

GAS PURCHASE AGREEMENT

dated November 1, 1985

between

EL PASO NATURAL GAS COMPANY

Buyer

and

READING & BATES PETROLEUM CO.

Seller

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
9063
Merrion Oil & Gas Corporation
March 5, 1987

covering gas produced in
Rio Arriba County, New Mexico

November 1, 1985

Reading & Bates Petroleum Co.
3200 Mid-Continent Tower
Tulsa, Oklahoma 74103

Re: Gas Purchase Agreements with
Reading & Bates Petroleum Co.

Gentlemen:

Concurrently herewith, El Paso Natural Gas Company ("El Paso") and Reading & Bates Petroleum Co. ("Reading & Bates") have entered into agreements respecting amendments to existing gas purchase agreements, rollover gas purchase agreements and/or gas purchase agreements for new gas supplies, which are set forth on the attachment hereto (such existing gas purchase agreements, as amended, and such new agreements to be collectively referred to herein as "the subject agreements"). This Letter Agreement shall set forth the understanding and agreement of El Paso and Reading & Bates respecting the matters contained herein.

El Paso and Reading & Bates acknowledge that the Federal Energy Regulatory Commission has recently issued a Notice of Proposed Rulemaking in Docket No. RM85-1-000. Accordingly, El Paso and Reading & Bates agree that, by executing the various agreements described above after the date of issuance of the Notice of Proposed Rulemaking, neither party shall be deemed to have waived or otherwise forfeited whatever rights it may otherwise have, if any, to assert that any Commission order promulgating final rules in Docket No. RM85-1-000 constitutes a force majeure event, renders the subject agreements commercially impracticable, frustrates the purpose of either party under the subject agreements, preempts state regulation relating to gas production or otherwise relieves either party from its obligations under the subject agreements.

El Paso and Reading & Bates further agree that by executing this letter neither party shall be deemed to have acknowledged or agreed that the Notice of Proposed Rulemaking in Docket No. RM85-1-000 or any of the provisions contained therein do now or will ever constitute a force majeure, render the subject

agreements commercially impracticable, frustrate the purpose of either party under the subject agreements, preempt state regulation relating to gas production or otherwise relieve either party from its obligations under the subject agreements.

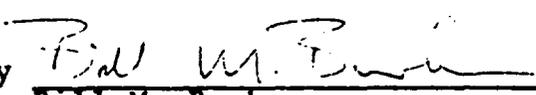
Very truly yours,

EL PASO NATURAL GAS COMPANY

By 
Michael C. Holland
Vice President tj

AGREED TO AND ACCEPTED:

READING & BATES PETROLEUM CO.

By  
Bill M. Burks
President

ATTACHMENT TO LETTER AGREEMENT
DATED NOVEMBER 1, 1985
BETWEEN
EL PASO NATURAL GAS COMPANY
AND
READING & BATES PETROLEUM CO.

<u>El Paso Contract Code</u>	<u>Contract Date</u>	<u>Location</u>
0335 WADDELL R79-7 s2	07-26-79	Crane County, Texas
0387 Lusk R81-9 s6	01-01-81	Lea County, New Mexico
4151 LLP49-75 s8	06-01-49	Lea County, New Mexico
4186 LLP39-95 s20	07-19-39	Lea County, New Mexico
4296 SPA52-66 s77	07-14-52	Spraberry Area, Texas
4304 SPA57-102 s8	08-02-57	Spraberry Area, Texas
4742 SPA62-168 s6	10-12-62	Spraberry Area, Texas
5134 ECC79-1 s4	05-29-79	Eddy County, New Mexico
5201 ECC80-5 s2	05-16-80	Eddy County, New Mexico
5282 ECC81-15 s2	07-13-81	Eddy County, New Mexico
5308 ECC81-20 s2	12-01-81	Eddy County, New Mexico
5325 ECC82-22 s2	06-01-82	Eddy County, New Mexico
6098 LHP49-86 s22	04-30-49	Lea County, New Mexico
630E RMH81-262 s3	01-08-81	Roger Mills County, Oklahoma
6421 PC56-40 s20	10-29-56	San Juan Basin
645D DKC80-23 s7	06-27-80	San Juan Basin
663H RMH81-385 s3	12-17-81	Roger Mills County, Oklahoma
685A ECH78-603 s4	07-12-78	Eddy County, New Mexico
704B ECH79-701 s2	05-25-79	Eddy County, New Mexico
7154 LNH63-4 s9	11-27-63	Crockett County, Texas
731C ECH79-758 s2	12-01-79	Eddy County, New Mexico
770A ECH78-629 s3	09-18-78	Eddy County, New Mexico
770C ECH80-761 s3	03-03-80	Eddy County, New Mexico
776A ECH78-634 s3	09-21-78	Eddy County, New Mexico
811A DKC78-13 s5	11-16-78	San Juan Basin
1/637M DK85-474 s1	11-01-85	San Juan Basin

1/ Proposed new Gas Purchase Agreement between El Paso and Reading & Bates Petroleum Co.

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GAS PURCHASE AGREEMENT

THIS AGREEMENT is made and entered into as of the first (1st) day of November 1985, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer," and READING & BATES PETROLEUM CO., hereinafter referred to as "Seller."

WITNESSETH:

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

ARTICLE I
COMMITMENT

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

ARTICLE II
QUANTITIES

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

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

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

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

time during the remaining term of this Agreement to make up any such deficiency payments by crediting such payments against payments due for quantities of gas received during any succeeding year which are in excess of the Contract Quantity during any of such succeeding years.

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

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

ARTICLE III DELIVERY POINT

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

ARTICLE IV DELIVERY PRESSURE

1. Buyer shall have the right to operate its gathering system at the point or points of delivery hereunder at pressures not to exceed five hundred pounds (500#) per square inch gauge. Should the natural well flowing pressure of any well

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

2. Subject to the right granted Buyer pursuant to SECTION J of Exhibit "B" hereof, Buyer shall continue to be obligated to purchase gas hereunder from each of Seller's wells so long as the required delivery pressure is maintained, the well has the capability to produce into Buyer's facilities at least one million (1,000,000) cubic feet in any month attributable to Buyer's aggregate contracted interest, and the gas otherwise meets the requirements of this Agreement. In the event any well fails to satisfy any one or more of the foregoing requirements, then the gas thereafter produced from such well from the reservoir in which it is then completed and the gas reserves contained in said reservoir underlying the acreage attributable to said well shall be released from the provisions of this Agreement if either party shall give the other written notice of its desire to obtain such release.

ARTICLE V
PRICE

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

(A) Base Rate

The Base Rate shall be two dollars sixty cents (\$2.60) per MMBTU; provided, however, such Base Rate shall not exceed any maximum lawful rate prescribed by any governmental body having jurisdiction.

(B) Adjustment to Base Rate

The Base Rate shall be adjusted to the extent

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

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

- (A) Buyer shall, in no event, state a Base Rate hereunder which is less than ninety-five percent (95%) of the price, excluding tax reimbursements and any other adjustments, then being paid for gas delivered under this Agreement;
- (B) The Base Rate stated in any notice required under this paragraph 2. shall, in no event, be less than the base price (excluding tax reimbursements and any other adjustments) predominantly paid by Buyer on the day before the Notice Date under contracts, if any, entered into during the twelve (12) month period preceding said Notice Date for new gas (not previously committed to Buyer) of similar quantity, quality and pressure located in the San Juan Basin Area, situated in

McKinley, San Juan, Sandoval and Rio Arriba Counties, New Mexico and Archuleta, La Plata and Montezuma Counties, Colorado, and subject to similar physical delivery conditions (including consideration of any necessary third-party transportation) and minimum quantity provisions; and

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

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

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

and market demand environment indicates a downward change in the value to Buyer of the gas to be purchased from Seller hereunder;

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

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

The purchase and sale of the gas subject to Buyer's Alternate Price notice shall continue hereunder at the Alternate Price either (i) until the last day of the month in which Buyer's right of first refusal under paragraph 4. hereof expires, at which time this Agreement shall, except as otherwise provided below, terminate as to such gas, or (ii) only for so long as Buyer, in its sole discretion, determines that the event specified in subparagraph (B) above requires such an Alternate Price. If, at the time Buyer's right of first refusal under paragraph 4. hereof expires, there exists an outstanding deficiency payment pursuant to any minimum purchase obligation, then at Buyer's

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

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

4. Buyer and Seller agree that, at any time within sixty (60) days following the date any Alternate Price notice is given under paragraph 3. hereof, Seller may elect to seek another buyer for the gas subject to such notice. In the event Seller obtains a bona fide offer to purchase the gas subject to such notice from any buyer which is ready, willing and able to purchase said gas at a price higher than the price specified in such notice, then, within the above-prescribed sixty (60) day period, Seller shall give Buyer notice of such offer, including in such notice a description of the quantity, quality, price, pressure and delivery provisions thereof. Buyer shall have the right, by giving written notice within twenty (20) days following receipt of said notice from Seller, to elect to continue purchasing the gas subject thereto under the terms specified in said bona fide offer, but otherwise pursuant to all the terms of this Agreement.

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

ARTICLE VI

TERM

This Agreement shall become effective as of the date hereof and shall continue in full force and effect for a primary term ending on the second (2nd) anniversary of the first (1st) day of the month following the date of first deliveries of gas hereunder; provided, however, that in the event at the time of such termination, there exists an outstanding deficiency payment made by Buyer to Seller pursuant to the provisions of Article II hereof, then, at Buyer's option, deliveries of gas from Seller's properties shall continue until such time as Buyer receives gas therefrom without making payment therefor having a value equal to the outstanding deficiency payment, or Seller reimburses Buyer in cash the amount of such outstanding deficiency payment.

ARTICLE VII

NOTICES

Formal notices to be given hereunder shall be deemed sufficiently given and served when and if deposited in the United States mail, postage prepaid and certified or registered, addressed to Seller, Attention: Oil & Gas Sales, at 3200 Mid-Continent Tower, Tulsa, Oklahoma 74103, or to Buyer, Attention: Contract Administration Department at P. O. Box 1492, El Paso, Texas 79978, as the case may be, or to such other address as either party shall respectively hereafter designate in writing.

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

ARTICLE VIII

MISCELLANEOUS

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

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

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

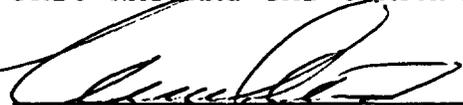
4. The topical headings used herein are inserted for convenience only and shall not be construed as having any substantive significance or meaning whatsoever or as indicating that all of the provisions of this Agreement relating to any particular topic are to be found in any particular article.

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

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

"BUYER"

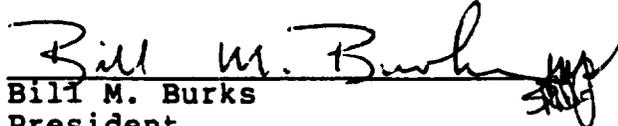
EL PASO NATURAL GAS COMPANY

By 
Michael C. Holland
Vice President

TJ

"SELLER"

READING & BATES PETROLEUM CO.

By 
Bill M. Burks
President

Taxpayer I. D. No. 73-054-0393

STATE OF TEXAS)

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

Given under my hand and seal of office this 13th day of January, 1986.

Hortencia B. Romero
Notary Public In and For the
State of Texas

My Commission Expires:
HORTENCIA B. ROMERO
Notary Public in and for STATE of TEXAS
~~My Commission Expires 09-05-88~~

STATE OF Oklahoma

Before me, the undersigned, a Notary Public in and for said State, on this day personally appeared Bill M. Burks, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said Reading & Bates Petroleum Co., a corporation, and that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 20th day of December, 1985.

Linda M. Ross
Notary Public In and For
 Tulsa, Oklahoma

My Commission Expires:
Sept. 22, 1989

EXHIBIT "A"

This Exhibit "A" is attached to and made a part of the Gas Purchase Agreement between EL PASO NATURAL GAS COMPANY and READING & BATES PETROLEUM CO., dated November 1, 1985:

SELLER'S PROPERTIES

Hawk Federal No. 3 well located in Section 35, Township 25 North, Range 2 West, Rio Arriba County, New Mexico; limited, however, to gas produced from the Dakota Formation and the proration unit acreage assigned to this well.

EXHIBIT "B"
GENERAL TERMS AND CONDITIONS

This Exhibit "B" is attached to and made a part of the Gas Purchase Agreement between EL PASO NATURAL GAS COMPANY and READING & BATES PETROLEUM CO., dated November 1, 1985:

SECTION A
DEFINITIONS

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

2. The terms "gas well", "well" or "Seller's well" as used in this Agreement shall mean a well located on Seller's properties classified as a dry gas or condensate gas well by the State Jurisdictional Agency or other governmental authority having jurisdiction.

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

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

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

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

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

law to exercise the powers set forth in any applicable provision of the Natural Gas Act, the Natural Gas Policy Act of 1978, or any subsequent legislation applicable to this Agreement.

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

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

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

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

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

SECTION B

INSTALLATION OF FACILITIES AND FIRST DELIVERY OF GAS

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

2. Seller agrees that it will either construct or cause to be constructed, with reasonable promptness and diligence

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

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

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

SECTION C

METERS

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

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

3. If, upon any test, the percentage of inaccuracy shall be one percent (1%) or more, the registration of such meter shall be corrected at the rate of such inaccuracy for any period which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half (1/2) of the time elapsed since the date

of the last calibration. Following any test, metering equipment found inaccurate shall be immediately restored by Buyer as closely as possible to a condition of accuracy. If, for any reason, any meter is out of service or out of repair so that the amount of gas delivered cannot be estimated or computed from the reading thereof, the amount of gas delivered through the period such meter is out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available, using the first of the following methods which is feasible:

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

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

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

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

SECTION D GAS MEASUREMENT

1. The unit of volume for all purposes hereunder shall be one (1) cubic foot of gas at an absolute pressure of fourteen and seventy-three hundredths pounds (14.73#) per square inch at a temperature of sixty degrees (60°) Fahrenheit.

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

made for deviation of the gas from Boyle's Law in accordance with said Gas Measurement Committee Report No. 3.

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

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

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

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

when the water formed by combustion is condensed to the liquid state. Copies of each such analysis shall be furnished by Buyer to Seller. Should Seller not be satisfied with the results of such analyses, it shall notify Buyer in writing. Promptly thereafter, representatives of the parties shall obtain simultaneously under normal operating conditions two (2) samples of the gas from the well in question in appropriate sampling devices of the same type. Each of the parties shall take one (1) such sample and subject it to appropriate laboratory analysis to determine the total gross heating value thereof, reporting the results thereof in writing to the other. The average of the total gross heating value shown by such two (2) analyses shall be used for all purposes of this Agreement for the period covered by the analyses made by Buyer which gave rise to the joint determination.

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

SECTION E
QUALITY

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

(a) Liquids: Seller shall install all drips, separators, and other conventional field devices which may be found necessary to separate crude oil, liquid hydrocarbons, or water in their liquid state at the temperature and pressure at which the gas is delivered hereunder so that such oil, liquid hydrocarbons,

or water in the liquid state may be prevented from entering Buyer's gathering lines at the points of delivery hereunder, all such material so removed to remain the property of Seller. Seller shall, if required by Buyer to do so, install, own and operate, at its sole cost, dehydration facilities at the points of delivery hereunder so that said gas shall not contain more than seven pounds (7#) of water per one million (1,000,000) cubic feet.

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

(c) Carbon Dioxide: The gas shall not contain more than two percent (2%) by volume carbon dioxide.

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

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

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

(g) Heating Value: The total gross heating value of the gas deliverable hereunder shall not be less than one thousand (1,000) BTUs per cubic foot.

2. If any gas delivered hereunder shall at any time fail to meet the quality specifications of paragraph 1. of this SECTION E, Buyer may, at its option, refuse to accept deliveries of gas from such well; provided, however, that Seller shall have the right, at its option, at any time within ninety (90) days after Buyer refuses to accept delivery of such gas from such well to commence the construction, at its sole cost, of treating facilities necessary to cause the gas produced from such well to meet said specifications and shall pursue the construction diligently to completion. In the event Seller so elects to commence the construction of treating facilities, Buyer shall continue to be obligated to purchase gas from such well hereunder so long as

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

SECTION F
BILLING AND PAYMENT

1. On or before the tenth (10th) day of each calendar month, Buyer shall provide Seller a statement showing the quantity of gas purchased by Buyer hereunder during the preceding calendar month. Payment for such quantity of gas, less all applicable taxes paid by Buyer for Seller's account (no taxes shall be paid by Buyer for Seller's account except by agreement between the parties or as required by law), shall be made by Buyer to Seller on or before the last day of the calendar month in which such statement is rendered. Notwithstanding the foregoing, Buyer shall not make any payments to Seller for gas produced from any well subject to this Agreement unless and until Buyer has received, in form and substance satisfactory to Buyer, a Division Order substantially similar to the form set forth in Exhibit "C" hereof (or other similar document acceptable to Buyer) which sets forth the interests of each owner in such well; provided, however, that in no instance shall Seller's share of proceeds attributable to sales made under this Agreement be withheld or suspended by Buyer due to the failure of other

contracted owners in Seller's wells to provide Buyer with a satisfactory Division Order.

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

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

4. Any error or discrepancy in charts or statements shall be promptly reported to or by Buyer upon discovery thereof and Buyer shall make proper adjustment thereof within thirty (30) days after final determination of the correct volumes or values involved; provided, however, that if no such errors or discrepancies are reported within two (2) years from the date of such chart or statement, the same shall be conclusively deemed to be correct. Except as specifically required by valid law, rule or regulation, no interest shall be payable on any such adjustment.

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

SECTION G
RIGHTS OF SELLER

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

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

(b) The right to use gas reasonably required to develop and operate Seller's properties, including, but not

limited to, gas for compressor fuel, and for drilling fluid, and the gas lifting of oil (limited, however, to use in a closed gas lift system).

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

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

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

SECTION H TAXES

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

SECTION I
RESPONSIBILITY

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

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

SECTION J
REGULATION OF FLOW

Buyer shall have the right at any and all times to regulate the flow of gas at the delivery points hereunder to meet its fluctuating demands, subject, however, to Seller's control to the extent necessary to prevent such excessive rates of withdrawal as in Seller's opinion may result in well or reservoir damage. Buyer shall, as to any marginal well requiring continuous production because of water and/or liquid hydrocarbon accumulations in the well bore, cooperate with Seller in regulating the flow of gas from such well to the end that required production rates are maintained.

SECTION K
RIGHTS-OF-WAY

Seller hereby grants and assigns to Buyer, insofar as Seller has the right so to do, under the terms of its oil and gas leases covered hereby, all requisite easements and rights-of-way over, across and under properties covered hereby owned by or under lease to Seller with full right of ingress and egress for the purpose of constructing and operating gas pipelines, meter

stations and other equipment necessary or convenient for carrying out the terms of this Agreement and Buyer's obligations hereunder. If Buyer shall deliver to Seller field notes describing any such easement or right-of-way, Seller will execute and deliver to Buyer an appropriate written instrument confirming such easement or right-of-way as so described. Buyer shall have the right to remove, repair and replace all or any part of Buyer's pipelines, meter stations, and other equipment and facilities, at any time during, and within a reasonable time after, the expiration of the term of this Agreement.

SECTION L

TITLE

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

without interest, until such claim or claims are finally determined or, at Seller's option, until Seller shall furnish Buyer a bond, in form and with sureties acceptable to Buyer, conditioned to save Buyer harmless.

SECTION M
FORCE MAJEURE

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

SECTION N
RULES AND REGULATIONS

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

2. This Agreement is entered into by the parties hereto with their understanding that the terms and provisions hereof and the gas to be delivered by Seller and received by Buyer hereunder are subject to the provisions of the Natural Gas 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.

SECTION O
SUCCESSORS AND ASSIGNS

This Agreement shall bind and benefit the parties hereto and their respective successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding upon or affect the rights hereunder of the other party until such other party has been furnished with written notice, and certified copy of such recorded conveyance or transfer; provided, further, that either Buyer or Seller, or both, may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto, to a trustee or trustees, individual or corporate, as security for bonds or other obligations or securities, without such trustee or trustees assuming or becoming in

any respect obligated to perform any of the obligations of the assignor, and if any such trustee be a corporation, without its being required by the parties hereto to qualify to do business in the State of New Mexico, but no such assignment shall serve to relieve the assigning party of its obligations hereunder. No payment shall be made under this Agreement in accordance with any assignment until Buyer has received a Transfer Order or other appropriate document, in form and substance satisfactory to Buyer, evidencing the new division of interests resulting from said assignment. Payments to said new division of interests shall be made only for gas produced subsequent to the conveyance or transfer being made binding on the party making payments.

DIVISION ORDER

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

Date _____, 19__

Division Order No. _____

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

PROPERTY IDENTITY CODE:

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

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

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