

GAS PURCHASE AGREEMENT

dated April 4, 1985

between

EL PASO NATURAL GAS COMPANY
Buyer

and

KENAI OIL AND GAS, INC.
Seller

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. 9063 March 5, 1987 Merrion Oil & Gas Corporation
--

covering gas produced in
Rio Arriba County, New Mexico

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GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the fourth (4th) day of April 1985, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer," and KENAI OIL AND GAS INC., hereinafter referred to as "Seller."

WITNESSETH:

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

ARTICLE I
COMMITMENT

Seller hereby commits to the performance of this Agreement the casinghead gas in and under and to be hereafter produced during the term of this Agreement from Seller's interest as of the date hereof in Seller's properties as hereinafter defined. The term "Seller's properties" as used in this Agreement shall mean all of Seller's interest as of the date hereof in the oil and gas leases, or oil, gas and mineral leases to the extent such leases cover the lands and/or wells described in Exhibit "A" hereto.

ARTICLE II
QUANTITIES

Commencing as of the date of first deliveries of gas hereunder and continuing during the term hereof, Seller shall, on a best efforts basis, sell and deliver to Buyer from Seller's properties at the point or points of delivery provided herein, and Buyer shall, on a best efforts basis, purchase and receive from Seller such quantities of gas as may be physically and/or legally available from time to time.

ARTICLE III
DELIVERY POINT AND DELIVERY PRESSURE

1. The point or points of delivery for all gas sold

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

2. Seller shall deliver or cause the gas to be delivered hereunder at pressures that are sufficient to allow the gas to be delivered to Buyer at its then-prevailing pressure at the delivery point(s) hereunder; provided, however, that neither party shall be obligated to install compression to effect deliveries of gas hereunder.

ARTICLE IV PRICE

1. Subject to the further provisions of this Agreement, the price to be paid by Buyer to Seller for gas delivered hereunder shall be the lesser of (a) two dollars and twenty cents (\$2.20) per MMBTU, plus applicable "state severance taxes" (as defined in NGPA Section 110(c)) borne by Seller; or (b) any maximum lawful price prescribed by any governmental body having jurisdiction.

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

- (A) Pursuant to an order of the Federal Energy Regulatory Commission, its successor administrative agency or other governmental authority having jurisdiction, Buyer, for any reason, is not permitted or allowed to include in its filed rates the full price (including any adjustments or add-ons) paid Seller for all or any portion of gas delivered hereunder; or
- (B) Buyer, acting in good faith and in accordance with prudent business practices, determines,

in its sole discretion, that its gas supply and market demand environment indicates a downward change in the value to Buyer of the gas to be purchased from Seller hereunder;

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

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

ARTICLE V QUALITY

1. All natural gas which Seller delivers to Buyer shall conform to the following specifications:

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

(b) Liquids: The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at

which the gas is delivered. The gas shall, in no event, contain water vapor in excess of seven pounds (7#) per million cubic feet.

(c) Hydrogen Sulfide: The gas shall not contain more than one-quarter (1/4) grain of hydrogen sulfide per one hundred (100) cubic feet.

(d) Total Sulfur: The gas shall not contain more than five (5) grains of total sulfur per one hundred (100) cubic feet.

(e) Carbon Dioxide: Gas deliveries shall not have an average carbon dioxide content in excess of one percent (1%) by volume.

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

(g) Heating Value: The gas delivered hereunder shall contain an average heating content of not less than one thousand (1,000) BTUs per cubic foot.

(h) Temperature: The temperature of the gas shall not exceed one hundred twenty degrees (120⁰) Fahrenheit.

2. If, at any time, gas tendered for delivery shall fail to conform to any of the quality specifications set forth above, Buyer shall notify Seller of such deficiency and Buyer may, at its option, refuse to accept delivery pending correction of the deficiency by Seller, or it may continue to accept delivery and make such changes necessary to cause the gas to conform to such specifications. In the event Seller fails to correct any such deficiency within a reasonable period of time and Buyer elects not to continue to accept deliveries of the nonconforming gas, then either party may terminate this Agreement by giving the other party thirty (30) days written notice.

ARTICLE VI MEASUREMENT

1. The unit of volume for all purposes hereunder shall be one (1) cubic foot of gas at an absolute pressure of fourteen and seventy-three hundredths pounds (14.73#) per square inch at a temperature of sixty degrees (60⁰) Fahrenheit.

2. The gas delivered as measured at pipeline

pressures shall be corrected to the unit of measurement. Measurement and determination of gas delivered shall be made in accordance with the recommendations set forth in the AGA Measurement Committee Report No. 3, as amended. The unit of measurement shall be one million British Thermal Units (MMBTU).

3. For settlement purposes, in determining the number of BTUs per unit volume of gas delivered hereunder, the BTU content of one (1) cubic foot of gas shall be the number of BTUs produced by the combustion, at constant pressure, of the amount of gas saturated with water vapor which would occupy a volume of one (1) cubic foot at a temperature of sixty degrees (60°) Fahrenheit and under a pressure equivalent to that of thirty inches (30") of mercury at thirty-two degrees (32°) Fahrenheit, and under standard gravitational force (at 980.665 centimeters per second squared) with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas and air and when the water formed by combustion is condensed to the liquid state.

4. Deliveries of gas hereunder shall be calculated from the measurements taken at the existing measuring equipment installed, operated and maintained at the delivery point(s).

ARTICLE VII BILLING AND PAYMENT

1. On or before the fifteenth (15th) day of each calendar month, Buyer shall provide Seller a statement showing the quantity of gas purchased by Buyer hereunder during the preceding calendar month. Payment for such quantity of gas, less all applicable taxes paid by Buyer for Seller's account (no taxes shall be paid by Buyer for Seller's account except by agreement between the parties or as required by law), shall be made by Buyer to Seller on or before the last day of the calendar month in which such statement is rendered.

2. In the event an error is discovered in the amount shown due in any statement rendered by Buyer, Buyer shall make proper adjustment thereof within thirty (30) days after final determination of the correct volumes or values involved. Claims

for errors shall be made promptly, but in no event more than two (2) years after the date of such statement.

3. Each party hereto shall have the right, at any and all reasonable times, to examine the books and records of the other, to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under this Agreement.

ARTICLE VIII
TITLE

1. Title to all natural gas delivered hereunder shall transfer from Seller to Buyer at the delivery point(s).

2. Seller hereby warrants title to the gas sold by it hereunder and its right to sell the same and warrants that all such gas is owned by Seller free from all liens, encumbrances and adverse claims, including, but not limited to, liens to secure payment of production taxes, severance taxes and other taxes. As between Buyer and Seller, Seller shall at all times have the obligation to make settlement for all royalties, overriding royalties and other payments due to the owners of the mineral, royalty, and other interests under Seller's leases, as modified by such assignments, unitization agreements and other documents as may appear of record or otherwise be binding upon Seller, and to make settlements with all other persons having any interest in the gas (or the proceeds of the sale thereof) sold by Seller hereunder. Seller shall save and hold Buyer free and harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of adverse claims of any and all persons to the gas sold by it hereunder or to royalties, overriding royalties or other payments with respect thereto, or to taxes, licenses, fees or charges thereon which are applicable before the title to the gas passes to Buyer or which may be levied and assessed upon the sale thereof to Buyer. In case of any adverse claim or claims to the title or proceeds attributable to any gas bought and sold hereunder, Buyer may, without otherwise affecting this Agreement, retain the purchase price thereof without interest, until such claim or claims are finally

determined, or at Buyer's option, until Seller shall furnish Buyer a bond, in form and with sureties acceptable to Buyer, conditioned to save Buyer harmless.

ARTICLE IX

TAXES

Seller shall pay or cause to be paid all taxes lawfully levied on Seller, or otherwise to be borne contractually by Seller, and applicable to the gas delivered hereunder prior to its delivery to Buyer. Buyer shall pay all taxes lawfully levied on Buyer applicable to such gas after delivery to Buyer or for the account of Buyer.

ARTICLE X

TERM

This Agreement shall become effective on the date first above written and shall continue from month to month thereafter; subject, however, to termination by either party hereto upon written notice given no less than thirty (30) days in advance to the other party.

ARTICLE XI

RESPONSIBILITY

1. As between Buyer and Seller, Buyer shall have no responsibility with respect to any gas delivered hereunder prior to the time title passes to Buyer, or on account of anything which may be done, happen or arise with respect to such gas before such time, and Seller shall have no responsibility with respect to such gas after title passes to Buyer, or on account of anything which may be done, happen or arise with respect to such gas after such time.

2. Buyer and Seller each assume full responsibility and liability for the maintenance and operation of their respective properties and shall indemnify and save harmless the other party from all liability and expense on account of any and all damages, claims or actions, including injury to and death of persons, arising from any act or accident in connection with the installation, presence, maintenance and operation of the property

and equipment of the indemnifying party.

ARTICLE XII
GOVERNMENTAL RULES, REGULATIONS AND AUTHORIZATIONS

1. This Agreement shall be subject to all applicable state and federal laws, orders, directives, rules and regulations of any governmental body, agency, or official having jurisdiction in the premises and the parties agree to comply with such.

2. This Agreement is entered into by the parties hereto with their understanding that the terms and provisions hereof and the gas to be delivered by Seller and received by Buyer hereunder are subject to the provisions of the Natural Gas Act or the Natural Gas Policy Act of 1978, or both, and the applicable Rules and Regulations of the Federal Energy Regulatory Commission thereunder. Buyer represents that it holds a Certificate of Public Convenience and Necessity issued by the Federal Energy Regulatory Commission or otherwise has the necessary authority covering the construction, ownership, and operation of Buyer's facilities. Seller agrees that, as to any gas which is subject to the Commission's jurisdiction under Section 1(b) of the Natural Gas Act, it shall proceed with diligence in the preparation, filing and prosecution of such applications and filings to said Commission as may be necessary to obtain any requisite authorizations.

3. If at any time during the term hereof, any governmental authority having jurisdiction in the premises shall take any action as to Seller or Buyer whereby the sale, delivery, receipt and use of gas as contemplated hereunder shall be prescribed or subjected to terms, conditions, regulations, restraints, or price or rate controls, ceilings, or limits that in the sole judgment of the party affected are unduly or overly burdensome to that party, such party may at any time thereafter cancel and terminate this Agreement without further liability hereunder, except as to payments due at the time of such termination.

ARTICLE XIII
FORCE MAJEURE

Except for Buyer's obligations to make payment for gas delivered and received hereunder, neither party hereto shall be liable for any failure to perform the terms of this Agreement when such failure is due to force majeure as hereinafter defined. The term "force majeure" as employed in this Agreement shall mean failure of any third party necessary to performance by either party hereunder, acts of God, strikes, lockouts, or industrial disputes or disturbances, civil disturbances, arrests and restraint from rulers or people, interruptions by government or court orders, present and future valid orders of any regulatory body having proper jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure labor or inability to secure materials, including inability to secure materials by reason of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fire, storm, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming force majeure. Upon the occurrence of an event constituting force majeure, the same shall, so far as possible, be remedied with all reasonable dispatch. The settlement of strikes or lockouts or industrial disputes or disturbances shall be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or industrial disputes or disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the discretion of the party having the difficulty.

ARTICLE XIV
NOTICES

Any notice, request, demand, or statement provided for in this Agreement shall be in writing and deemed given when

deposited in the United States mail, postage prepaid, directed to the post office address of the parties as follows:

BUYER:

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79978

SELLER:

Kenai Oil and Gas Inc.
One Barclay Plaza
1675 Larimer Street
Suite 500
Denver, Colorado 80202

or at such other address as either party may from time to time designate.

ARTICLE XV
MISCELLANEOUS

1. No waiver by either Seller or Buyer of any default of the other under this Agreement shall operate as a waiver of any future default, whether of like or different character or nature.

2. This Agreement may be amended only by a written instrument executed by the parties hereto.

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

4. This Agreement shall bind and benefit the parties hereto and their respective successors and assigns; provided that no conveyance or transfer of Seller's interest in any of Seller's properties shall be binding upon Buyer or affect the rights of Buyer or the obligations of Seller hereunder until Buyer has been furnished with written notice and a certified copy of such recorded conveyance or transfer.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date and year first above written.

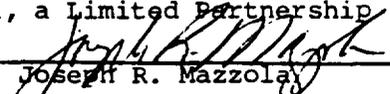
"BUYER"

EL PASO NATURAL GAS COMPANY

By 
Michael C. Holland
Vice President 15

"SELLER"

KENAI OIL AND GAS INC., General Partner
for Kenai Partners Drilling Program - Series
82-1, a Limited Partnership

By 
Joseph R. Mazzolay

Title Senior Vice President
KENAI OIL AND GAS INC.

Taxpayer I.D. No. 84-0883557

ATTEST:

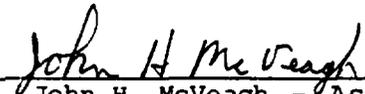

John H. McVeagh - Asst. Secretary

EXHIBIT "A"

This Exhibit "A" is attached to and made a part of the Gas Purchase Agreement between EL PASO NATURAL GAS COMPANY and KENAI OIL AND GAS INC., dated April 4, 1985:

SELLER'S PROPERTIES

Hawk Federal #3 Well: Located in Section 35, Township 25 North, Range 2 West, Rio Arriba County, New Mexico; limited, however, to Gallup formation casinghead gas production from the proration unit acreage assigned to this well.