

NSL 12/6/99

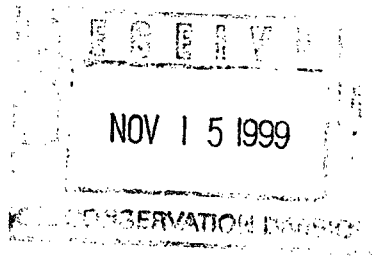
Robert L. Bayless, Producer LLC
Oil & Gas Producer

P. O. Box 168
Farmington, New Mexico 87499

FAX NO.
(505) 326-6911

OFFICE NO.
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November 9, 1999



Ms. Lori Wrotenbery
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

RE: Application of Robert L. Bayless, Producer LLC for an Unorthodox Fruitland Coal Well Location
Krause No. 1
NW/4, Sec. 2, T26N, R11W, San Juan County, NM

Dear Ms. Wrotenbery,

Robert L. Bayless, Producer LLC requests Administrative Approval of an Unorthodox Basin Fruitland Coal well location for its proposed Krause No. 1. A copy of the APD is being sent to the OCD separately. The well is staked 1190' FNL and 1450' FWL, section 2, T26N, R11W, San Juan County, New Mexico. The proration unit is a N/2 laydown. A copy of the application is being sent by certified mail to all offset leaseholders. A list of these leaseholders is attached. Bayless offers the following geological and engineering arguments in support of its application for administrative approval.

Bayless intends to drill and case this well through the Pictured Cliffs formation. A map showing the location of the Krause No. 1 and pertinent offset well information is attached. This map also shows offset leaseholders. Bayless will either complete both the Pictured Cliffs and the Fruitland Coal initially, (after asking for and receiving approval for downhole commingling), or complete the Fruitland Coal only. We will make this decision after a review of the open hole logs.

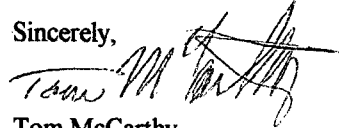
The standard location for a N/2 laydown Fruitland Coal proration unit is the NE/4. However, drilling in this quarter section is not desirable for the Pictured Cliffs. The State No. 1 was drilled in the NE/4 NE/4 of section 2 in 1951 and completed in the Pictured Cliffs. As of April 1999, the well has produced a total of 247 MMCF, and is currently producing at a rate of 19 MCFD. Both the poor productivity of this well and the possibility of drainage from this well make the NE/4 of section 2 unattractive in the Pictured Cliffs. If this application were denied, Bayless would be forced to drill a Pictured Cliffs well in the NW/4 and a Fruitland Coal well in the NE/4, resulting in an extra and an unnecessary wellbore.

A standard location for a Fruitland Coal well in the NE/4 of section 2 is offset by an apparently uneconomic well in the SW/4 of section 36, T27N, R11W. The Bonneville Fuels Scott E Federal No. 18 has produced 28 MMCF of gas, and is currently producing 8 MCFD as of April 1999. A Fruitland Coal well in the SE/4 of section 36, T27N, R12W is also uneconomic. The Burlington Huerfano Unit No. 84 is currently producing 0 MCFD after producing a cumulative of 280 MMCF, through April 1999. These wells together indicate that a Fruitland Coal well drilled at the standard location in the NE/4 of section 2 would probably be uneconomic. Drilling of marginal or uneconomic wells constitutes waste.

Bayless is aware that the NMOCD has approved unorthodox locations in this area in the past. This is the case in section 3, T26N, R11W and section 36, T27N, R11W. These locations are shown on the attached map. Bayless does not know of all 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.

Bayless requests that you seriously consider this request for administrative approval of an unorthodox Fruitland Coal location for the Krause No. 1. 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 at the end.

Tom McCarthy
Petroleum Engineer

**Robert L. Bayless, Producer LLC
Unorthodox Basin Fruitland Coal Location
Krause No. 1
Offset Lease Holders List**

Benson-Montin-Greer Drilling Corporation
4900 College Blvd.
Farmington, NM 87401

Bonneville Fuels Corporation
1660 Lincoln, Suite 1800
Denver, CO 80264

Burlington Resources Oil & Gas Company
PO Box 4289
Farmington, NM 87499-4289

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, TX 79705-4500

Energen Resources Corporation
2198 Bloomfield Highway
Farmington, NM 87401

Louis Dreyfus Natural Gas
14000 Quail Springs, #600
Oklahoma City, OK 73134-3600

Marathon Oil Company
Box 3128
Houston, TX 77253-3128

Merrion Oil & Gas Corporation
610 Reilly Avenue
Farmington, NM 87401

2
Kpc
Kd PA'88

2E 7

3 5

3

11

10

2
Kd PA'77

1E

1

Burlington
Marathon
Dreyfus

4 8
27N 11W

5
351
Douthit Fed
183
376

4
Douthit Fed 352
220
383
Burlington

Bonneville
12
Kd PA'72
6
S

Burlington
16

36

15
Kgl
Kd
Scott E Fed 28

84 275
0
280
HUERFANO UN

1E
Conoco
Delhi Taylor
226
40

1 2
Koa
D.A. 59
S
Merrion

Bayless - Greer
KRAUSE NO. 1
1
Kgl-T
Kd D.A.

1

73

9
Kpc PA'64

1

1
S

Energen Dugan

Burlington

72

5

1
Kpc D.A.

Dugan

Burlington
1
Kgl
Kd PA'83

Burlington
Kpc D.A.

264
U

26N 11W

11 2E

1

1
PA. 63
Kd D.A. '58

14
Kgl
Kd -NP

HUERFANO
UNIT

Robert L. Bayless Producer LLC
Unorthodox Basin Fruitland Coal Location
Krause No. 1

Pertinent Well Data
Offset Lease Holders

Production Data Legend
Daily MCFD
Cumulative MMCF
(As of 4/99)

1
Kgl
Kd PA'71