

DESIGNATION OF SUB-OPERATOR

THIS DESIGNATION is made and entered into this 21 day of August, 1966, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, whose address is Post Office Box 1492, El Paso, Texas 79999, hereinafter sometimes referred to as "Operator", and R. L. BAYLESS and J. GREGORY MERRION, whose address is Post Office Box 1541, Farmington, New Mexico, hereinafter sometimes referred to as "Sub-Operators";

WHEREAS, Operator is Unit Operator for the Canyon Largo Unit, No. 14-08-001-1059, Rio Arriba County, New Mexico; and

WHEREAS, Sub-Operators desire to drill a Chacra well on the following described land pursuant to the provisions of Section Thirteen (13) of the Canyon Largo Unit Agreement:

Township 25 North, Range 6 West, N.M.P.M.
Section 2: Lots 1, 2, S/2 NE/4, SE/4
Containing 320.85 acres, more or less

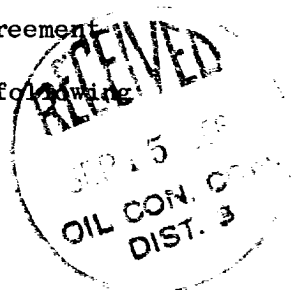
WHEREAS, the above described land is committed to the terms and conditions of the Canyon Largo Unit Agreement and Canyon Largo Unit Operating Agreement; and

WHEREAS, Sub-Operators have been furnished Notice of Operator's election not to drill the said Chacra well as Unit Operator under the terms of the Canyon Largo Unit Agreement; and

WHEREAS, Sub-Operators have requested that Operator execute this Designation in order that said Chacra well may be drilled by Sub-Operators.

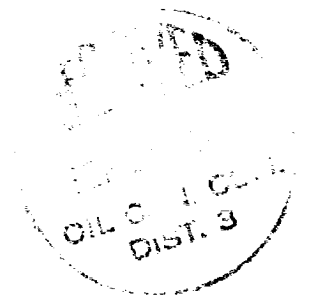
NOW, THEREFORE, in order to permit R. L. Bayless and J. Gregory Merrion to drill the above described Chacra well, El Paso Natural Gas Company, as Unit Operator of the Canyon Largo Unit, hereby designates R. L. Bayless and J. Gregory Merrion as Sub-Operators for the sole and only purpose of drilling the said Chacra well on the above described land pursuant to Section Thirteen (13) of the Canyon Largo Unit Agreement.

Sub-Operators indicate their acceptance of this Designation by placing their signatures in the space provided below and agree to drill, complete and/or plug and abandon said Chacra well as a reasonable and prudent operator in accordance with the terms and conditions of the Canyon Largo Unit Agreement and the Canyon Largo Unit Operating Agreement and also agree to the following



conditions:

1. Unit Operator's representative shall approve all casing programs and equipment specifications prior to the drilling of any well.
2. Notify Operator when drilling operations are commenced.
3. Furnish Operator with complete daily driller's tour report, at Sub-Operators' expense.
4. Furnish Operator with daily reports by telephone call or telegram at Sub-Operators' expense, as to the formation or formations penetrated during the previous day's drilling, the depth at which each formation is encountered, and the depth at which the report is made.
5. Allow representatives of Operator access to the derrick floor at all times.
6. Notify Operator of intentions to core, drill stem test or run well surveys in sufficient time to enable Operator's representatives to be present.
7. Adequately test and/or core all possible productive formations to the satisfaction of Operator upon request.
8. Have any core having shows of oil or gas analyzed by a competent core analysis laboratory, and have such laboratory send three preliminary copies and three final copies of the analysis report to Operator.
9. Furnish Operator three field prints and five final prints of all well surveys made during drilling or upon completion of the well.
10. Furnish Operator a representative and adequate cut of all cores and ditch samples taken during the drilling of a well.
11. Provide Operator with copies of drilling time records, hole deviation tests and all records required by the governmental agencies having jurisdiction of the well.
12. Notify Operator of any intention to plug and abandon the well and allow Operator forty-eight (48) hours in which to concur.
13. Sub-Operators shall carry and pay for and file with Operator for its approval proper and acceptable evidence of the following insurance:
 - a. Workmen's Compensation and/or Employer's Liability Insurance which shall comply with the laws of the State in which this agreement is to be performed and shall cover all of its employees engaged in the activities to be performed under this agreement.
 - b. Automobile Public Liability Insurance with not less than \$100/300,000.00 limits covering bodily injury and death, and property damage with a limit of not less than \$50,000.00 to cover all automotive equipment used in connection with performance of this agreement.
 - c. Public Liability Insurance covering activities performed under this agreement with bodily injury and death limits of \$100,000.00 as to any one person and \$300,000.00 as to any one accident. Property Damage Insurance with limits of \$50,000.00.



14. Furnish the United States Geological Survey and the Oil Conservation Commission of the State of New Mexico all proper and necessary reports and well data in the required numbers and time periods as specified by the United States Geological Survey and the Oil Conservation Commission of the State of New Mexico, with a copy to Operator at the addresses hereinafter provided.
15. Provide the Commissioner of Public Lands of the State of New Mexico with copies of all reports and other well data submitted in accordance with the preceding paragraph.

All notices, samples, or other information required to be furnished shall be sent to:

El Paso Natural Gas Company
Post Office Box 1492
El Paso, Texas 79999
Attention: Land Department

With copies to:

El Paso Natural Gas Company
Post Office Box 990
Farmington, New Mexico
Attention: Regional Land Manager

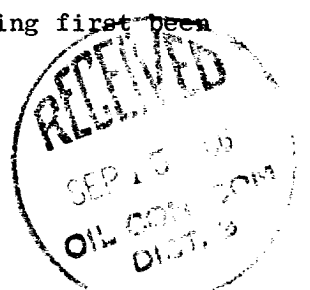
Sub-Operators shall comply with all applicable laws, rules and regulations of any governmental authority having jurisdiction over operations performed under this Designation, and shall indemnify, protect and hold Operator harmless from and against any and all claims, demands or causes of action for injuries or death to persons or damage to property occurring in connection with or in any manner incident to operations conducted by the Sub-Operators hereunder.

Sub-Operators and Operator agree that Sub-Operators shall drill and complete or plug and abandon the subject Chacra well pursuant to the provisions of the Canyon Largo Unit Operating Agreement.

The drilling of the said Chacra well is subject to approval by the Oil Conservation Commission of the State of New Mexico as to privately owned lands, the Commissioner of Public Lands of the State of New Mexico as to State lands, and the Supervisor of the United States Geological Survey, Roswell, New Mexico, as to Federal and/or Indian lands.

THIS DESIGNATION shall be effective for a period of time not to exceed three (3) months from the date hereof, or until said Chacra test is completed and/or plugged and abandoned, whichever is the sooner.

THIS DESIGNATION is personal and cannot be assigned in whole or in part by Sub-Operators without the written consent of Operator having first been obtained.



IN WITNESS WHEREOF, this Designation is executed as of the day and
year first hereinabove written.

OPERATOR

EL PASO NATURAL GAS COMPANY

By [Signature]
Attorney-in-Fact

SUB-OPERATORS

By [Signature]
R. L. BAYLESS

By [Signature]
J. GREGORY MERRION

STATE OF TEXAS)
)
COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this 31
day of September, 1966, by SAM SMITH, Attorney-in-Fact for
EL PASO NATURAL GAS COMPANY, a Delaware corporation, on behalf of said
corporation.

My Commission Expires:

[Signature]
Notary Public

ELOISE BUSSE
Notary Public in and for El Paso County, Texas
My Commission Expires June 1, 1967

STATE OF New Mexico)
)
COUNTY OF San Juan)

The foregoing instrument was acknowledged before me this 12th
day of September, 1966, by R. L. BAYLESS, and J. GREGORY MERRION.

[Signature]
Notary Public

My Commission Expires:

