

AUTHORITY FOR EXPENDITURE
DRILLING WELL

Date 9-24-85 A: _____ Co. Cd. _____

District West Texas Well Name Sprinkle-Federal Well No. 3
Well Location 2310' FNL and 330' FWL Section 26, T-18-S, R-32-E Depth 8700'
Field Querecho Plains (Upper Bone Springs) County Lea State NM
Prepared By: Randall S. Cate Submitted By: _____ Dallas _____ District _____

CAT. NO.	NATURE OF EXPENDITURE	QUANTITY	ESTIMATED COST		
			CASH	MAT. L ON HAND	TOTAL
DRILLING					
01	Casing 350' 11 3/4", 2600' 8 5/8"		31 000		31 000
02	Casinghead		8 000		8 000
03	Location, Road & Dirt Work		28 000		28 000
04	Drilling - Footage/Turnkey @ \$14/ft		121 800		121 800
05	Drilling - Daywork				
06	Drilling - Rig Support				
07	Bits				
08	Supervision 25 days @ \$250		6 250		6 250
09	Overhead				
10	Mud & Chemicals & wtr		32 000		32 000
11	Cementing Services & Supplies & csg crew		16 000		16 000
12	Testing & Logging & mud logger		20 000		20 000
13	Rentals		8 000		8 000
14	Other IDC		10 000		10 000
15	Other Equipment		5 000		5 000
TOTAL DRILLING			286 050		286 050
COMPLETION					
17	Casing 8700' 5 1/2"		79 000		79 000
18	Tubing 8700' 2 7/8" N-80		32 000		32 000
19	Wellhead & pmp tree		8 000		8 000
20	Subsurface Equipment		5 000		5 000
21	Supervision 8 dyas @ \$250		2 000		2 000
22	Mud & Chemicals & wtr		3 000		3 000
23	Testing, Logging & Perforating		20 000		20 000
24	Stimulation acid & sand frac		45 000		45 000
25	Overhead				
26	Rentals		5 000		5 000
27	Service Rig 8 days @ \$1400/day		12 000		12 000
28	Cementing Services & Supplies		21 000		21 000
29	Other IDC		5 000		5 000
TOTAL COMPLETION			237 000		237 000
PRODUCTION EQUIPMENT:					
32	Pumping Unit		32 000		32 000
33	Engine & Motor		12 000		12 000
34	Rods		13 500		13 500
35	Flow Lines		2 000		2 000
36	Meters		6 000		6 000
37	Installation		3 000		3 000
38	Storage		10 000		10 000
39	Separation & Treating		9 000		9 000
40	Other Equipment		5 000		5 000
TOTAL PRODUCTION EQUIPMENT			92 500		92 500
TOTALS			615 550		615 550

WI OWNER NAME _____ BILLING INT (7 decimals) _____ DATE APPROVED _____ APPROVED: (this space for approval only) _____

TXO PRODUCTION CORP.
Case No. 8755
11/21/85 Examiner Hearing
Exhibit No. 3

Proposed Operating Agreement
for Sprinkle-Federal #3

MODIFICATIONS AND COMPLETION OF
MODEL FORM OPERATING AGREEMENT A.A.P.L. FORM 610 - 1977

1. Title Page: Fill in blanks as applicable.
2. Table of Contents: Delete VIII.G. - "Preferential Right to Purchase".
3. Preamble, Page 1: Enter name of Operator.
4. Article II. - Exhibits: Indicate that all Exhibits are to be attached.
5. Article III.B. - Interest of Parties in Costs and Production: Delete the words "which will be borne by the Joint Account" in lines 19 and 20, on page 2.
6. Article IV.A. - Title Examination:
 - (a) Select Option No. 2.
 - (b) Change the word "or" in line 61 on page 2 to "and".
7. Article IV.B. - Loss of Title - Make the following changes on page 3:
 - (a) Insert "for" after the word "costs" in line 1.
 - (b) Insert "been responsible" after the word "therefore" in line 1 and delete the word "paid" in line 1.
 - (c) Insert "subsequently incurred" after the word "for" in line 2.
 - (d) Insert the words "whose title failed" after the word "parties" in line 19.
8. Article V. - Operator: Enter name of Operator in line 62 on page 3.
9. Article VI.A. - Initial Well: Delete Article VI.A.
10. Article VI.B.2. - Operations by Less Than All Parties:
 - (a) Add the following language to the sentence ending on line 37 on page 5: ", and failure to advise the proposing party shall constitute an election under (b)."
 - (b) Change 100% to 300% in line 60, and insert 400 in line 69 on page 5 and in line 1, on page 6. Also, in line 3, on page 6, after "therein.", insert "See Article XV.G. for additional provisions."
11. Article VI.C. - Right to Take Production in Kind: Insert the words "prior written" after the word "days" in line 19 on page 7.
12. Article VII.D.1. - Limitation of Expenditures: Select Option No. 2 in line 10 on page 9.
13. Article VII.D.3. - Limitation of Expenditures - In lines 30 and 38, on page 9, for limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE, enter \$10,000.00.
14. Article VII.E. - Royalties, Overriding Royalties and Other Payments: In line 43 on page 9, enter "one-eighth (1/8)".
15. Article VII.G. - Taxes: In line 17, on page 10, enter "See Article XV.D. for additional provisions."
16. Article VIII.B. - Renewal or Extension of Leases: On page 11, in line 35 after "leases.", add the following: "See Article XV.E. for additional provisions."
17. Article VIII.G. - Preferential Right to Purchase: Delete entire paragraph (lines 39 through 52 on page 12).
18. Article IX. - Internal Revenue Code Election: If, and only if, a tax partnership is provided in the Farmout Agreement to which this Exhibit IV is attached, insert in line 56 on page 12 "SEE EXHIBIT "G" ATTACHED.", and delete the remainder of the Article (lines 57 through 70 on page 12, and lines 1 through 3 on page 13).
19. Article X. - Claims and Lawsuits: Enter on page 13, "Four Thousand" in line 14, and "4,000.00" in line 15.
20. Article XIII. - Term of Agreement:
 - (a) Select Option No. 2 in line 1 on page 14.
 - (b) In Option No. 2, enter "120" in blanks in lines 4 and 11.
21. Article XV. - Other Provisions - Add the following:

A. Sale of Gas Production:

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

B. Billing Additional Interests:

Notwithstanding the provisions of this agreement and of the accounting procedure attached as Exhibit "C", the Parties to this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for the entire interest credited to each Party on Exhibit "A". It is further agreed that if any Party to this agreement (hereafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party shall be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A", whether to one or several assignees, Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish to Operator the following:

1. Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.
2. The name of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and, further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A".

C. Disbursement of Royalties:

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties, working interests, and other payments out of, or with respect to, production revenues which are payable on the Contract Area, Operator may, at its option, from time to time, make disbursements on behalf of any Non-Operator who requests in writing that Operator do so. Each Non-Operator for whom such disbursement is made shall furnish Operator with the following:

1. Such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from the purchaser thereof.
2. An initial list of names, addresses, and interests (to a seven place decimal), on a tract, unit, purchase contract, or other such basis as, in the opinion of Operator, is necessary for efficient administration, for all royalty, overriding royalty and other interest owners who are entitled to proceeds from the sale of production attributable to such Non-Operator's interest. Also, any changes to the initial list shall be furnished promptly to Operator in writing.

Operator will use its best efforts to make disbursements correctly, but will be liable for incorrect disbursement only in the event of gross negligence or willful misconduct. Any Non-Operator for whom such disbursements are made hereby agrees to indemnify and hold harmless Operator for any loss, including court costs and attorney's fees, which may be incurred as a result of Operator's making such disbursements in the manner prescribed by Non-Operator.

D. Article VI(LG.), Addition:

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

E. Article VIII.B-- Additions

Notwithstanding anything to the contrary contained herein, each party committing a lease or leases to this agreement shall have the option upon the expiration of each lease to renew or extend such lease and to bear the renewal or extension costs and expenses and thereby retain its original interest and title in said lease. By exercising such option, the parties' working interests shall remain unchanged. If the original lease owner does not exercise its option within sixty (60) days after the expiration date of the original lease, the renewal or extension lease will then be subject to the terms of this article as written above. If any working interest owner other than the original lease owner renews or extends the lease, the renewing or extending party shall furnish the original lease owner an itemized statement of the complete renewal or extension costs and expenses of such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing or extending party in full. Failure of the original lease owner to do so shall result in the forfeiture of its option hereunder. The provisions hereof shall only apply to leases or portions of leases located in the Contract Area.

F. IF APCOT-FINADEL JOINT VENTURE (FINA) becomes subject to this Operating Agreement the following provision shall be applicable:

As between the interests of TXO and FINA, this Agreement shall be subject and subordinate to that certain Oil & Gas Lease Acquisition and Development Agreement dated October 22, 1982, between TXO PRODUCTION CORP. and APCOT-FINADEL JOINT VENTURE. In the event of a conflict between this Agreement and the Oil & Gas Lease Acquisition and Development Agreement, the terms of the Oil & Gas Lease Acquisition and Development Agreement shall prevail. Upon termination of the Oil & Gas Lease Acquisition and Development Agreement, this Agreement shall be amended as between TXO and FINA in the manner provided in Article XXI of the Oil & Gas Lease Acquisition and Development Agreement.

G. If APCOT-FINADEL JOINT VENTURE becomes subject to this Operating Agreement the following provision shall be applicable:

As between APCOT-FINADEL JOINT VENTURE and any other party hereto the non-consent penalties specified in Article VI.B. 2(a) shall be 100%/100%; and the non-consent penalties specified in Article VI.B. 2(b) shall be 300%/300% as to all wells drilled to a depth of 10,000 feet subsurface or less, and 400%/400% as to all wells drilled to a depth greater than 10,000 feet subsurface.

H. Change of Operator:

In addition to any other rights expressly provided herein, after any Operator has acted in that capacity for a period of not less than six months, then any Non-Operator may call a meeting of all working interest owners for the purpose of selecting a new Operator by giving sixty (60) days written notice to all working interest owners. By approval of a total of more than 50% in interest of the working interest owners, a new Operator may be selected, from among the working interest owners, who shall take over operation of the unit area on the first day of the calendar month which occurs after the passing of thirty (30) days from the date of the selection of the new Operator. Such successor Operator shall be required to perform the duties of Operator in accordance with this Agreement. In such case, the retiring Operator shall surrender possession of and deliver to the successor Operator the exclusive possession of the premises and all common wells, facilities and funds in the possession of Operator, and all pertinent books of account, records pertaining to the operation of the Contract Area, and all documents, agreements and other papers relating thereto. Upon the delivery thereof, the retiring Operator shall be released and discharged from and the successor Operator shall assume all of the duties and obligations of Operator hereunder, except any unfulfilled duties and obligations of such retiring Operator which have accrued prior to the successor Operator's assuming operations hereunder, for which the retiring Operator shall remain liable and responsible notwithstanding the reason for its discharge.

22. Signature Page: Enter effective date and names of parties.
23. Acknowledgments: Insert appropriate acknowledgments for all parties.
24. Exhibit "A" - Contract Area: Use form attached hereto and marked "Exhibit A", inserting appropriate information.
25. Exhibit "B" - Form of Lease: Use the form of lease attached hereto and labeled "Exhibit B".

26. Exhibit "C" - Accounting Procedure - Use the COPAS - 1974 with the following selections and insertions:

1. Section I, Paragraph 3. Advances and Payments by Non-Operators, shall be revised to read in its entirety as follows:

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the preceding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the maximum legal rate permitted by the applicable usury laws in the state in which the joint property is located; or, if the maximum legal permitted rate is less than eighteen percent (18%) per annum and such rate may be modified as agreed between the parties, then, in such event, the unpaid balance shall bear interest monthly at the rate of eighteen percent (18%) per annum. However, pursuant to either rate, attorney's fees, court costs, and all other costs incurred in connection with the collection of these unpaid amounts shall be recoverable.

2. Section III, Paragraph 1. Overhead-Drilling and Producing Operations:

(i) Select: "Fixed Rate Basis, Paragraph 1A"

(ii) Select: "shall not"

A. Overhead-Fixed Rate Basis

<u>Well Depth</u>	<u>Drilling Well Rate</u>	<u>Producing Well Rate</u>
0 - 4,000 ft.		
4,000 - 8,000 ft.		
8,000 - 12,000 ft.	\$5,374	\$538
Over - 12,000 ft.		

B. (Not Applicable)

3. Section III, Paragraph 2. Overhead-Major Construction

Line 5 - \$25,000

A - 5%, \$25,000, \$100,000

B - 3%, \$100,000

C - 2%

27. Exhibit "D" - Insurance: Use the form attached hereto and marked "Exhibit D".
28. Exhibit "E" - Gas Balancing: Use the form attached hereto and marked "Exhibit E".
29. Exhibit "F" - Non-Discrimination and Certification of Non-Segregated Facilities: Use the form attached hereto and marked "Exhibit F".
30. If used --- Exhibit "G" - Provisions Concerning Taxation: Use the form attached hereto and marked "Exhibit G" only if there is a tax partnership.

Attached to and made a part of that certain Operating Agreement:
dated November 1, 1985 by and between TXO
Production Corp., as Operator, and Joseph S.
Sprinkle et al, as Non-Operators.

EXHIBIT "A"

I. CONTRACT AREA:

T-18-S, R-32-E, NMPM
Section 26: SW/4 NW/4
Lea County, New Mexico

II. Such lands are subject to the following restrictions as to depths or formations:

from 4825' beneath the surface of the earth down to 8700' or a depth sufficient to test the Bone Spring formation.

III. NAMES, ADDRESSES AND PERCENTAGES OF THE PARTIES:

✓ TXO Production Corp. et al .6354166 900 Wilco Building Midland, Texas 79701	Lewis B. Burleson .0130209 P. O. Box 2479 Midland, Texas 79702
Joseph S. Sprinkle .3125000 P. O. Box 6483 Denver, Colorado 80206	✓ J. Cecil Rhodes .0390625 511 W. Texas Midland, TX 79701

IV. Oil and Gas Leases and/or Oil and Gas ^{674/91}Interests subject to this Agreement:

NM 40452

Dated: January 1, 1973

Recorded: Book 284, Page 620, Oil and Gas Records, Lea County,
New Mexico

Lessor: United States - Department of the Interior BLM

Lessee: Joseph S. Sprinkle

F. L. Shogrin

James L. Harden

EXHIBIT "D"
SCHEDULE OF INSURANCE

- A. Unit Operator shall carry the following insurance covering operations under this agreement at the expense and for the benefit of the parties hereto and shall require contractors and subcontractors to carry the same, to-wit: *
1. Workmen's Compensation and Employer's Liability Insurance as required by the laws of the state where the property is located.
 2. Comprehensive General Liability Insurance covering both bodily injury liability and property damage liability with a Combined Single Limit of \$500,000 for each occurrence.
 3. Comprehensive Automobile Public Liability and Property Damage Insurance with a combined single limit of \$500,000 for each occurrence.
 4. Insurance coverage on equipment as the Operator deems necessary for the protection of the joint account.
- B. Unit Operator may carry and maintain in force for its benefit insurance of the type and in the amount which Operator in its sole opinion deems necessary to protect it from loss resulting from any claims, damages, causes of action or legal liability in favor of a surface or mineral owner of lands covered hereby, arising out of, in connection with, or as an incident to any act or omission of Operator, its officers, agents or employees in carrying out its responsibilities under this Agreement.

*Insofar as concerns the interests of APCOT-FINADEL JOINT VENTURE (FINA), Operator shall carry and shall bill FINA for its proportionate share of only the following insurance coverage:

Workers Compensation as required by the laws of the state where the property is located and Employer's Liability Coverage with not less than \$500,000.00 for each accident. Any such policy of insurance shall contain a waiver of subrogation in favor of FINA.

EXHIBIT "E"

GAS BALANCING AGREEMENT

I.

From and after the date of initial delivery of gas from the property, a party owner taking and disposing of, during any monthly accounting period, less than its full share of the gas as it is produced, shall be an "underproduced party", if such lesser taking and disposition is not a consequence of other provisions of this Agreement. A party owner's "full share" shall be the amount of a party owner's gas determined in accordance with the provisions of the Operating Agreement. A party owner taking and disposing of during any monthly accounting period, more than its full share of the gas as it is produced, shall be an "overproduced party", if such excess taking and disposition is not a consequence of other provisions of this Agreement. "Underproduction" of any underproduced party, during any monthly accounting period, shall be the difference between such party's full share of gas production, less its full share of gas used in property operations, vented and lost, and the gas delivered to the pipeline(s) for the account of such party owner. "Overproduction" of any overproduced party, during any monthly accounting period, shall be the difference between the gas delivered to the pipeline(s) for the account of such party owner and such party's full share of gas production, less its full share of gas used in property operations, vented and lost.

II.

This Agreement shall become effective on the date of initial deliveries of gas from the property to the pipeline, and shall continue in force and effect until deliveries of gas from the property have ceased and, except as otherwise provided herein, each party shall have the right to take in kind its full share of each separate "gas classification." "Gas classification", as used herein, shall mean each of the price categories provided or established pursuant to the Natural Gas Policy Act of 1973, as same may be amended, by any authority having the right to establish categories thereunder, or pursuant to any other applicable statute or judicial decision establishing gas price categories, including gas not subject to price regulation, which shall be considered as a separate category. Where the gas qualifies for more than one category, the category having the highest price applicable to the source (each separate identifiable geologic source or production contained in a well bore) of gas production shall be used for the determination to be made hereunder. Whenever the gas price category changes, from and after the date of such change, the gas shall no longer be accounted for or be considered in the former category, but shall be accounted for and thereafter be considered to be gas in the new category, until such time as the category is again changed.

III.

Should a party fail to take its full share of the different gas classifications produced from the property, except as provided hereinbelow where such party is to furnish make-up gas, such party's underproduction shall be regarded as remaining in storage in the reservoirs, subject to later recovery in accord with the terms hereof. During any monthly accounting period when a party is unable to take and market its full share (as such quantity may be reduced in accordance with provisions herein for providing make-up gas) of each gas classification, the other joint interest owners shall be entitled to produce and sell all or a portion of such quantity which the party has failed to take. If two or more parties are capable of taking and marketing quantities of gas to which such party was thus entitled but which it failed to take, in the absence of other agreement between them, each may take a share of such underproduction in the direct proportion of its joint interest therein to the total joint interest therein of all parties desiring to take such underproduction, provided, however, that any party or parties having a cumulative underproduction status shall have a first priority to take and market the underproduction over a party or parties having a cumulative overproduction status.

Any party having cumulative underproduction of a particular gas classification category shall be entitled to take a quantity of gas of such particular gas classification ("make-up") in excess of its full share of such gas up to twenty-five percent (25%) of the full share of gas of parties having cumulative overproduction of such particular gas classification. In the event there is more than one cumulative underproduced party seeking to make up underproduction, each such cumulative underproduced party shall be entitled to make up gas in the direct proportion that the cumulative underproduction of such party bears to all cumulative underproduction of all parties then desiring make-up

gas of the particular gas classification category. In the event there is more than one cumulative overproduced party required to furnish gas for make-up of underproduction, in absence of agreement between the affected parties, each such cumulative overproduced party shall furnish make-up gas (up to the twenty-five percent (25%) limitation heretofore provided) in the direct proportion that the cumulative overproduction of such party bears to all cumulative overproduction of all parties supplying gas of the particular gas classification category.

Any party having cumulative overproduction in any particular gas classification category shall at all times be entitled to seventy-five percent (75%) of its full share of gas of the particular gas classification category in which it is cumulatively overproduced as long as such party remains overproduced. Any portion of such twenty-five percent (25%) make-up gas to which a party is entitled and which is not taken by such party may be taken by other cumulative underproduced party or parties up to the full twenty-five percent (25%) heretofore provided. If there is more than one party desiring make-up gas under this circumstance, the parties taking such make-up gas shall be entitled to such quantities of make-up gas in proportion to the cumulative underproduction of the affected parties, determined as heretofore provided.

All gas taken by a party in accord with the terms of this Agreement, regardless of whether such party is overproduced or underproduced, shall be regarded as gas taken for its own account with title thereto being in such party, whether such gas be attributable to such party's full share of production, or whether it is being taken as overproduction, or whether it is being taken as make-up gas, and shall pay any and all production taxes and royalty due on such gas. All burdens and obligations, other than such royalty and production tax payments, shall be borne by the party having such burden or obligation.

IV.

The Unit Operator (hereinafter referred to as "Operator") will maintain a separate running account of the quantities of gas, by gas classification category, each party is entitled to, and the quantities of such category taken and marketed by each of the parties. The Operator will also furnish each party monthly statements showing the total quantity of gas produced by each gas classification category, the amount of such category used in the Unit operations, vented or lost, the volume of gas by each such category delivered to pipeline purchaser(s) for the account of each party, and the cumulative overproduction and underproduction status of each party by each gas classification category.

For purposes of balancing, the measurement point of the gas taken (both quantity and quality) shall be the party's discharge measurement point at or near the well from which the gas is produced. All parties hereto shall share in and own the concomitant crude and condensate (not including gas plant liquids) produced in accordance with their respective interests established pursuant to the provisions of the Operating Agreement, regardless of whether they are able to market their full share of gas.

V.

Recovery from storage by a cumulative underproduced party from a cumulative overproduced party shall be on a first-in, first-out basis and the cumulative underproduced party shall pay the cumulative overproduced party a storage fee for storing its gas. The storage fee shall be due and payable by such underproduced party to such overproduced party during any monthly accounting period such underproduced party removes gas from storage. The fee to be paid for storing gas in accordance with the provisions of this Agreement, shall be the deficiency in cash between the price that the overproduced party received for gas at the time the underproduction was had, and the price for gas the overproduced party is receiving at the time the underproduction is made up by the underproduced party multiplied by the volume of make-up gas which qualifies for the storage fee charges, less royalty and taxes payable thereon.

Each party shall furnish the Operator upon his request the gas prices necessary to make the gas storage fee computation hereby provided, and the underproduced party(ies) shall remit to Operator monthly the amounts so determined to be due for storage fees. Operator shall in turn make monthly distribution of the storage fees received from the underproduced party(ies) to the party(ies) entitled to be paid the storage fees.

VI.

At the termination of gas production for a given gas classification category from the property, the overproduced party or parties shall make a monetary settlement of the imbalance by payment to the Operator for the account of the party or parties underproduced in that particular gas classification category, based on the price per Mcf the overproduced party or parties actually received for each Mcf of the overproduced gas. The price used for the above calculation shall be the overproduced party's or parties' bonafide collected gas sales price(s) less royalties, severance, and other production taxes which have been paid with respect to such overproduction. Each of the parties agrees to maintain complete records as to the volume of gas it sold and the price received, so that the above computations can be made. The Operator shall distribute the payments it has received hereunder (from the overproduced party) to the underproduced party or parties entitled thereto in the proportion that each party's cumulative underproduction, for the category of gas for which payment is to be made, bears to the total of such cumulative underproduction. It is understood, however, that the Operator shall rely on the statements made to it, and shall have no liability with respect to the correctness of the funds received by it.

VII.

Royalties shall be paid in accordance with provisions of the Operating Agreement. The Operator shall be reimbursed by each party taking gas for all royalty due and payable by Operator with respect to production taken by such party. Each party taking gas under the terms hereof shall pay any and all applicable taxes due on or with respect to such production. Each party shall be obligated to pay its working interest share of all costs and liabilities incurred in Unit operations, in accordance with the provisions of the Operating Agreement. Nothing herein shall be construed so as to deny to any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

VIII.

If any portion of the storage fee provided for in Article V or the settlement provided for in Article VI shall be based on prices subject to refund upon order of the Federal Energy Regulatory Commission or any authority having jurisdiction, the paying party or parties shall withhold such amounts subject to refund until prices are fully approved by the Federal Energy Regulatory Commission, unless the party or parties receiving payments furnish a corporate undertaking satisfactory to the paying party(ies).

EXHIBIT "F"

NONDISCRIMINATION AND CERTIFICATION OF NONSEGREGATED FACILITIES

A. Equal Opportunity Clause (41 CFR 60-1.4). (Applicable only to contracts or purchase orders for more than \$10,000.)

During the performance of this contract, the Operator agrees as follows:

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or termination, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, orders, this contract may be canceled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction from the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

B. Certification of Nonsegregated Facilities (41 CFR 60-1.3). (Applicable only to contracts or purchase orders which are not exempt from the provisions of the Equal Opportunity Clause set out above.)

The Operator certifies that it does not, and will not, maintain or provide for its employees any segregated facilities at any of its establishments and that it does not, and will not, permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract or purchase order. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. The Operator further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): **NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES.** A Certificate of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually).

C. Affirmative Action Compliance Program (41 CFR 60-1.5). (Applicable only if (a) the Operator has 50 or more employees and (b) this contract or purchase order is for \$50,000 or more.)

The Operator shall develop a written affirmative action program for each of its establishments, and, within 120 days from the effectiveness of this contract or purchase order, shall maintain a copy of separate programs for each establishment, including evaluations of utilization of minority group personnel and the job classification tables, at each local office responsible for the personnel matters of such establishment.

D. Employer Information Report (41 CFR 60-1.7). (Applicable only if (a) the Operator has 50 or more employees, (b) the Operator is not exempt (pursuant to section 60-1.5 or Title 41 of the Code of Federal Regulations) from the requirement for filing Employer Information Report EEO-1, and (c) the contract or purchase order is for \$50,000 or more.)

The Operator agrees to file with the appropriate Federal agency annually, on or before the 31st day of March, complete and accurate reports on Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission, and the Department of Labor, in the form and manner prescribed in the Plans for Progress or such form as may hereafter be promulgated in its place.

E. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era (41 CFR 60-250). (Applicable only to contracts or purchase orders for \$10,000 or more.)

The affirmative action clause prescribed in section 60-250.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-250.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for \$50,000 or more, then within 120 days from the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with section 60-250.6 of said Regulations.

F. Affirmative Action for Handicapped Workers (41 CFR 60-741.4). (Applicable only to contracts or purchase orders for \$2,500 or more.)

The affirmative action clause prescribed in section 60-741.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-741.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for \$50,000 or more, then, within 120 days of the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment, which program shall set forth the Operator's policies, practices and procedures in accordance with section 60-741.6 of said Regulations.

G. Utilization of Minority Business Enterprises (Federal Procurement Regulations 1-1.13). (Applicable only to contracts or purchase orders which may exceed \$10,000.)

(1) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(2) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American people, American-orientals, American-Indians, American-Eskimos, and American Aleuts. Contractors may rely on written representation of subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.