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# NEW MEXICO STATE LAND OFFICE

## Agreement for Natural Gas Storage in the Grama Ridge-Morrow Formation

### RIGHT-OF-WAY EASEMENT NO. RW-30222

This Agreement for Natural Gas Storage in the Grama Ridge-Morrow Formation (this "**Agreement**"), made this 20th day of September, 2006, is by and between the **STATE OF NEW MEXICO**, acting by and through Patrick H. Lyons, its Commissioner of Public Lands, hereinafter called the "**Grantor**", and **ENSTOR GRAMA RIDGE STORAGE AND TRANSPORTATION, LLC (fka GRAMA RIDGE STORAGE AND TRANSPORTATION, LLC)**, a limited liability company duly organized and existing under the laws of the State of Oregon, and duly authorized to transact business in the State of New Mexico, hereinafter called "**Grantee**."

WHEREAS, Grantor has previously granted oil and gas leases covering lands within the Unit Area (as herein after defined);

WHEREAS, Raptor Natural Pipeline LLC (successor by merger and name change to Llano, Inc.) acquired such oil and gas leases and desired to develop the Storage Interval (as herein after defined) for the underground storage of natural gas;

WHEREAS, Grantor, pursuant to N.M.S.A. § 70-6-3, has the authority to grant rights for underground storage of natural gas in lands subject to its control;

WHEREAS, in order to grant such storage rights within the Storage Interval, a unit was formed for the purposes of secondary recovery and gas storage pursuant to that certain Unit Agreement for the Operation of the Grama Ridge-Morrow Unit Area, Lea County, New Mexico entered into on April 25, 1973 (as subsequently amended on September 1, 1976, and May 23, 2001, the "**Unit Agreement**");

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BOOK 1473 PAGE 618

BOOK 1516 PAGE 243

WHEREAS, the "**Unit Area**" under the Unit Agreement covers Sections 33 and 34, Township 21 South, Range 34 East, N.M.P.M.; Section 3, Township 22 South, Range 34 East, N.M.P.M.; and Lot 1, Lot 2 and S½NE¼ of Section 4, Township 22 South, Range 34 East, N.M.P.M.;

WHEREAS, the unitized formation under the Unit Agreement is defined as the zone encountered at a log depth of 12,722 feet to 13,208 feet in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336) as shown on the Schlumberger Sonic Log B Gamma Ray Log of such well dated July 5, 1965, which well is located 1,980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East (the "**Storage Interval**");

WHEREAS, OCD Order R-4473 (January 29, 1973) and OCD Order 4491 (March 16, 1973) provided the initial authorization for storage in the Storage Interval and OCD Order R-11611 (July 3, 2001) established "Special Project Rules and Operating Procedures for the Grama Ridge Morrow Gas Storage Unit";

WHEREAS, Grantee, as successor in interest to Raptor Natural Pipeline LLC (successor by merger and name change to Llano, Inc.), holds certain rights, including the right to store natural gas in the Storage Interval, in and to the Unit Area pursuant to the Unit Agreement and the "**Original Non-BLM Agreements**" (as such terms are more particularly described in Exhibit B);

WHEREAS, Grantee, as successor in interest to Raptor Natural Pipeline LLC (successor by merger and name change to Llano, Inc.), holds certain rights from the United States of America to store natural gas in Sections 4 and 10, Township 22 South, Range 34 East (Lea County, New Mexico) pursuant to that certain Agreement for the

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Subsurface Storage of Gas, Morrow Formation, Grama Ridge Area, dated effective November 1, 1975, Serial No. NM-70953X, formerly Contract No. 14-08-0001-14277 (such agreement, as amended, the "**BLM Gas Storage Agreement**");

WHEREAS, Grantee conducts gas storage operations in the Storage Interval underlying both the Unit Area and the lands committed to the BLM Gas Storage Agreement;

WHEREAS, Grantee, by assignment, is the holder of that certain Business Lease No. BL-1652, dated April 20, 2004, granted by Grantor in favor of ConocoPhillips Company (as amended, the "**Business Lease 1652**") covering certain lands in Section 3, Township 22 South, Range 34 East, Lea County, New Mexico, which business lease is an integral part of Grantee's storage operations on, and includes lands comprising, the "**State Committed Lands**" (as such term is defined below);

WHEREAS, Grantee, by assignment, is the holder of that certain Business Lease No. BL-1662, dated October 4, 2004, granted by Grantor in favor of ConocoPhillips (as amended, the "**Radio Tower Site Lease**") covering certain lands in Section 3, Township 22 South, Range 34 East, Lea County, New Mexico, which lease is also an integral part of Grantee's storage operations on, and includes lands comprising, the State Committed Land (the Business Lease 1652 and Radio Tower Site Lease, collectively, the "**State Business Leases**");

WHEREAS, Grantee, by partial assignment, is the holder of that certain Right-Of-Way and Easement RW 16644, dated May 4, 2005, granted by Grantor in favor of Raptor Gas Transmission LLC for a pipeline in Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico, which easement is an integral part of

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Grantee's storage operations on, and includes lands comprising, the State Committed Lands;

WHEREAS, Grantee, by partial assignment, is the holder of that certain Right-Of-Way and Easement RW 16406, dated May 4, 2005, granted by Grantor in favor of Raptor Gas Transmission LLC for a pipeline in Section 34, Township 21 South, Range 34 East and Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, which easement is an integral part of Grantee's storage operations on, and includes lands comprising, the State Committed Land (RW-16644 and RW-16406 collectively, the "*State Easements*");

WHEREAS, Grantor and Grantee desire to reaffirm the rights of Grantee to conduct gas storage operations generally upon, and in the Storage Interval underlying, the State Committed Lands;

WHEREAS, the Second Amendment to the Unit Agreement states that the Unit Agreement is unique and that this right is in the nature of an easement that exists independently of the oil and gas leases that were initially unitized under the Unit Agreement;

WHEREAS, Grantor and Grantee desire to amend and restate, in their entirety, the terms and conditions contained in the Unit Agreement in respect of, and only in respect of, gas storage operations in the Storage Interval underlying the State Committed Lands with the terms and conditions contained herein, including those in the Stipulations For Underground Storage of Gas attached hereto as Exhibit A (the "*Stipulations*") and made a part hereof;

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WHEREAS, Grantor and Grantee desire to provide herein for the uses of the lands covered by State Business Leases and State Easements, which uses are appurtenant to Grantee's storage operations; and

WHEREAS, Grantor desire to replace and supersede the conditions of the State Business Leases and State Easements in their entirety;

NOW, THEREFORE, Grantor, for and in consideration of the Fees (as defined in the Stipulations) to be paid by the Grantee, receipt whereof is hereby acknowledged, has granted and by these presents does grant to the Grantee, its successors and assigns, the exclusive right to use the following lands in Lea County, New Mexico, for the Permitted Uses (as such term is defined in the Stipulations):

**Township 21 South, Range 34 East, NMPM**

Section 33: NW/4NE/4 (mineral interest only), W/2SE/4 (mineral interest only) E/2E/2, W/2

Section 34: S/2S/2 (mineral interest only), N/2S/2, N/2

**Township 22 South, Range 34 East, NMPM**

Section 3: Lots 1 through 4, S/2N/2, S/2 (All)

Section 4: Lots 1 & 2 and S/2NE/4 (NE/4) (surface only)

all of which lands are hereby committed to this Agreement and are referred to as "**State Committed Lands**" and contain a total of 1,769.81 surface acres and 1887.16 mineral acres, in both cases, more or less.

TO HAVE AND TO HOLD the said State Committed Lands for the Permitted Uses and purposes unto Grantee, its lawful successors and assigns, subject to the terms and conditions contained herein.

The State Committed Lands shall be developed and operated as an entirety. The Permitted Uses on any part of the State Committed Lands shall be deemed to be use of

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all the State Committed Lands. The grant herein is made upon the further condition that should the State Committed Lands hereby granted cease to be used by the Grantee or its lawful successors or assigns for any of the Permitted Uses for the consecutive period of one (1) year, the rights herein granted shall terminate, free and clear from any claim, interest or demand of the said Grantee or its successors or assigns; provided further, in any event, the Grantee shall be given notice of any such claimed cessation and a reasonable opportunity thereafter within which to remedy any default before a final determination is made to terminate the Grantee's rights under this Agreement.

If Grantee's use entails the crossing of any right-of-way for a highway, or the right-of-way of any other road, telephone, telegraph or transmission line, Grantee will exercise due care so as not to interfere with said rights-of-way and will comply with all laws, rules and regulations in connection with the making of such crossings.

Grantee, its successors and assigns hereby agree carefully to avoid destruction or injury to any improvements or livestock lawfully upon the State Committed Lands; carefully to close all gates immediately upon passing through such gates; and pay the reasonable and just damages for injury or destruction, if any, arising from Grantee's construction or operation activities on the State Committed Lands.

The Grantee shall have the right to assign this Agreement, subject to the approval of the Grantor.

Grantee, including its assigns, agents, and contractors shall at its own expense fully comply with all applicable laws, regulations, rules, ordinances, and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the State Committed Lands and operations thereon. Such government entities

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are not to be deemed third party beneficiaries hereunder; however, this clause is enforceable by the Grantor as herein provided or as otherwise provided by law.

This Agreement is executed subject to all valid existing rights; provided, however, that Grantee's rights deriving from Grantor in respect of its gas storage operations created under the Unit Agreement and/or the Original Non-BLM Agreements shall continue in full force and effect and relate back to the dates of the Unit Agreement and/or the Original Non-BLM Agreements, as applicable, subject only to the terms and conditions contained herein. This Agreement, together with its attachments, is intended to modernize, amend and restate, in their entirety, the terms and conditions of the Unit Agreement in respect of gas storage on the State Committed Lands within the Storage Interval, which Unit Agreement through length of time and amendments is in need of clarification and updating. Furthermore, Grantor grants to Grantee reasonable use of the surface of the State Committed Lands as is necessary to operate and maintain gas storage operations within the Storage Interval, including, without limitation, such use of the surface as is set forth in the Permitted Uses section of the Stipulations; and in this regard Grantor and Grantee agree to replace and supersede the State Business Leases and State Easements. Grantor agrees to exclude other parties from certain uses that would interfere with Grantee's storage operations as more fully described in Paragraph 6 of the Stipulations.

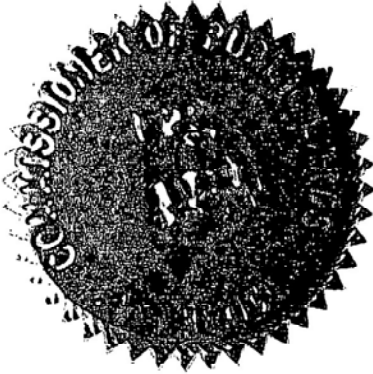
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SANTA FE, N.M.

IN WITNESS WHEREOF, the State of New Mexico has caused this instrument to be executed by its Commissioner of Public Lands thereunto duly authorized, with the seal of office affixed, the day and year above written.

**GRANTOR:**

STATE OF NEW MEXICO

BY *Patrick H. Ayon*  
COMMISSIONER OF PUBLIC LANDS



**GRANTEE:**

Enstor Grama Ridge Storage and Transportation, LLC

By: Enstor Operating Company, LLC,  
its manager

By: *Matt Morrow*  
Matt Morrow, President

*LEGA*  
*Q*

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SANTA FE, N.M.

ACKNOWLEDGEMENTS

STATE OF NEW MEXICO)  
 ) ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_, 2006, by \_\_\_\_\_, as \_\_\_\_\_ of the New Mexico State Land Office.

Witness my hand and official seal.

My commission expires:

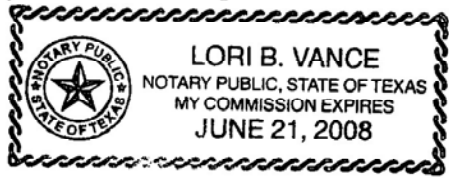
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STATE OF Texas)  
 ) ss.  
COUNTY OF Harris)

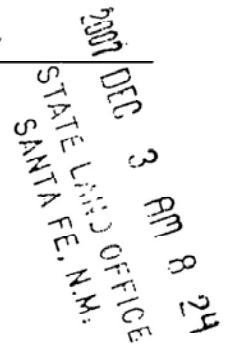
The foregoing instrument was subscribed and sworn to before me this 21<sup>st</sup> day of September 2006 by Matt Morrow, as President of Enstor Operating Company LLC, the manager of Enstor Grama Ridge Storage and Transportation, LLC.

Witness my hand and official seal.

My commission expires:



Lori B. Vance



STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

OCT 10 2006  
at 9:47 o'clock A M  
and recorded in Book 1473  
Page 618  
Melinda Hughes, Lea County Clerk  
By [Signature] Deputy

BOOK 1473 PAGE 626

BOOK 1516 PAGE 251

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**EXHIBIT A**

attached to and made a part of that certain Agreement for Natural Gas Storage in the Grama Ridge-Morrow Formation

**STIPULATIONS FOR UNDERGROUND STORAGE OF GAS**

1. **PARTIES:** The parties hereto are the State of New Mexico acting by and through its Commissioner of Public Lands ("***Grantor***") and Enstor Grama Ridge Storage and Transportation, LLC (fka Grama Ridge Storage and Transportation, LLC) ("***Grantee***") (each of Grantor and Grantee, a "***Party***", and collectively, the "***Parties***").

2. **TERMS:** Any capitalized term contained herein, not otherwise defined herein, will have the meaning ascribed to such term in the Agreement for Natural Gas Storage in the Grama Ridge-Morrow Formation (the "***Agreement***") to which this Exhibit A is attached.

3. **PURPOSE:** In order to ~~prevent waste and~~ ~~and~~ ~~conserve~~ natural resources, Grantee proposes to continue the use of certain lands in Lea County, New Mexico, specifically, Sections 33 and 34, Township 21 South, Range 34 East, N.M.P.M. and Sections 3, 4 and 10, Township 22 South, Range 34 East, N.M.P.M. (the "***Storage Area***"), and the underlying Storage Interval, more particularly described in OCD Order No R-11611 (July 3, 2001), for the development and operation of an underground gas storage facility (the "***Storage Facility***") as described in detail in Section 5 herein. Due to the fact that a portion of the Storage Area is comprised of lands owned by the State of New Mexico, specifically the State Committed Lands, Grantor has granted

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exclusively unto Grantee the use of the Storage Interval underlying the State Committed Lands for the purpose of injecting, storing and removing natural gas and other gases or gaseous substances and vapors (hereinafter collectively referred to as "**Gas**"), from the Storage Interval (collectively, the "**Gas Storage Operating Rights**").

Furthermore, in connection with the development and operation of the Storage Facility, Grantor has granted to Grantee reasonable use of the surface of the State Committed Lands as is necessary to develop, operate and maintain the Storage Facility, including, without limitation, such use of the surface as is specifically set forth herein.

The Agreement, together with its attachments, is intended to a) modernize, amend and restate, in their entirety, the terms and conditions of the Unit Agreement in respect of gas storage on the State Committed Lands within the Storage Interval; and b) replace and supersede the State Business Leases and State Easements.

Accordingly, Grantor and Grantee have agreed and stipulated as herein provided:

4. LANDS: The following described lands are hereby designated and recognized as constituting the Storage Area:

Township 21 South, Range 34 East, NMPM  
Section 33: All  
Section 34: All

Township 22 South, Range 34 East, NMPM  
Section 3: All  
Section 4: All

2007 DEC 3 PM 8 24  
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SANTA FE, N.M.

Section 10: All

Total acres . . . . . 3211.92, more or less (the "*Storage Area Acreage*")

Lands owned by the State of New Mexico within the Storage Area are described as follows:

**Township 21 South, Range 34 East, NMPM**

Section 33: NW/4NE/4 (mineral interest only), W/2SE/4 (mineral interest only) E/2E/2, W/2

Section 34: S/2S/2 (mineral interest only), N/2S/2, N/2

**Township 22 South, Range 34 East, NMPM**

Section 3: Lots 1 through 4, S/2N/2, S/2 (All)

Section 4: Lots 1 & 2 and S/2NE/4 (NE/4) (surface only)

all of which lands are hereby committed to this Agreement and are referred to as "*State Committed Lands*" and contain a total of 2,090 acres, more or less, of which the Grantor owns 1,769.81 surface acres, more or less (the "*State Surface Acreage*") and 1,887.16 mineral acres, more or less (the "*State Mineral Acreage*").

5. **FORMATION:** The Storage Interval (sometimes referred to as the "Morrow Formation") is that certain subsurface zone underlying the Storage Area encountered at a log depth of 12,722 feet to 13,208 feet in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336) as shown on the Schlumberger Sonic Log B Gamma Ray Log of such well dated July 5, 1965, which well is located 1,980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East.

6. **OPERATIONS:** Subject to the other terms and provisions of this Agreement, Grantee shall have, and Grantor has granted to Grantee, the exclusive right, privilege, and authority to utilize the Storage Interval underlying

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STATE LAND OFFICE  
SANTA FE, N.M.



the State Committed Lands for Gas Storage Operating Rights and the right, privilege, and authority to utilize the State Committed Lands as is necessary or desirable to use and enjoy the Gas Storage Operating Rights. Pursuant to NMAC 19.2.10.22, Grantor expressly excludes other parties from Gas storage use within the State Committed Lands and expressly excludes surface use by other parties that do not currently hold valid existing rights (including, now or hereafter, valid renewals and extensions of those rights) in those certain portions of the SW/4NW/4 of Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, as more particularly described in Exhibit C and Exhibit D to this Agreement. Grantor further expressly excludes all other surface activities within the State Committed Lands that would interfere with, or would otherwise limit the enjoyment of, Grantee's storage operations and the Gas Storage Operating Rights. In no way limiting the foregoing, such rights of Grantee will include, but not be limited to, the following activities (collectively, and together with the Gas Storage Operating Rights, the "**Permitted Uses**"):

- a. The exclusive right to drill, complete, equip, connect to pipelines, maintain, and operate injection and/or withdrawal wells completed in the Storage Interval;
- b. The exclusive right to re-establish, re-open, repair, recondition, plug or re-plug any non-commercial existing wells heretofore drilled on the State Committed Lands, whether or not abandoned, for the purpose of injecting and/or withdrawing Gas in and from the Storage Interval;

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- c. Drill, construct, install, operate, maintain, remove, and abandon, at locations selected by Grantee upon the State Committed Lands, such wells, piping, electric lines, communication facilities, and other fixtures, structures, equipment and appurtenances as Grantee, in its sole discretion, may deem necessary or desirable for the purpose of receiving, injecting, storing, treating, processing, and removing Gas in, from, and under the Storage Area;
- d. Conduct geological and geophysical surveys to determine the suitability and performance of the Storage Area for the Storage Facility;
- e. The exclusive right to transport Gas, whether produced from the State Committed Lands or elsewhere, into or out of the Storage Interval underlying the Storage Area through any well now or hereafter located or drilled on the Storage Area. Grantee shall have the right, in its sole discretion, to inject such Gas into the Storage Interval, store such Gas therein and in its sole discretion remove the Gas therefrom, with the Gas so injected, stored and removed to be and remain the personal property of Grantee, or Grantee's customers;
- f. The exclusive right to remove from Gas withdrawn from the Storage Interval any water vapors or liquid hydrocarbon absorbed therein;
- g. The rights of ingress and egress in, on and across the State Committed Lands, including, without limitation, the right to use any existing roads and to establish and utilize new roads as are reasonably necessary for

STATE LAND OFFICE  
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the operation of the Storage Facility and for the enjoyment by Grantee of the rights and privileges granted unto Grantee in this Agreement.

- h. It is expressly understood and agreed that Grantee is under no obligation to drill or utilize any existing well or wells on the State Committed Land for primary production, secondary recovery and/or storage purposes. In the event that no surface operations for the underground storage of Gas is actually undertaken on the State Committed Lands, but such operations are conducted by Grantee in the Storage Area, Grantee shall have the right to inject Gas into the Storage Interval underlying the surface of the State Committed Land, store the Gas therein, and remove Gas (together with any native hydrocarbons) utilizing in such process of injection and removal of Gas any well or wells located within the Storage Area.
- i. Grantee, as approved and authorized by any agency having regulatory authority, shall be the sole and exclusive judge as to whether Gas is being stored in a portion of the Storage Interval underlying the State Committed Land, subject to reasonable proof, if requested by the Grantor, of a nature generally accepted in the gas storage industry.
- j. Grantee shall be, and shall have the rights of, the Operator in respect to the Gas Storage Operating Rights.
- k. Use, hold, and occupy the Storage Area, including the State Committed Land, together with necessary rights of ingress and egress, for all such foregoing purposes.

2007 DEC 3 PM 8 24  
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7. OBLIGATIONS OF GRANTEE:

- a. Within one (1) year after the later of the expiration of this Agreement and removal by Grantee of last recoverable Gas from the Storage Interval, Grantee shall fill all pits and ponds, remove all structures and equipment, plug and abandon all wells drilled or used by Grantee in accordance with applicable rules, regulations, and orders of the State of New Mexico, and restore the surface of the State Committed Land as nearly as practicable to its original condition, natural wear and tear and damage from the elements excepted.
- b. Grantee shall maintain any well site, storage tank location, or any other surface area used on the State Committed Lands in compliance with all applicable rules and regulations

8. EFFECTIVE DATE AND TERM: This Agreement shall become effective June 1, 2006, upon approval by Grantor, and shall remain in effect for a term of thirty-five (35) years, provided however that Grantee's rights hereunder shall terminate one (1) year after Grantee has ceased to use the State Committed Lands for gas storage purposes. The Agreement and the grant contained herein may be renewed for additional periods upon application to Grantor. Any such renewals are subject to such terms and conditions as the Grantor may reasonably require, and payment of reasonable compensation.

9. PAYMENTS: The following payments from Grantee to Grantor will compensate Grantor for all uses and rights granted herein and are sometimes referred to collectively as the "**Fees**":

2007 DEC 3 AM 8 24  
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SANTA FE, N.M.

- a. Grantee shall pay an annual storage fee (the "*Annual Storage Fee*") of one dollar (\$1.00) per acre, based upon the State Surface Acreage, which fee will be paid to Grantor regardless of the amount of Gas injected or withdrawn.
- b. Grantee shall pay an injection and withdrawal fee of \$0.02379 per MCF on the quantity of Gas injected and withdrawn by Grantee from the Storage Interval, prorated based upon a fraction, the numerator of which is the State Mineral Acreage and the denominator of which is the Storage Area Acreage (the "*Injection and Withdrawal Fee*"). The Injection and Withdrawal Fee will be paid on a quarterly basis and each such payment remitted by Grantee shall provide a statement indicating the volume of Gas injected and withdrawn and the rate referenced in this section supporting the amount of payment. The time period for corrections to each Injection and Withdrawal Fee payment data shall be six (6) months from the date of the initial payment with a three (3) month rebuttal period. This limitation does not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact, nor shall this limitation diminish the Parties' other statutory or contractual rights. If there is a deliberate omission or misrepresentation of fact, there will be no time limit on correction of the payment.
- c. Grantee shall pay the Annual Storage Fee on or before September 30 of each calendar year during the term of this Agreement (Grantec has

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previously made the September 2005 payment, so payments under this Agreement shall beginning September 30, 2006). Grantee shall pay the Injection and Withdrawal Fee within 30 days following the end of the calendar year quarter to which such payment relates. Unless otherwise directed by Grantor in writing, Grantee shall make all payments of the Fees to the order of the New Mexico State Land Office.

d. Effective July 1, 2006, and every July 1<sup>st</sup> thereafter, the Injection and Withdrawal Fee will be adjusted in accordance with the COPAS accounting procedure wage index adjustments based on the Bureau of Labor Statistics for Crude, Petroleum and Gas Field Workers ("COPAS Wage Index"). Upon any future renewal, the Grantor reserves the right to negotiate for a different indexing adjustment depending on matters such as, but not limited to, the industry practice and the need to harmonize this Agreement with other storage agreements entered into by Grantor so that such agreements share major common features.

10. MEASUREMENT: All Gas stored by Grantee shall be measured when injected into and withdrawn from the Storage Interval, and a record thereof shall be kept. Grantee agrees to render to Grantor within 30 days following the end of each calendar year quarter a statement certified by Grantee showing the total amount of Gas injected into and withdrawn from the Storage Interval by Grantee during that preceding calendar year quarter. The quantity of Gas reported as

2007 DEC 3 PM 8 24  
STATE LAND OFFICE  
SANTA FE, N.M.

injected and withdrawn each calendar year quarter (and used to calculate the Injection and Withdrawal Fee) shall be computed at a standard pressure of 14.73 pounds per square inch absolute and a standard temperature of 60 degrees Fahrenheit, regardless of the pressure and temperature at which the Gas was actually measured.

11. ROYALTIES ON NATIVE HYDROCARBONS: It is acknowledged, agreed and stipulated by the Parties that Grantor has previously been compensated for all native Gas contained within the Storage Interval that may be produced and saved by Grantee. As such, Grantor shall not be owed any additional payments in respect of any Gas produced and saved by Grantee from the Storage Interval (other than the Fees as set forth herein).

In respect to oil produced and saved and all liquid hydrocarbons removed and saved by Grantee from Gas withdrawn from the Storage Interval, Grantee shall pay to Grantor as royalty 12.5% of the net proceeds received by Grantor for such oil and/or liquid hydrocarbons; provided, however, that such royalty paid to Grantor shall be proportionally reduced to Grantor's mineral ownership, on an acreage bases, within the Storage Area. For purposes of this section, Grantor mineral ownership, on an acreage basis, shall be deemed to be a fraction, the numerator of which is the State Mineral Acreage and the denominator of which is the Storage Area Acreage. Grantee shall make payment of such royalty within 30 days from receipt by Grantee of the proceeds received from the sale of any such liquid hydrocarbons. Grantor and Grantee agree that oil and gas leases covering lands within the State Committed Lands are hereby modified to

2007 DEC 3 AM 8 24  
STATE LAND OFFICE  
SANTA FE, N.M.

incorporate the above-described royalty payment provisions in respect of the Storage Interval, to the extent of Grantee's interest in such leases.

12. OIL AND GAS RIGHTS:

- a. Certain lands within the State Committed Lands are presently covered by existing oil and gas leases, which leases are subject to Grantee's rights under the Unit Agreement and, in some instances, to provisions contained in assignments out of Grantee's predecessors in interest.
- b. Grantor agrees that any new, amended or replacement oil, gas and/or mineral lease or leases issued by Grantor covering any portion of the State Committed Lands, whether on lands presently unleased or on lands presently leased that may be surrendered, expire, or otherwise terminate, will be issued subject to the following provisions: (1) that the lessee thereunder, his successors and assigns, will conduct operations in such a manner as not to interfere with or in any way compromise the integrity of Grantee's gas storage operations under this Agreement, which Agreement will be expressly recited in any such leases; (2) that any drilling, testing, work-over, or any other construction, operations or maintenance activities by such lessee, his successors and assigns, will be conducted in such a manner as to protect the Storage Interval from damage and loss of gas; (3) that such lessee, his successors and assigns, will own no interest in any hydrocarbons, whether native or stored, produced from the Storage Interval nor will it own any interest in the proceeds received by



Grantee from any sale of such hydrocarbons; and (4) that such leases, and such lessee, its successors and assigns, are expressly subject to the Special Project Rules and Operating Procedures adopted in OCD Order R-11611, which order will be expressly referred to therein. Grantor further agrees to expressly exclude from any oil and gas leases surface use on all of the SW/4 of Section 34 and SE/4 of Section 33, both in Township 21 South, Range 34 East, NMPM and the NW/4 of Section 3, Township 22 South, Range 34 East, NMPM.

- c. Grantor agrees that the State of New Mexico is not entitled to a royalty payment on Gas withdrawn from the Storage Interval by Grantee and that all future oil and gas leases covering any portion of the State Committed Lands issued by Grantor will expressly incorporate a provision stating such agreement.

13. CHANGES TO STORAGE AREA: In the event Grantee determines, from time to time, that a portion of the State Committed Lands is no longer necessary for the Storage Facility, Grantee may eliminate said portion from the Storage Area and from the provisions hereof. Should there be, from time to time, a change in the Storage Area as a result of elimination or addition of acreage or a change in the amount of State Committed Lands, (a) Grantee shall notify Grantor in writing and (b) after such notice is given, the percentage factor for payments hereunder, including, without limitation, payment of the Injection and Withdrawal Fee and the Annual Storage Fee, payable to Grantor

will be adjusted accordingly and the resulting percentage factor will be applicable to all subsequent payments under this Agreement.

14. CONSERVATION: Operations under the Storage Facility shall be conducted to provide for the most economical and efficient recovery and storage of gas without waste as defined by or pursuant to the laws or regulations of the State of New Mexico.

15. COVENANTS: It is covenanted and agreed that each obligation hereunder shall constitute covenants running with the land and shall extend to and shall be binding upon and every benefit hereof shall inure to the successors or assigns of Grantor and Grantee. If any provision hereof should be found to be inconsistent with applicable laws, rules or regulations, this Agreement shall be conformed to any such laws, rules or regulations and shall continue in full force and effect.

16. NOTICES: All notices required under the terms and stipulations of this Agreement shall be deemed effective when received at the following addresses:

For Grantee:

Enstor Grama Ridge Storage and Transportation, LLC  
c/o Enstor Operating Company, LLC  
20333 State Hwy. 249, Suite 400  
Houston, Texas 77070  
Attn: Land Department

For Grantor:

Director, Surface Resources Management Division  
New Mexico State Land Office  
P.O. Box 1148  
Santa Fe, NM 87504-1148

Any adjustments to the above listed notice addresses shall be made in writing and shall not be effective until written confirmation of the acceptance of the adjustment is received by the requesting party from the receiving party.

Each provision of this Agreement shall be binding upon the parties hereto and their respective voluntary or involuntary successors in interest.

17. HOLD HARMLESS CLAUSE: Notwithstanding any of the provisions contained in these Stipulations, as between Grantor and Grantee, Grantee shall save, hold and protect the Commissioner of Public Lands and the State of New Mexico harmless from all claims and liabilities resulting from damages or injuries solely caused by Grantee in its operation of the Storage Facility.

2001 DEC 3 10 18 24  
STATE LAND OFFICE  
SANTA FE, N.M.

**EXHIBIT B**

HISTORICAL DOCUMENTS RELATING TO  
THE GRAMA RIDGE STORAGE FACILITY

1. **STATE LAND OFFICE AGREEMENTS:** The Storage Area contains 1769.81 acres, more or less, of State of New Mexico surface lands and 1,887.16 acres, more or less, of State of New Mexico mineral lands. The following agreements with the New Mexico State Land Office concern the right to store gas as well as appurtenant rights necessary to operate the Storage Facility. The issuance of the Agreement is intended to amend and restate the following agreements and all gas storage operations rights in the Storage Interval underlying the State Committed Lands granted therein are expressly made part of the Agreement (the following, collectively, the "***Non-BLM Agreements***"):

- a) Unit Agreement for the Operation of the Grama Ridge Morrow Unit Area, Lea County, New Mexico, April 25, 1973;
- b) Consent and Ratification of Grama Ridge Morrow Unit Agreement and Amendment thereto, Lea County, New Mexico, November 2, 1976;
- c) Amendment to the Unit Agreement for the Operation of the Grama Ridge Morrow Unit Area, Lea County, New Mexico, September 1, 1976;
- d) Second Amendment to the Unit Agreement for the Operation of the Grama Ridge Unit Area, Lea County, New Mexico, May 23, 2001;
- e) Memorandum of Agreement Pursuant to the Unit Operating Agreement for the Operation of the Grama Ridge Unit Area, Lea County, New Mexico.
- f) Lease No. BL-1652, dated April 20, 2004 and Amendment No. 1 to BL-1652 dated November 17, 2004 [and Amendment No. 2 dated effective January 25, 2006] covering a tract of land in Section 3, Township 22 South, Range 34 East,

NMPM, Lea County, New Mexico, as assigned to Grama Ridge Storage and Transportation, LLC on May 4, 2005.

g) Lease No. BL-1662, dated October 4, 2004, covering a tract of land in Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, as assigned to Grama Ridge Storage and Transportation, LLC on May 4, 2005.

h) RW-16644, dated November 15, 1966, for a pipeline in Section 34 as assigned to Grama Ridge Storage and Transportation, LLC on May 4, 2005.

i) RW-16406, dated January 24, 1966, for a pipeline in Section 34 and Section 3 as assigned to Grama Ridge Storage and Transportation, LLC on May 4, 2005.

**2. BLM AGREEMENTS:** The Storage Area contains 1280 acres, more or less, of federal lands. The following agreements with the Bureau of Land Management concern the right to store gas in a certain portion of the Storage Area:

a) Agreement for Subsurface Storage of Natural Gas, Morrow Formation, Grama Ridge Area, Lea County, New Mexico, 14-08-0001-14277, November 1, 1975;

b) First Amendment to Agreement for Subsurface Storage of Natural Gas, Morrow Formation, Grama Ridge Area, Lea County, New Mexico, 14-08-0001-14277, April 1, 1981.

**3. OCD ORDERS:** The following New Mexico Oil Conservation Division Orders concern gas storage operations in the Storage Area:

- a) Order R-4473/4491 (Case Nos. 4895 & 4896)
- b) Order R-5995 (Case No. 6496)
- c) Order R-5996 (Case No. 6497)
- d) Order R-7569 (Case No. 8189)
- e) Order R-7582 (Case No. 8088)
- f) Order R-11611 (Case No. 12588)
- g) Order R-11768-B (Case Nos. 12622 & 12908)

REC'D  
STATE LAND OFFICE  
SANTA FE, N.M.  
JUN 3 3 11 PM '05

EXHIBIT C

Being a 6.132 acre tract of land located in Section 3, Township 22 South, Range 34 East, N.M.P.M., Lea County, New Mexico and being more particularly described as follows:

Beginning at a point for an exterior corner of this tract, from which a USGLO Brass Cap found for the NW corner of said Section 3 bears S 89°40'14" W, a distance of 456.97 feet and N 00°19'46"W, a distance of 1857.27 feet; THENCE N 04°50'40"W, a distance of 35.63 feet to a 1/2" iron rod set for an interior corner of this tract; THENCE N 39°30'20"W, a distance of 18.01 feet to a 1/2" iron rod set for an exterior corner of this tract; THENCE N 61°15'43"E, a distance of 107.27 feet to a 1/2" iron rod set for an exterior corner of this tract; THENCE N 88°51'30"E, a distance of 661.35 feet to a 1/2" iron rod set for the NE corner of this tract; THENCE S 01°08'24"E, a distance of 574.08 feet to a 1/2" iron rod set for the SE corner of this tract; THENCE S 88°51'36"W, a distance of 823.30 feet to a point for the SW corner of this tract; THENCE N 10°29'51"E, a distance of 98.76 feet to a point for an exterior corner of this tract; THENCE S 88°51'04"E, a distance of 528.02 feet to a point for an interior corner of this tract; THENCE N 01°08'56"E, a distance of 200.00 feet to a point for an interior corner of this tract; THENCE N 88°51'04"W, a distance of 150.00 feet to a point for an exterior corner of this tract; THENCE N 01°08'56"E, a distance of 53.80 feet to a point for an exterior corner of this tract; THENCE N 85°28'53"E, a distance of 69.80 feet to a point for an interior corner of this tract; THENCE N 02°54'15"W, a distance of 134.80 feet to a 1/2" iron rod with cap found near a fence corner post for an interior corner of this tract; THENCE S 88°56'55"W, a distance of 392.93 feet to the place of beginning, containing 6.132 acres more or less.

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STATE LAND OFFICE  
SANTA FE, N.M.

**EXHIBIT D**

A tract of land located in part of the SW4NW4 in Section 3, Township 22 South, Range 34 East, N.M.P.M., Lea County, New Mexico and being more particularly described as follows: Beginning at a point which lies S.00°10'29"W., 1828.2 feet and S.89°49'31"E., 534.6 feet from the NW corner of said Section 3; thence N.87°15'48"E., 30.00 feet; thence S.02°44'12"E., 30.00 feet; thence S.87°15'48"W., 30.00 feet; thence N.02°44'12"W., 30.00 feet to the point of beginning. Said tract of land containing 0.0207 acres, more or less.

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JUN 04 2007

at 8:27 o'clock A M  
and recorded in Book 1516  
Page 243  
Melinda Hughes, Lea County Clerk  
By R.D. Deputy



39680