

Robert L. Bayless, Producer LLC  
Oil & Gas Producer

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July 13, 1999

Mr. Michael E. Stogner  
New Mexico Oil Conservation Division  
2040 South Pacheco  
Santa Fe, NM 87505

RE: Case 1128; Application of Robert L. Bayless, Producer LLC for an Unorthodox Coal Gas Well  
Location, San Juan County

Dear Mr. Stogner,

As you are aware, Bayless requested Administrative Approval of an Unorthodox Basin Fruitland Coal Location for its proposed Oxnard WN Federal No. 13 by letter dated June 3, 1999, from Price M. Bayless to the NMOCD. The well is staked 1640' FNL and 1160' FWL, Section 14, T27N, R8W, San Juan County, New Mexico. A copy of the application was sent by certified mail to all offset leaseholders, all of which signed waivers of objection. By letter dated June 29, 1999 from Michael E. Stogner of the NMOCD Bayless was advised that the subject application failed to prove that an unorthodox location was necessary. The letter stated that detailed geological and engineering data can be presented to support the application, and the matter was docketed for a July 22, 1999 hearing. In a subsequent conversation between Michael Stogner and Price Bayless, Mr. Stogner stated that the detailed geological and engineering data could be submitted as a supplement to Bayless' administrative application for review and possible administrative approval, which would negate the need for a hearing. In accordance with that conversation, Bayless offers the following geological and engineering arguments in support of its administrative application.

Bayless believes that a well drilled in the NW/4 of section 14 will be more productive than one drilled in the SW/4 of the section. The Bayless Marron WN Federal #8 in the NE/4, section 23, is producing 161 MCFD with cumulative production of 333,853 MCF. The Bayless Oxnard #4 in the NE/4 section 22, is producing 14 MCFD with cumulative production of 31,465 MCF. These south and southwest offsets to section 14 have average production and average cumulative production of 88 MCFD and 182,659 MCF, respectively. The Bayless Graham B WN Federal #10 in the NE/4, section 10, is producing 161 MCFD with a cumulative of 339,963 MCF. The Bayless Oxnard WN Federal #10, located in the NW/4, section 15, is producing 96 MCFD with a cumulative of 235,544 MCF. These north and northwest offsets to section 14 have average production and average cumulative production of 129 MCFD and 287,754 MCF, respectively. These wells are shown on the attached map. Bayless believes the difference in these average production values is significant and they demonstrate that a well drilled in the NW/4 of section 14 has a much better chance of effectively draining the reserves in the W/2 of the section than a well in the SW/4. With the possible exception of the Marron WN Federal #8 in section 23, there are no commercial Fruitland Coal wells to the south of section 14 within two miles. There are commercial wells to the north and west of section 14. Therefore, to efficiently and economically drain reserves in the W/2 of section 14, Bayless believes it important to drill the Oxnard WN Federal #13 at its currently staked location in the NW/4.

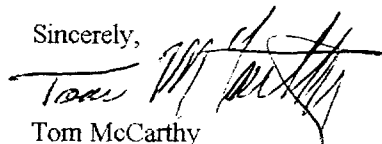
Bayless believes that a well drilled in the NE/4 of section 14 at a standard location also appears uneconomic. Amoco has drilled an unproductive Fruitland Coal well in the SW/4 of section 12, offsetting section 14 to the northeast. No gas production was reported. Burlington drilled a Fruitland Coal well in the NE/4 of section 13, an east offset to section 14. It is producing 2 MCFD with cumulative production of 17,090 MCF. Therefore, given what is known at this time, neither standard location in section 14 is economically attractive.

Bayless is aware that the NMOCD has approved unorthodox locations in this area in the past. Some of these wells are shown on the attached map. Bayless does not know all of the circumstances that led to these approvals, however, it is suspected that topographical, recompletion, and geological/engineering issues were involved. In the final analysis, all of these issues ultimately involve the economics of the well. Given this precedent, Bayless believes its arguments are equally valid.

With regard to placing Case 12218 on the docket for July 22, 1999, examiner hearing, please be advised that this date is inconvenient for Bayless. If the NMOCD does not approve this application administratively, Bayless requests that the case be scheduled for Examiner hearing after August 9, 1999.

Bayless requests that you seriously reconsider your decision rendered in your June 24, 1999 letter for the reasons stated above. Please call either Tucker Bayless or myself if you wish to discuss this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom McCarthy", with a stylized flourish extending from the end.

Tom McCarthy  
Petroleum Engineer

