it, shall have the right to terminate this agreement at any time thereafter upon ten (10) days advance written notice to Buyer sent by registered mail, unless, prior to the giving of such notice, all delinquent payments (to the extent not in bona fide dispute) shall have been made by Buyer in full.

Section 4. Both Seller and Buyer shall have the right to examine, at reasonable times, books, records, laboratory tests, and charts of the other, to the extent necessary to verify the accuracy of any statement, test, chart, or computation made under or pursuant to any of the provisions of this agreement.

XI.

DIRECT PAYMENTS OF ROYALTIES AND TAXES

Section 1. Seller, from time to time, upon request will furnish to Buyer reasonable evidence of title, including abstracts and division orders covering all interests in the gas, but no examination, reliance or action of Buyer thereon or pursuant thereto shall alter or impair Seller's warranty of title. Buyer shall not be obligated to take notice of any change in the ownership of any of Seller's leases or of any rights therein unless and until Buyer is furnished

with a certified copy of the instrument(s) effecting such change.

Section 2. All taxes and rentals and all royalty and overriding royalty payments, if any, due as a result of Seller's ownership or operation of said leases or on account of the production, transportation and/or processing of gas before delivery to Buyer hereunder, or as a result of the sale of gas by Seller to Buyer hereunder, shall be and remain the obligations of Seller and Seller shall duly pay and discharge same, hereby agreeing to hold Buyer harmless therefrom; provided, however, that any and all increase in taxes or new taxes imposed by laws passed after the date of this agreement (except ad valorem taxes on properties and income taxes), upon or in respect of the gas up to the delivery thereof by Seller to Buyer, or upon the sale or delivery thereof by Seller to Buyer, shall be divided between and borne by the parties hereto on the basis of twenty-five per cent (25%) by Seller and seventy-five per cent (75%) by Buyer.

Section 3. All taxes, if any, due as a result of the transportation, distribution and/or sale of gas by Buyer after same passes the point(s) of delivery hereunder, shall be and remain the obligations of Buyer and Buyer shall duly pay and discharge same, hereby agreeing to hold Seller harmless therefrom.

XII.

PRORATION AND MINIMUM PURCHASES

Section 1. It is expressly recognized that Buyer may from time to time hereafter purchase and/or produce gas from other wells now or hereafter drilled in San Juan, Rio Arriba and Sandoval Counties, New Mexico, and elsewhere.

Section 2. Subject to its right under the terms of Article XV hereof to discontinue the purchase of gas from any well on the Subject Lands by reason of inadequate delivery pressure, Buyer agrees:

(a) That it will take gas from each well now or hereafter located on the Subject Lands and connected to its gathering lines at least ratably with its takings from all other wells producing from the same horizon on the Subject Lands or in the gas field in which said well is located (as such field may hereafter from time to time be enlarged and extended) which may, from time to time, be connected to Buyer's gathering lines, it being understood and agreed, however, that in complying with this ratable purchase undertaking, Buyer may prorate its withdrawals between wells on any basis which gives reasonable effect to the factors, among others, of open flow capacity, bottom hole

pressure and the size and shape of the drilling unit so long as the method of proration employed is uniformly applied by Buyer with respect to all wells on the Subject Lands and all wells in the gas field in which Seller's wells are located from which Buyer is purchasing and/or producing gas from time to time, adjustments to effect such ratable purchases to be made between wells at intervals of not longer than six (6) months; and

(b) That if at any time the quantity of gas being taken by Buyer hereunder from any of Seller's wells does not permit Seller to maintain withdrawals from the reserves covered by this contract ratably with the withdrawals from the same reservoir by others, with the result that Seller's reserves are being drained thereby and are not being protected by compensating drainage, Seller may request Buyer in writing to take increased quantities of gas from such well(s) for such time and in such amount as is necessary to offset such drainage, in which event (i) Buyer shall be obligated to purchase such increased quantities of gas to the full extent that it is capable of doing so in the light of its then existing markets, facilities and contractual obligations to other producers, and (ii) in the event Buyer fails to take such increased quantities of gas from any of Seller's wells, Seller shall have the right to have released from this contract and to sell to any other purchaser(s) such volumes of gas from said well(s) of Seller as may be necessary to offset such drainage;

provided, however, that whenever the production of gas from any of Seller's wells covered by this agreement is limited by proration order(s) issued by the New Mexico Oil Conservation Commission or any successor regulatory authority having jurisdiction, Buyer shall be deemed as to the well(s) affected by such proration order(s) to have complied in full with all obligations imposed upon it by the terms of this Section (including its obligation to protect Seller's reserves from drainage) if during each proration period Buyer takes a sufficient volume of gas from each such well of Seller that none of such well's allowable is cancelled for under-production.

Section 3. Buyer agrees in any event (unless prevented from doing so (a) by reason of the inability of Seller's wells to produce and deliver gas in sufficient quantities into Buyer's pipe line against the Maximum Gathering Pressure effective at the time or (b) by reason of the proration of withdrawals from Seller's wells pursuant to any order or orders of the New Mexico Oil Con-

servation Commission or any successor regulatory authority having jurisdiction) that, during each full calendar year that this agreement remains in effect, commencing with the first full calendar year after date of first deliveries hereunder, it will purchase (or pay for to the extent not in fact taken) from each well on the Subject Lands then connected to its gathering lines at least six (6) times the average amount of gas taken monthly from said well during the months of December of the calendar year immediately preceding, and January and February of the current calendar year.

XIII.

QUALITY OF GAS

Section 1. All gas delivered hereunder shall be reasonably free from moisture and other objectionable liquid or solid substances, shall not contain per one hundred (100) cubic feet more than one-quarter ($1/4$) grain of hydrogen sulphide nor more than five (5) grains of total sulphur, and shall have a heating value of not less than 1,000 B.T.U. per cubic foot under a pressure of thirty (30) inches of mercury and at sixty degrees Fahrenheit (60° F.).

Section 2. In the event Buyer refuses to take gas from any well because of improper quality for a period of thirty (30) or more consecutive days, Seller shall have the option, upon thirty (30) days advance written notice to Buyer, to have such well and the drilling unit upon which it is located released from the terms of this agreement; provided, however, that Seller shall only have such option if, prior to the giving by Seller of the notice referred to, Buyer shall not have resumed acceptance of deliveries of gas from the well.

XIV.

GASOLINE EXTRACTION

Section 1. Seller reserves the continuing right, prior to delivery of gas to Buyer hereunder, to remove and extract therefrom all helium, gasoline and other liquid or liquefiable hydrocarbons (i.e., propane and heavier components); provided, however, that no extractive process(es) employed by Seller shall materially reduce the pressure or volumes of gas otherwise available to Buyer hereunder, nor shall such process(es) materially alter the temperature of the flowing gas or change its characteristics as a useful fuel.

Section 2. It is further agreed that any gasoline or other content of the gas after it has passed into Buyer's lines shall become the property of Buyer without payment of any additional compensation therefor, except that in the case of "drip" gasoline from said gas which is accumulated by Buyer before

the gas passes Buyer's meters, to the extent that same may be handled to commercial advantage or to the extent that Seller's lessor(s) shall be entitled to a royalty thereon or require any particular disposition to be made thereof, Buyer shall pay Seller one-half (1/2) of the net amount received by Buyer from the sale of the "drip" gasoline so accumulated, if and to the extent that same is marketed.

XV.

DISCONNECTION OF WELLS

Section 1. The gas to be delivered hereunder shall be delivered by Seller into Buyer's lines against the pressure existing therein from time to time at the points of delivery, provided, however, that Seller shall not be required to deliver such gas at a pressure in excess of the Maximum Gathering Pressure provided for in Article VII hereof.

Section 2. Buyer in any event shall never be obligated to purchase any gas tendered for delivery at a pressure of less than two hundred (200) pounds per square inch gauge, and if Seller fails to deliver gas hereunder at at least such pressure for a period of sixty (60) or more consecutive days from any well to which Buyer's lines are connected, Buyer shall thereafter have the continuing right and option, upon thirty (30) days advance written notice to Seller, to discontinue the purchase of gas from such well and to remove and salvage its gathering line to such well and its other related facilities. Upon any such disconnection of a well by Buyer, said well and the drilling unit upon which it is located shall thereupon, and without further action on the part of either of the parties hereto, automatically be released from the coverage of this contract.

Section 3. If Buyer shall, pursuant to the provisions of Section 2 above, discontinue the purchase of gas from all wells located on the Subject Lands and connected to its lines, either party hereto shall have the further right at its option to terminate this agreement at any time thereafter upon thirty (30) days advance written notice to the other party.

Section 4. Nothing contained in this agreement shall be construed as requiring either Seller or Buyer to increase, or as prohibiting either Seller or Buyer from increasing, the natural pressure of gas deliverable hereunder by installation of compression facilities or otherwise as contemplated by Article VII hereof.

XVI.

WARRANTY OF TITLE

Seller expressly warrants title to and right to sell all gas delivered by it hereunder and agrees that it will hold Buyer harmless from and against any and all adverse claims thereto or encumbrances thereon.

XVII.

RIGHT OF WAY

Section 1. Insofar as it may lawfully do so without impairing its own similar rights, Seller hereby grants and assigns to Buyer an easement and right of way on, over and across all the Subject Lands (and any adjoining lands in which Seller may have an oil and gas leasehold interest) for Buyer's purposes of installing, constructing, maintaining, repairing, inspecting and removing, from time to time as Buyer deems necessary, pipe lines, measuring equipment and any other facilities useful in the performance of this agreement together with the right of free ingress and egress to and from said lands for Buyer's personnel and equipment.

Section 2. All property installed or placed in or on said lands by Buyer shall, unless purchased by Seller from Buyer under the provisions of Section 3 of Article XIX hereof, remain the personal property of Buyer and shall be subject to removal by Buyer during the term of this agreement and during a reasonable time after the expiration or termination thereof.

XVIII.

PERPETUATION AND ASSIGNMENT OF LEASES

Section 1. Seller agrees to pay all lease rentals and to exercise due care and diligence to preserve and maintain in effect its leasehold rights and interests insofar as they cover and affect the Subject Lands; provided, however, that Seller shall never be precluded from abandoning any well(s) or leaseholds or allowing any lease(s) or mineral right(s) to lapse which in Seller's judgment are deemed to be unproductive, without substantial value, or unprofitable to maintain and operate further.

Section 2. Seller shall be entitled to enter into such pooling or unitization agreements with respect to its leasehold interests in the Subject Lands as Seller may deem necessary or advisable, provided either (1) that such pooling or unitization agreements are subject to and not inconsistent with Buyer's rights hereunder, or (2) that Buyer consents in writing to Seller becoming a party thereto, or (3) that Seller is required by applicable law or rule, regu-

lation or order of governmental authority to become a party thereto.

Section 3. Seller in its discretion may otherwise assign or convey any of its leasehold interests in the Subject Lands so long as such assignment or conveyance is subject to, and not inconsistent with, Buyer's rights hereunder; provided, however, no change in the ownership of such leasehold interest shall be binding upon Buyer until such time as Buyer shall have been furnished with either the original, a certified, or an acceptable photostatic copy of the instrument or instruments effecting such change in ownership.

XIX.

OPERATIONS BY SELLER

Section 1. It is agreed that Seller shall have the right to use a reasonable amount of gas produced from any well or wells on the Subject Lands in connection with Seller's field operations and drilling activities on the Subject Lands or any adjacent lands in which Seller may have a leasehold interest, as well as the right to deliver to Seller's lessor(s) any gas to which such lessor(s) may be entitled and elect to take or receive under the terms of the oil and gas lease(s) covering the Subject Lands.

Section 2. Seller shall also have the right to use gas produced from any well or wells on the Subject Lands for gas lift and/or pressure maintenance operations; provided, however, that except as expressly provided in Section 3 of this Article Seller for such purposes shall never take from any well or group of wells located on the Subject Lands described in Exhibit "B" hereto such a quantity of gas as will reduce the volumes of gas deliverable hereunder to Buyer from such well(s) to such an extent that such well or group of wells no longer is complying with the standards of quantity set forth in Section 2 of Article II hereof.

Section 3. If at any time Seller desires to divert to gas lift and/or pressure maintenance operations greater volumes of gas from any of its wells than those permitted by Section 2 of this Article, Seller shall so notify Buyer in writing and request in such notice the release by Buyer from this contract of the affected well(s) and the drilling unit(s) upon which they are located. Within thirty (30) days after receipt by Buyer of any such notice, Buyer shall notify Seller in writing whether or not Buyer, as a condition to the release of the well(s) and drilling unit(s) covered by Seller's notice, desires Seller to purchase from Buyer all or any part of the gathering lines and measurement, compression and other facilities theretofore installed by Buyer for the purpose

of purchasing gas from the well(s) sought to be released herefrom. If Buyer so elects to have any such lines or facilities purchased by Seller, Buyer shall in its said notice to Seller set forth in reasonably complete detail the book cost to Buyer (less any applicable depreciation accrued on Buyer's books) of the lines and/or other facilities to be purchased by Seller; and the affected well(s) and drilling unit(s) shall be released from this contract only after Seller (within thirty (30) days after receipt of such notice from Buyer) shall have paid to Buyer in cash a sum equal to Buyer's said net book cost. Within ten (10) days after the making of any such payment by Seller to Buyer, Buyer shall deliver to Seller such bills of sale and/or other instruments, satisfactory in form and substance to Seller, as may be necessary to convey to Seller the facilities covered by said payment. Concurrently with delivery of Buyer's reply notice to Seller if Buyer desires Seller to purchase no gathering lines or other facilities or concurrently with delivery of the bill(s) of sale referred to above if any such lines or facilities are being purchased by Seller, Buyer shall deliver to Seller such instrument(s), satisfactory in form and substance to Seller, as may be appropriate to evidence the release from this contract of the affected well(s) and drilling unit(s).

Section 4. Except insofar as expressly provided to the contrary in this agreement, Seller shall have the right at all times to operate its property free from any control by Buyer in such a manner as Seller in its sole discretion may deem advisable, including (without being limited to) the right to drill new wells, to repair and rework old wells and to abandon any well or surrender any lease when no longer deemed by Seller to be capable of producing gas in paying quantities under normal methods of operation; and provided, further, that in exercising said rights Seller shall act at all times as a reasonably prudent operator would act under similar circumstances.

XX.

WELL DATA AND TESTS

Seller shall make available to Buyer, at all reasonable times, its well logs and the pressure and volume data on all wells from which Buyer may be purchasing gas or from which it may be entitled to purchase gas hereunder. Buyer shall have the right, on due and reasonable notice to Seller, to make such tests from time to time of Seller's wells as may be desired by Buyer, but no such test shall be made which, in the opinion of Seller, is of such a nature as to make likely damage to well equipment or to the gas reservoir.

XXI.

TERM OF AGREEMENT

This agreement shall be effective from and after the date hereof, and, unless sooner terminated as hereinabove provided, shall remain in effect until December 31, 1975, and thereafter from year to year unless and until terminated as of the end of any calendar year by written notice given by either party hereto to the other at least sixty (60) days prior to the termination date fixed in such notice.

XXII.

FORCE MAJEURE

Section 1. In the event that either party hereto is rendered unable, wholly or in part, by force majeure or other causes herein specified, to carry out its obligations under this agreement, other than Buyer's obligation to make payments of amounts due hereunder for gas delivered and received, it is agreed that on such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other party within a reasonable time after the occurrence of the cause relied on, then the obligations of the party giving such notice, so far as they are affected by such force majeure or other causes herein specified, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall so far as possible be remedied with all reasonable dispatch.

Section 2. The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of the Government, either Federal or State, civil or military, civil disturbances, explosions, sabotage, malicious mischief, breakage or accident to machinery or lines of pipe, freezing of wells or lines of pipe, temporary failure of gas supply, inability of any party hereto to obtain necessary materials, supplies or permits, due to existing or future rules, regulations, orders, laws or proclamation of governmental authorities (both Federal and State), including both civil and military, and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

Section 3. It is understood and agreed that the settlement of strikes or other labor difficulties shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure

shall be remedied with all reasonable dispatch shall not require the settlement of labor difficulties by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

XXIII.

COVENANTS TO RUN WITH THE LAND

Section 1. The covenants and provisions of this agreement shall run with the land and with the oil and gas leases and other interests, if any, of Seller in the Subject Lands, including any and all renewals and/or extensions of such leases and/or preference right leases hereafter issued on account of any thereof.

Section 2. All of such leases or interests of Seller which may be transferred or assigned by Seller, in whole or in part, to others shall remain subject to all terms and provisions of this agreement and no such transfer or assignment shall modify or enlarge the obligations or impair the rights of Buyer hereunder, it being intended that this agreement shall be construed and applied in its entirety notwithstanding any such transfer or assignment of individual leases or interests by Seller.

XXIV.

REGULATION

Subject to the provisions of Article XXV hereof, this agreement is made in contemplation of, and all provisions hereof shall be subject to all present and future laws of the State of New Mexico, and the United States, and all orders, rules and regulations of duly constituted governmental authorities having jurisdiction which are applicable to the subject matter hereof and effective from time to time.

XXV.

INTRASTATE COMMERCE

Buyer agrees that, except as expressly provided in this Article, all of the gas delivered by Seller to Buyer hereunder shall be transported, and distributed, sold and consumed solely within the State of New Mexico. If at any time during the term of this agreement Buyer desires to engage in any transportation or sale of gas delivered hereunder which will or may result in the movement thereof outside of the New Mexico state boundaries (either in Buyer's pipe lines or otherwise), Buyer shall give written notice to Seller of its said desire. For a period of ninety (90) days after receipt of such notice from Buyer (during which 90-day

period Buyer's covenant not to permit the movement in interstate commerce of any gas delivered hereunder shall continue in full force and effect), Seller upon delivery of appropriate written notice to Buyer shall have the right and option of cancelling this agreement as of a date thirty (30) days after expiration of said ninety (90) day period (during which 30-day period Buyer's covenant not to permit the movement in interstate commerce of any gas delivered hereunder shall also continue in full force and effect); provided, however, that no such cancellation notice from Seller to Buyer shall be effective unless Seller in such notice shall undertake and agree that during a period of twelve (12) months after the cancellation date specified in said notice Seller will enter into no contract with any other party or parties or otherwise take any action which will or may result in the transportation of any gas theretofore subject to this agreement to or through any state other than the State of New Mexico. If Seller shall fail to comply with said undertakings and agreement at any time within said twelve (12) month period, then such failure in compliance by Seller shall have the effect of voiding Seller's notice of cancellation and (unless Buyer by written notice to Seller shall promptly elect to the contrary) this contract, with the sole exception of the first sentence of this Article, shall thereupon be reinstated in full force and effect. If Seller fails to give Buyer proper notice of cancellation within the ninety (90) day period provided for above, Seller shall be deemed to have waived its aforesaid right of cancellation and thereafter the provisions of the first sentence of this Article shall no longer be binding upon Buyer.

XXVI.

MISCELLANEOUS

Section 1. As to all matters of construction and interpretation, this agreement shall be interpreted, construed and governed by the laws of the State of New Mexico.

Section 2. No modification of the terms and provisions of this agreement shall be or become effective except pursuant to and upon the due and mutual execution of an appropriate supplemental written contract by the parties.

Section 3. No waiver by either party of any one or more defaults by the other party in the performance of any provisions of this agreement shall operate or be construed as a waiver of any future default or defaults whether of a like or of a different character.

Section 4. Except as herein otherwise provided, any notice, request, demand, statement, or bill provided for or contemplated by this agreement, or any notice which either party may desire to give the other, shall be in writing and shall be addressed to the address of the parties hereto, as the case may be as follows:

To Seller: Humble Oil & Refining Company
P. O. Box 1600
Midland, Texas

To Buyer: Southern Union Gas Company
1104 Burt Building
Dallas 1, Texas

or to such different address as either party shall hereafter designate to the other by formal written notice. Any such notice, request, demand, statement or bill shall be deemed received by the party to whom so addressed when delivered at such address, or, if mailed postage prepaid in registered sealed cover, when deposited in the United States mail and so addressed. In the event of emergency, notice may be given by telephone or telegraph and confirmed in writing delivered as aforesaid.

IN WITNESS WHEREOF, this agreement is executed in several counterparts, each of which shall be deemed an original, all as of the day and year first above written.

A T T E S T:

BP Barritt
Asst Secretary

HUMBLE OIL & REFINING COMPANY

By Ralph J. Schilthuis
Vice President
DIRECTOR IN CHARGE
PRODUCTION DEPARTMENT
S E L L E R

APPROVED

SEP
1/10
1957

SOUTHERN UNION GAS COMPANY

A T T E S T:

E. D. Mason
Asst Secretary

By J. C. Reif
Vice President
B U Y E R

all
not

STATE OF Texas)
COUNTY OF Harris)

On this 27th day of February, 1956, before me appeared _____

RALPH J. SCHILTHUIS

Director in Charge Prod. Dept.

, to me personally known, who, being by me
duly sworn did say that he is the 1 ~~President~~ of HUMBLE OIL & REFINING
COMPANY, and that the seal affixed to the foregoing instrument is the corporate
seal of said corporation and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and said _____

Humble Oil Refining Co. acknowledged said instrument to be the free act
and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 27th day
of February, 1956.

My Commission Expires:

6-1-57

Virgil E. Cammack
Notary Public in and for Harris County, Texas
VIRGIL E. CAMMACK
Notary Public,
Harris County, Texas

STATE OF TEXAS)
COUNTY OF DALLAS)

On this 6th day of March, 1956, before me
appeared J. C. Reid, to me personally known, who, being by
me duly sworn did say that he is the Vice President of SOUTHERN UNION GAS COM-
PANY, and that the seal affixed to the foregoing instrument is the corporate
seal of said corporation and that said instrument was signed and sealed in
behalf of said corporation by authority of its Board of Directors and said
J. C. Reid acknowledged said instrument to be the free
act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 6th
day of March, 1956.

My Commission Expires:

June 1, 1957

Marjorie L. Ross
Notary Public in and for Dallas County, Texas

EXHIBIT "A"

To Natural Gas Purchase Contract dated as of January 1, 1956, between Humble Oil & Refining Company, as Seller, and Southern Union Gas Company, as Buyer.

Township 25 North, Range 4 West, N.M.P.M.

All of Sections 1, 2, 3, 4, 9, 10,
11, 12, 13, 14, 23, 24, 25, 26, 35
and 36

Township 25 North, Range 5 West, N.M.P.M.

All of Sections 5, 6, 7 and 8

Township 26 North, Range 4 West, N.M.P.M.

An undivided one-half interest in
all of Sections 15, 16, 21, 22, 27,
28, 33 and 34

Township 26 North, Range 5 West, N.M.P.M.

All of Sections 3, 4, 9 and 10

EXHIBIT "B"

To Natural Gas Purchase Contract dated as of January 1, 1956, between Humble Oil & Refining Company, as Seller, and Southern Union Gas Company, as Buyer.

Block 1

Township 24 North, Range 4, West, N.M.P.M. ✓ ✓

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All of Sections 17, 18, 19 and 20

Block 2

Township 23 North, Range 4 West, N.M.P.M. ✓

All of Sections 17, 18, 19 and 20; such lands, however, not to be deemed to constitute a part of the Subject Lands covered by this Contract in the event of timely exercise of the 60-day lease purchase option granted by Seller to Caswell Silver on December 30, 1955. ✓

Township 23 North, Range 5 West, N.M.P.M. ✓

All of Sections 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, and 18 ✓

Township 24 North, Range 5 West, N.M.P.M. ✓

(All of Sections 31 and 32; $S\frac{1}{2}$ of Section 33; $S\frac{1}{2}$ of Section 34) ✓