

30-031-20736

Robert L. Bayless

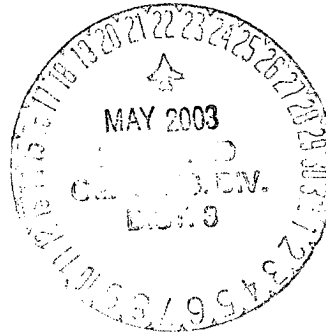
P. O. Box 168
Farmington, New Mexico 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

May 19, 2003

Mr. Charlie T. Perrin
Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410



RE: Miguel Creek – SFPRR #57

Dear Mr. Perrin,

As you are aware, we are plugging the remaining wells at Miguel Creek and need to transfer the subject water source well to the Lee Ranch. By way of review, a well history is set forth below:

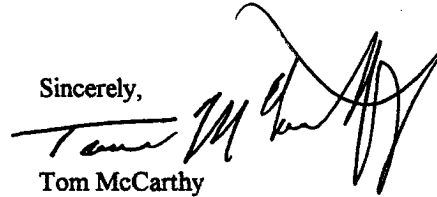
- Capital Oil and Gas applied for a permit to drill with the OCD on 9/25/81. OCD approved the permit on 10/13/81.
- Drilling was completed 10/3/81 by setting and cementing 4 ½" casing at 880' by Capital. (Some reports show 5 ½" casing, in error.) The well was not completed.
- On 4/23/82 Capital deepened the well to 975', penetrating the Massive Gallup water sandstone whose top is at 920'. This zone is completed open hole and is capable of water production.
- On 4/27/82 Capital applied for permission from the State Engineer for the well to be approved as a water well. The use of water was to be for cattle watering and a waterflood oil recovery pilot test. The State Engineer approved the application on 4/28/82.
- On 2/10/83 Capital received a letter from Jeff Edmister of the OCD detailing three pages worth of violations and lack of administrative filings on many wells, including the SFPRR #57. As for this well it says, "...did not have adequate sundry notices. They show only when casing was set in 1981 and that in 1983 they are shut in waiting to be completed. We also need spud dates and a request for temporary abandonment."
- Capital requested permission of the OCD to temporarily abandon the well on 1/14/83 while they evaluated a waterflood. This request was approved on 2/22/83 by Jeff Edmister of the OCD. I assume that this sundry was actually submitted after, or with knowledge of the OCD letter referenced above. Capital was obviously way behind in its OCD paperwork and requested permission to temporarily abandon forgetting that the well had been transferred to the State Engineer.
- On 3/7/88 Baca Petroleum assumed operatorship from Capital.
- On 1/10/92 Bayless assumed operatorship from Baca. We were unaware that the well had been transferred to the State Engineer since none of the filings with the State Engineer were in the well file. It is also quite possible that Baca was unaware that the transfer had occurred. Prompted by Baca to complete the sale transaction, Bayless filed a change of operator with the OCD and included the well on monthly OCD reports. Bayless became aware of the wells transferal to the State Engineer on 5/13/99.

Reply dated 5-27-03
show PA/convert to water well
As per FC /ro

This history shows that the SFPRR #57 was transferred from the OCD to the State Engineer on 4/28/82. The fact that Baca and Bayless were unaware of the transfer does not mean it didn't occur. Baca and Bayless should not have filed Change of Operator forms with the OCD and Bayless should never have carried the well on its monthly production reports. Neither operator was aware of the well history.

It seems that the correct course of action would be for the OCD to recognize the previous transfer, and for Bayless to stop carrying the well on its monthly reports. Bayless can then transfer the well to the Lee Ranch through the State Engineers office. (As far as Spencer Shaw with the State Engineer's Office is concerned, they already have primacy over the well.) The Lee Ranch is using the well and have had no problems with it. In a telephone discussion with Harry Lee on 5/19/03, he reported that it does not leak and that they still want the well. They have used the well for at least 12 years. Bayless requests that you agree with this analysis and remove this well from your jurisdiction. We would like to get this cleaned up as soon as possible and look forward to your reply.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom McCarthy', with a large, stylized flourish extending upwards and to the right.

Tom McCarthy
Petroleum Engineer