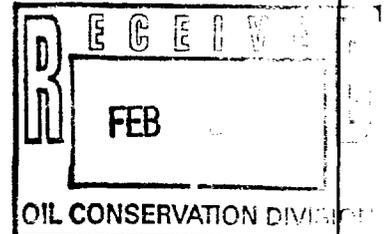


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF ROBERT L. BAYLESS FOR)
DOWNHOLE COMMINGLING, SAN JUAN COUNTY,)
NEW MEXICO)

CASE NO. 11,463

ORIGINAL



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 8th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 8th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

February 8th, 1996
Examiner Hearing
CASE NO. 11,463

PAGE

REPORTER'S CERTIFICATE

17

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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

ROBERT L. BAYLESS
P.O. Box 168
Farmington, New Mexico 87499

* * *

1 WHEREUPON, the following proceedings were had at
2 11:25 a.m.:

3 EXAMINER STOGNER: Hearing will come to order
4 again. Call Case Number 11,463.

5 MR. CARROLL: Application of Robert L. Bayless
6 for downhole commingling, San Juan County, New Mexico.

7 EXAMINER STOGNER: At this time I'll call for
8 appearances.

9 That's your cue, Mr. Bayless.

10 MR. BAYLESS: Yes, sir. I think maybe you
11 already have those, but...

12 I've previously appeared before the Commission
13 and been qualified at that time.

14 EXAMINER STOGNER: Okay, Mr. Bayless, just for
15 the record would you please state your name and your
16 position with -- Are you representing your company or
17 yourself today?

18 MR. BAYLESS: Myself. I'm Robert L. Bayless,
19 B-a-y-l-e-s-s.

20 EXAMINER STOGNER: And your place of residence?

21 MR. BAYLESS: Farmington, New Mexico. And I
22 operate as a sole proprietor in the oil and gas business.

23 EXAMINER STOGNER: And you said you have appeared
24 before in this hearing?

25 MR. BAYLESS: Not in this case, but over the

1 years.

2 EXAMINER STOGNER: I mean over the years --

3 MR. BAYLESS: Yes.

4 EXAMINER STOGNER: -- and at OCD hearings; is
5 that correct?

6 MR. BAYLESS: Yes, sir.

7 EXAMINER STOGNER: And were your qualifications
8 accepted as a practical oil and gas man or a geologist or
9 an engineer or --

10 MR. BAYLESS: I can't absolutely answer that.
11 They were accepted, I suspect, as an oil and gas operator.

12 EXAMINER STOGNER: Okay, as a practical oil and
13 gas operator, essentially?

14 MR. BAYLESS: Yes, sir.

15 EXAMINER STOGNER: Do you want to state your case
16 today and represent yourself?

17 MR. BAYLESS: Yes, it's set forth in this request
18 for administrative approval, which was denied because it
19 did not fit the requirements. This is a very shallow well,
20 it's a very small deal.

21 But at any rate, in July of 1995 we drilled a
22 well to the Pictured Cliff formation and set 5 1/2 casing,
23 cemented it. The cement was brought all the way to the
24 surface casing. The Pictured Cliff was perforated and
25 fracture-stimulated, and it tested at 1.2 MM per day on a

1 three-hour flow test.

2 However, the subsequent -- the seven-day pressure
3 buildup preceding this test showed that there was only 120
4 p.s.i. bottomhole pressure, indicating that the Pictured
5 Cliff had been severely drained.

6 The well would not produce into the gathering
7 system line, which was running at 185 pounds at that time,
8 in that area. We put a compressor on it and it produced
9 330 MCF per day on the average for 36 days.

10 We then set a bridge plug above this Pictured
11 Cliff zone and recompleted in the Fruitland sand in
12 November of 1995 and stimulated it. It tested for 1.4
13 MMCFD.

14 The pressure buildup test indicated 380 pounds
15 bottomhole pressure at -- We continued to produce that at
16 around 300 MCF a day for the 19 days, and we have put a
17 compressor on it and have brought it up to actually about
18 400 MCF a day.

19 Inasmuch as the Pictured Cliff by itself will not
20 produce without compression, it makes much more sense for
21 us to downhole commingle and produce both zones through a
22 compressor.

23 The quality of the gas is very similar. The
24 Pictured Cliff has a BTU of 1157; the Fruitland sand has a
25 BTU of 1146. So the gas quality is practically identical.

1 Even if we should have crossflow between the zones, there
2 should be no problem. It's dry gas with no condensate
3 production and no water production.

4 I -- Under attachment 7, I have shown a plat
5 showing ownership surrounding this proration unit, and
6 incidentally both zones are on a 160-acre proration unit.
7 We have had no objection from the surrounding lease owners.

8 We propose to allocate the production, if this
9 order is granted, between the two zones on the -- using a
10 ratio of calculated flows during the test on each
11 formation, and that would be -- 48 percent of the gas would
12 be allocated to Pictured Cliffs, 52 percent allocated to
13 the Fruitland sand. The ownership of each zone is
14 identical in the wellbore, so there is no potential problem
15 of discrimination.

16 The -- Particularly because of the severe
17 drainage that the Pictured Cliff has incurred over the
18 past, we feel it realistic to commingle downhole and
19 produce these zones as a single entity, with compression,
20 and we request your approval of that.

21 EXAMINER STOGNER: Mr. Bayless, can I ask you a
22 couple of questions.

23 MR. BAYLESS: Certainly.

24 EXAMINER STOGNER: Are there any other wells in
25 this area that are being downhole commingled that you know

1 of, in the Fruitland sand and the Pictured Cliffs
2 formation?

3 MR. BAYLESS: No, sir.

4 EXAMINER STOGNER: Are there any other Fruitland
5 sand wells around this area?

6 MR. BAYLESS: Not nearby. It's a very erratic
7 sand.

8 EXAMINER STOGNER: Are there any physical
9 requirements prohibiting -- Well, now, why can't you dual
10 complete it? What's some of the factors why you can't dual
11 complete it?

12 MR. BAYLESS: We just feel that the Pictured
13 Cliff productivity is so low that it's not economically
14 viable.

15 EXAMINER STOGNER: What is the depth of this
16 well?

17 MR. BAYLESS: 1700 feet.

18 EXAMINER STOGNER: And is this on a federal
19 lease, this 160-acre --

20 MR. BAYLESS: There are two federal 40s and a fee
21 80.

22 EXAMINER STOGNER: Okay. How is that broke up?
23 What's the fee 80?

24 MR. BAYLESS: The fee 80 is the east half of the
25 northwest, I believe.

1 EXAMINER STOGNER: And then the two, of course
2 the two pads. And there is no vertical segregation between
3 the ownerships in that area, or in that quarter section?

4 MR. BAYLESS: That is correct. From the surface
5 to the base of the Pictured Cliff the ownership is
6 identical in all formations.

7 EXAMINER STOGNER: How about below that? Is it
8 different below it?

9 MR. BAYLESS: Yes, sir, it is.

10 EXAMINER STOGNER: Okay.

11 MR. BAYLESS: There's a deep Dakota test on the
12 north-half proration unit, I believe, and it has different
13 ownership.

14 EXAMINER STOGNER: Now, you had made this
15 Application administratively back in December; is that
16 correct?

17 MR. BAYLESS: That's correct.

18 EXAMINER STOGNER: And was it sent back to you,
19 or how were you notified that it could not be done
20 administratively?

21 MR. BAYLESS: I hesitate to absolutely say. It's
22 my belief, it's my understanding, that we were advised that
23 the Commission will be looking in the near future at
24 changing the rules, whereby it is possible for an
25 administrative approval to be given to a situation such as

1 this.

2 But until that time happens, it simply does not
3 fit the rules and regulations. And we felt it better to go
4 ahead and proceed with this hearing than wait the
5 indefinite time to when those rules might be changed.

6 EXAMINER STOGNER: So the only reason it was
7 denied administratively is because of the pressure; is that
8 what you understand? The pressure differential?

9 MR. BAYLESS: I believe that's correct.

10 EXAMINER STOGNER: Being more than the standard
11 50 percent?

12 MR. BAYLESS: Yes, sir. We have 120 and 380, I
13 believe. 120 and 380.

14 EXAMINER STOGNER: Now, should this well be shut
15 in over an extended period for some reason, and because of
16 the pressure differential, what's your belief that there
17 wouldn't be any crossflow? Or why wouldn't there be any
18 crossflow?

19 MR. BAYLESS: I did not mean to say there would
20 not perhaps be some crossflow. But the gas is practically
21 identical in its composition, and there is neither water
22 nor condensate in either formation in this area.

23 EXAMINER STOGNER: Now, you proposed a 48-percent
24 and 52-percent Pictured Cliffs-Fruitland allocation split.
25 But should condensate be produced sometime in the future,

1 how should that be allocated? Should there be any
2 condensate whatsoever?

3 MR. BAYLESS: I think that it would be realistic
4 to use on condensate the same ratio for the gas,
5 particularly in view of the identical ownership between the
6 two zones.

7 EXAMINER STOGNER: Now, you've produced quite a
8 few wells out there in the Pictured Cliffs and the
9 Fruitland sand, haven't you?

10 MR. BAYLESS: Much more in the Pictured Cliff
11 than the Fruitland.

12 EXAMINER STOGNER: Okay. Have you -- What has
13 been your experience with condensate out of the Pictured
14 Cliffs? Has it come in at a later date, or do you have
15 very much condensate in the Pictured Cliffs in this area?

16 MR. BAYLESS: Our personal experience in the
17 areas that we operate in is that we have -- I can only
18 think of one area, and it's some 70 miles to the northeast
19 from here that we have had any Pictured Cliff condensate
20 produced, and that only happened in the first year, I
21 believe, of production.

22 EXAMINER STOGNER: Mr. Bayless, have you received
23 any waivers back from any of the offset operators that you
24 sent notice back in December?

25 MR. BAYLESS: I don't think we received waivers.

1 It so happens that two of the offset operators are also
2 participants in this well --

3 EXAMINER STOGNER: And who is that?

4 MR. BAYLESS: -- being Southland Royalty
5 (Meridian) and Marathon.

6 EXAMINER STOGNER: So that would leave Dugan and
7 Petrocorp as offset operators?

8 MR. BAYLESS: That's correct.

9 EXAMINER STOGNER: Okay. Now, were they
10 notified?

11 MR. BAYLESS: Yes, they were notified, and you'll
12 find in the back an attachment showing the notices where
13 they were notified by registered mail.

14 EXAMINER STOGNER: It looks like you sent
15 something to Marathon too.

16 MR. BAYLESS: Well, under our system, we send to
17 Marathon and Southland/Meridian. The fact that they were
18 participants in the well, we didn't feel that negated the
19 need to so notify them.

20 EXAMINER STOGNER: When you notified Dugan and
21 Petrocorp -- I believe that's who it is -- did you notify
22 them on the Application or that this was going to hearing?

23 MR. BAYLESS: I think we have copies of the
24 letter, and I believe the letter is all we have done, that
25 we have -- the letter indicates that we have -- we

1 requested administrative approval, and we did not send a
2 second letter stating it was going to hearing.

3 I happen to be a good friend of Tom Dugan, and --
4 I realize this probably is not the proper way of doing it,
5 but I am very, very confident he had no objection.

6 I have not talked to Petrocorp subsequent to
7 mailing this letter.

8 EXAMINER STOGNER: What's your relationship with
9 Petrocorp?

10 MR. BAYLESS: I have -- I don't believe I have
11 any. I don't think I've had any deals with Petrocorp --
12 any dealings with Petrocorp.

13 EXAMINER STOGNER: There are essentially two
14 notification processes. I know it seems redundant,
15 especially at this point, that you have downhole
16 commingling administrative application. That's what you're
17 relying on, and I can understand, especially your
18 relationship with Mr. Dugan, and you'll probably get a
19 waiver from Mr. Dugan.

20 MR. BAYLESS: We very well may have one. I'm
21 just not aware of it.

22 EXAMINER STOGNER: But I do have a problem in
23 that they weren't notified of the hearing, and that's part
24 of the notice procedure.

25 Could I ask you, Mr. Bayless, to write to Mr.

1 Dugan and Petrocorp and notify them of this hearing? And
2 if you can get a waiver back from both of them, that would
3 expedite this matter.

4 Is this well producing at this time?

5 MR. BAYLESS: We took the compressor off, because
6 there wasn't enough gas to justify it, and I think it is
7 producing at a fairly low rate from the Fruitland sand.

8 There is a bridge plug in place at this time,
9 still, the one that we put in at the time we recompleted.

10 EXAMINER STOGNER: Mr. Bayless --

11 MR. BAYLESS: And I will contact these two
12 parties immediately.

13 EXAMINER STOGNER: Okay.

14 (Off the record)

15 EXAMINER STOGNER: Mr. Bayless, because of the
16 notification snafu, what I'm going to do is continue this
17 case -- you won't have to be here -- continue this case to
18 the March 7th hearing, at which time I can issue an order
19 after that.

20 But in the meantime, either today or tomorrow, if
21 you will notify Petrocorp and Dugan, preferably if you can
22 get a waiver from both of those parties, I can issue quite
23 a -- or much earlier than that, but just because of that --
24 Any other applicant that come in that had this would have
25 to do the same thing, then.

1 MR. BAYLESS: Sure, I understand, and I will
2 start on that first thing in the morning.

3 EXAMINER STOGNER: And if you will submit
4 certified mailing receipts and everything, and then cc us,
5 I would greatly appreciate it.

6 MR. BAYLESS: All right.

7 EXAMINER STOGNER: And just as soon as you get
8 any kind of written waiver from either or both or either
9 one of them, if you'll get that in to us just as soon as
10 possible, we can expedite that.

11 But at this time we'll have to continue the case.
12 It won't be necessary for you to be here unless you
13 anticipate -- which you probably won't anticipate any kind
14 of opposition from these parties, because they haven't come
15 forward prior to this.

16 (Off the record)

17 MR. BAYLESS: If it should happen that we have
18 received their waivers for the administrative and I can
19 send those to you, will that eliminate the need for the
20 second waiver for the hearing, or would you still like to
21 have a waiver for the hearing?

22 EXAMINER STOGNER: I'd like to have a waiver for,
23 actually the hearing.

24 MR. BAYLESS: Yes, sir.

25 EXAMINER STOGNER: But if you have one for the --

1 If you have one for Mr. Dugan for the administrative,
2 please go ahead and submit that.

3 MR. BAYLESS: I'll be on that first thing.

4 EXAMINER STOGNER: Okay.

5 (Off the record)

6 EXAMINER STOGNER: Mr. Bayless, based on what you
7 have presented today and pending you getting this
8 notification back to us and nobody objects, you may go
9 ahead and start, when you get back, the downhole
10 commingling process.

11 Just be aware that should this information not
12 get in or should there be an objection, you may possibly
13 have to shut the well in.

14 But at this point, I don't see any reason not to
15 allow you to go ahead and start on the downhole commingling
16 process.

17 MR. BAYLESS: Very well, thank you.

18 EXAMINER STOGNER: Just be aware that this stuff
19 is hanging over your head.

20 MR. BAYLESS: I understand, that's a contingency,
21 but that will expedite our work.

22 EXAMINER STOGNER: Are you an attorney?

23 MR. BAYLESS: No, sir.

24 EXAMINER STOGNER: I do appreciate it, Mr.
25 Bayless.

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And with that we'll continue this but, with our blessing, with the contingencies.

Thank you, sir.

MR. BAYLESS: Thanks very much.

(Thereupon, these proceedings were concluded at 11:45 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11463, heard by me on 18 February 1996.

Michael C. Slope
Examiner
Oil Conservation Division

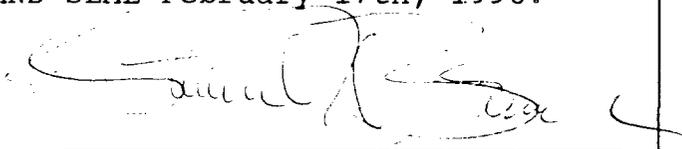
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 17th, 1996.



 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998