

# Vermjo Park Ranch Coalbed Methane Project Mineral Extraction Agreement Summary

The mission statement for all of the Turner properties, including Vermejo Park, is “to manage Turner lands in an economically sustainable and ecologically sensitive manner while promoting the conservation of native species”. Restoring the ecological integrity of Vermejo Park, and then managing that restoration in a sustainable manner, requires planning in very long time-frames, and placing maximum income generation secondary to sustainability.

The Vermejo Park Ranch (VPR) Mineral Extraction Agreement (MEA) governing mineral resource development is a voluntary agreement negotiated and signed by the surface estate (Vermejo Park Ranch) and mineral estate owner, El Paso Production Corp. (Producer).

The MEA was created to allow for the development of Coal Bed Methane (CBM) in the most environmentally responsible manner, while minimizing the short and long-term effects. This agreement is unique in the industry and provides the guidelines, checks and balances, and requirements for CBM development. VPR has established and staffed an Environmental Department, which is responsible for managing the CBM project and assuring compliance with the MEA. Key components of the MEA are as follows:

- **Covenant of Nondisturbance:** Area’s of special sensitivity (Sensitive Areas) have been established on the ranch where the producer shall in no event have the right to use or occupy. Sensitive areas at VPR constitute almost 30% of the ranch property.
- **Total Well Cap:** The total number of wells that can be producing at any one time is limited to a set number. In addition, the total number of wells that can be drilled through the life of the project is set.
- **Well Spacing:** All well site locations are limited to one for every quarter section (160 acre spacing). In addition, well site (.6 acre) and other facility locations (2-4 acres), roads (20ft.), pipeline corridors (10-30 ft.) are limited in terms of size of disturbed ground.
- **Mandatory Groundwater Reinjection:** All produced groundwater must be reinjected for disposal purposes unless otherwise approved by VPR. The Producer may use some higher quality produced water (where approved by VPR) for field operations including drilling, reclamation, and dust suppression.
- **Annual General Plan of Development:** Prior to Aug 15<sup>th</sup> of each year the Producer is required to meet with VPR to review and discuss all proposed or contemplated plans for work at VPR in the following Calendar year. Prior to October 1<sup>st</sup> of each year the Producer submits to VPR an Annual General Plan of Development for the following year. This Plan must have sufficient detail to allow VPR to reasonably evaluate the effects of the proposed activities on the Ranch and asses Producers compliance with the MEA. VPR has 45 days after it

- receives a Development Plan to provide Producers with comments and to request in writing that reasonable changes be made to proposed plan.
- **Reclamation Bonding:** The MEA mandates that at the conclusion of the project all infrastructure, wells, compressors etc., must be removed from the property. In addition, the MEA requires that a reclamation bond be in place related to the Producers reclamation responsibilities at the end of the project. This includes the full abandonment and reclamation of the well pads, roads, and other project related facilities and disturbances. This bond is reviewed and increased on an annual basis as the project grows.
  - **Annual Reclamation Requirements:** As soon as practicable, but no later than September 1<sup>st</sup> of each calendar year, the producer reclaims and restores all new well site locations and other facilities installed that year, to as close to their original state as possible. Reclamation includes grading, top soil replacement and hydro seeding with a native (certified weed free) seed mixture. The Producer is also responsible for noxious weed control in the project area.
  - **VPR Construction Review and Formal Approval Process:** VPR Env. Dept. representatives working with El Paso representatives jointly site all proposed future project facilities including well pads, roads, pipeline corridors etc. VPR has final say of the location of all project components, and formally approves all facility locations prior to construction. VPR attempts to locate facilities to minimize visibility, reduce environmental impact, support future growth and expansion, and facilitate and optimize final reclamation efforts.
  - **Viewshed Mitigation Requirement:** VPR may request viewshed mitigation to conceal Oil and Gas Facilities in close proximity to ranch infrastructure.
  - **Notice Requirements and Information Submission:** Producer must notify VPR of the staking of any oil and gas facility one week prior staking and a survey must be submitted to VPR 45 days prior to commencement of site preparation. In additions, the Producer submits to VPR a copy of all well logs, as-built diagrams in GPS/GIS electronic format for all roads, electric transmission lines, pipelines and facilities within 30 days of construction completion. VPR also receives daily gas and water production, monthly vehicle tracking reports, and other hydrogeologic data related to the water resources underlying the property. The Producers also supplies to VPR prior to Oct. 1<sup>st</sup> of each year, its health and safety and training plans and Producers Emergency Preparedness and Response Plan (EPRP).
  - **Joint Groundwater Monitoring Programs:** VPR and Producers are jointly conducting a hydrogeologic monitoring program on the ranch properties. This 10-year program is unprecedented in the industry and is focused on monitoring the effects of coal seam dewatering in conjunction with CBM development. If the monitoring program establishes that a portion of the Hydrocarbon Operations is having any material adverse effect on any stream, spring, well or other surface or groundwater resources in or under the ranch land, then upon the request of VPR, Producer shall take all reasonable steps necessary to mitigate the adverse effect as mandated under the MEA.
  - **Water Rights:** VPR is the record owner of any and all water rights associated with produced water, and in the event any governmental entity should deem

Producer the record of owner and any such water rights. Producer shall execute a quitclaim deed of other instrument sufficient to transfer and convey title to any such water rights to Owner.

- **Vehicle and Personnel Limits:** The maximum number of vehicles and workers on the ranch at any one time is limited. These limits fluctuate according to the time of year to accommodate VPR's fishing and hunting programs. Current limits during the summer are 170 vehicles and 300 people. The MEA also mandates a ranch speed limit of 25 m.p.h.
- **Noise Restrictions:** If requested the producer shall install housing around equipment located within ½ mile of any Sensitive Area boundary. In addition the Producer is required to install and operate noise abatement equipment at all facility locations where economically feasible. A noise threshold of 65 dB at 200 feet from any Oil and Gas Facility must be met.
- **Secured Access:** Access to ranch property by project personnel is monitored 24/7 by security personnel located at 3 access points.
- **Accident/Spill Response and Notification Plan:** All accidents of spill of any type are immediately reported to VPR's Env. Dept.
- **Restrictions and Limitations on Producers Activities:** In general, all drilling and construction activities in a given year must be completed by August 31<sup>st</sup> of each year to accommodate VPR's fall hunting program. In addition, the Producer can only be on the ranch during specific hours of the day. Some additional fall construction activity is allowed but is only in an area of the ranch specified by VPR.
- **Development Time Line:** A timeline is established related to when the development phase of the project must be completed, i.e. installation of all producing wells.
- **Breach of Contract Damages Clause:** A formalized mechanism is contained in the MEA where by VPR can notify the Producer of a breach of contract related to a specific MEA requirement. If the Producer does not comply or cure the infraction in a set time period, then monetary penalties may be assessed.

We believe that El Paso Ration's goal of economically benefiting from the production of a finite resource, the methane underlying the ranch, is compatible with Vermejo Park's goals. That compatibility benefits from the structure provided by the Mineral Extraction Agreement, and is significantly dependent on the cooperative spirit both parties work under to achieve our independent goal.