

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:)

CASE NO. 12,557

APPLICATION OF ROBERT L. BAYLESS FOR)
 COMPULSORY POOLING, SAN JUAN COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

OIL CONSERVATION DIV.
 C1 MAR-8 AM 9:10

I N D E X

February 22nd, 2001
 Examiner Hearing
 CASE NO. 12,557

PAGE

APPLICANT'S WITNESS:

ROBERT L. BAYLESS

Direct Testimony by the witness *pro se* 4

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* * *

E X H I B I T S

Applicant's	Identified	Admitted
Affidavit	4	-
Exhibit A	4	-
Exhibit B	4	-
Exhibit C	5	-
Exhibit D	5	-
Exhibit E	5	-
Exhibit F	5	-

* * *

A P P E A R A N C E S

ROBERT L. BAYLESS, *pro se*
 Farmington, New Mexico

* * *

1 WHEREUPON, the following proceedings were had at
2 8:46 a.m.:

3 EXAMINER CATANACH: And at this time I will call
4 Case 12,557, the Application of Robert L. Bayless for
5 compulsory pooling in San Juan County, New Mexico.

6 Call for appearances in this case.

7 Good morning.

8 MR. BAYLESS: Good morning, sir. You would like
9 six of these copies for presentation?

10 EXAMINER CATANACH: Probably four would be
11 sufficient.

12 And would you please identify yourself for the
13 record, please?

14 MR. BAYLESS: Yes, sir, Robert L. Bayless,
15 Farmington, New Mexico.

16 EXAMINER CATANACH: And Mr. Bayless, you're here
17 representing yourself today, I understand?

18 MR. BAYLESS: Yes, sir.

19 EXAMINER CATANACH: And do you plan on testifying
20 today, sir?

21 MR. BAYLESS: Yes, sir.

22 EXAMINER CATANACH: Are there any other
23 appearances in this case?

24 Okay. Can we get the witness sworn in, Steve?

25 (Thereupon, the witness was sworn.)

1 MR. BAYLESS: Ready?

2 EXAMINER CATANACH: I'm ready.

3 ROBERT BAYLESS,

4 the witness herein, after having been first duly sworn upon
5 his oath testified as follows:

6 DIRECT TESTIMONY

7 BY THE WITNESS:

8 MR. BAYLESS: I believe we have an affidavit in
9 the front of your folder executed by one of our employees,
10 Paul Hall, which affirms that to his knowledge what we're
11 going to present is true and accurate.

12 And in Exhibit A we show a well plat where these
13 are two Indian allottee leases, each covering 160 acres,
14 one being the northwest quarter and one being the southwest
15 quarter, all forming a west-half, 320-acre, Dakota-
16 participation communitized area.

17 On page 2 of that exhibit, we'll show the
18 participants who have presently executed our agreements and
19 their percentages, and we at this point have 69.47-percent
20 interest.

21 I would like to point out, the two wells holding
22 these two Indian allottee leases are shallow Pictured Cliff
23 wells drilled in the middle 1950s. So the et al's in these
24 Pictured Cliff wells still retain these deeper rights.
25 Unfortunately, two generations have gone by, so this has

1 caused some complications, certainly slowness, and the
2 Indian responses are just no responses.

3 On Exhibit C you'll see the AFE and a dryhole of
4 \$208,000 and completed well \$450,000, Dakota well.

5 Exhibit D is the operating agreement which we
6 have submitted to all of the participants, and it's been
7 executed by all of the agreeing participants. It is a --
8 what we use in the northwest, a very common operating
9 agreement with pretty much common terms.

10 On Exhibit E we show the overheads that we
11 propose to use, drilling and producing overheads, and these
12 come out of the Ernst & Young surveys, which are an annual
13 item. This is from April 1 of 2000.

14 EXAMINER CATANACH: I'm sorry, Mr. Bayless, what
15 are those rates that you're proposing?

16 MR. BAYLESS: We're proposing a drilling well
17 rate of \$5530, and a producing well rate of \$553 per month.

18 EXAMINER CATANACH: Thank you.

19 MR. BAYLESS: This drilling rate has been
20 accepted by all the participants in the well, all the
21 people that have joined in.

22 On F, I believe it is, we furnish copies of the
23 correspondence, notification letters, our proofs of
24 delivery with the various parties who have opted not to
25 respond or to join. And it's fairly voluminous. You'll

1 see that it addresses each party individually in the
2 exhibit.

3 With the people that we've been able to actually
4 obtain a connection to, we have offered to farm out from
5 them. Obviously, we've offered for them to join in the
6 well, or we've offered to buy. And in most of these cases
7 we have had no response along any of those lines. It's
8 simply no response.

9 Unless you have questions of what I have already
10 addressed here, we would like to see approval of our
11 Application for the compulsory pooling of these
12 noncommitted interests below the Pictured and below the
13 base of the Dakota. And I will be the designated operator
14 of said well and am asking to recover 100 percent of the
15 noncommitted working interest share of drilling and
16 completion, plus the additional 200 percent on those same
17 interests for the risk associated with the drilling and
18 completion.

19 And that's the bulk of my presentation.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Okay, Mr. Bayless. The proposed well, do you
23 know what the location of that well will be at this point?

24 A. Yes, sir, it will show up in Exhibit A. It's in
25 the west half of Section 19, 26 North, 8 West, San Juan

1 County, and it's in the northwest quarter of that Section
2 19, and the proration unit will be the west half.

3 Q. And that's the well that you have designated --

4 A. -- as the Hun Nop Pi Number 2.

5 Q. Do you know what the well location is, Mr.
6 Bayless, in terms of footage?

7 A. Yes, sir, I should. I'm sorry, I don't think I
8 have the survey plat. I can tell by looking at it that
9 it's going to be in the northeast of the southwest of the
10 northwest. It will be an interior -- You'll see the spot
11 on Exhibit 8.

12 Q. After the hearing, Mr. Bayless, can you supply me
13 with a plat for that well?

14 A. Absolutely. It might take until tomorrow.

15 Q. That would be fine. But as far as you know, it's
16 in a standard well location?

17 A. Yes, sir.

18 Q. And the primary objective in the well is the
19 Dakota?

20 A. Yes, sir.

21 Q. Basin-Dakota Pool?

22 A. Pardon?

23 Q. Basin-Dakota Gas Pool?

24 A. Basin-Dakota.

25 Q. And you seek to pool -- let me make sure I

1 understand -- from the base of the Pictured Cliffs to the
2 base of the Dakota?

3 A. Yes, sir.

4 Q. And you're just pooling everything that's
5 developed on 320 acres; is that correct?

6 A. At this point.

7 Q. Okay.

8 A. The two leases that are involved are each held by
9 Pictured Cliff producing wells.

10 Q. That you operate?

11 A. No, sir. Burlington operates those.

12 Q. I see, okay. Mr. Bayless, how did you go about
13 determining who the interest owners in these two tracts
14 were?

15 A. Through detective work. Actually, most of the
16 parties -- the original parties were all known oil and gas
17 producers.

18 You'll notice the name DeGolyer when you go
19 through. The operator of the two Pictured Cliffs was Al
20 Greer, and he had many people that participated with him
21 back in the 1950s. And so we just basically did a lot of
22 finding where the next generation was and the next
23 generation, and we think that we've done a fairly accurate
24 job in finding those people.

25 Unfortunately, in the two generations that have

1 gone by, they seem not to be as knowledgeable or involved
2 in this phase of the business as two generations ago.

3 Q. Well, how confident are you, Mr. Bayless, that
4 you've identified the correct interest owners in those two
5 tracts?

6 A. I'm comfortable that we have done the best job
7 over a several-month period that we know how to do.

8 Q. Okay. So far, you've tied up approximately 69
9 percent of the interest --

10 A. Yes, sir.

11 Q. -- in that 320?

12 A. That's correct.

13 Q. Okay. The remaining interests that have not
14 committed, are they all interest owners who have not
15 responded to you?

16 A. There is one large independent company that
17 you'll notice if you're looking through this, and they are
18 a very legitimate, large company who, in our view, probably
19 simply do not have time to address all these kind of
20 issues. They've made several large acquisitions in the
21 last year.

22 We cannot establish contact with them. We've
23 sent them registered letters, we make calls, we get no
24 response. And we attribute that simply to the fact that
25 they're probably overloaded at this point.

1 Q. Who is that, Mr. Bayless?

2 A. Devon. Everybody else involved here are
3 individuals, I believe.

4 And you know, I can appreciate that in two
5 generations you have marriages, you have divorces, you have
6 children, you have grandchildren, and things become more
7 difficult to follow. We think we have traced all those
8 leads down.

9 Q. In leases such as this, Indian allottee leases,
10 is there any place that you could go centrally to find out
11 -- I mean, when something changes ownership, is it recorded
12 anywhere or --

13 A. These would be operating rights, first of all,
14 not rights of record. The rights of record -- The title of
15 record went to Burlington when they acquired El Paso, and
16 El Paso had bought these properties from the Greer-J. Glenn
17 Turner group in the 1950s when there was financing for the
18 pipeline.

19 And I don't mean to bore you with the details,
20 but at any rate they would use people like Greer and Turner
21 to drill wells, and then they would buy them at a formula
22 to establish their reserve base for the pipeline lists.

23 Q. Well, let me ask you this. If Burlington has two
24 producing wells currently, wouldn't they have a correct
25 record of the ownership?

1 A. Of the Pictured Cliff, and they bought the
2 Pictured Cliff out completely from the Greer-Turner group.

3 Q. Okay, so the interest is probably different from
4 the Dakota.

5 A. Yes, sir, absolutely.

6 Q. Mr. Bayless, when did you first start
7 corresponding with these interest owners or proposing the
8 well?

9 A. I believe in the summer of '00.

10 Q. And was that for all these interest owners, you
11 started about the same time?

12 A. Yes, in that we would start with party A, and
13 that then might lead us to party B and C. And that would
14 be sort of sequential, and it takes time. But we were
15 following the path as we could, and it's gone a lot slower
16 than we envisioned. We would like to have been selling gas
17 in January.

18 Q. Okay, does your exhibit file contain the first
19 correspondence with these interest owners, the first letter
20 that you sent them?

21 A. I would think so. I think we tried to be very
22 thorough. But we used a lot of telephone work before we
23 ever got to the point of letters to --

24 Q. Okay. And the parties that you've listed here in
25 your exhibit book are simply the parties that have not

1 agreed to participate?

2 A. Yes, either not agreed or no decision or no
3 response.

4 Q. And you were able to locate -- All of these were
5 delivered to the parties that you --

6 A. We have receipts back on all of these.

7 Q. Okay. Do you anticipate any of these interest
8 owners participating or leasing or...

9 A. If they were going to, I would have thought they
10 would have before now.

11 But I think it's always possible that -- And we
12 will send out now notices, assuming we receive an order
13 from NMOCD, we will then send out notices that we have
14 received this, in essence have one more go-around, do you
15 wish to join now?

16 Before, we have not been able to give any
17 definite idea as to when the well was to be drilled. And
18 we can now, based on rig availability, we can say within
19 probably a 60-day period that the well will be commenced.
20 And in effect, this is the last chance.

21 Q. Okay, Mr. Bayless, you've proposed today a risk
22 penalty of 200 percent. What is that based on, sir?

23 A. There is not heavy Dakota development in that
24 immediate area, and the Dakota sand seems to come and go as
25 far as its development is concerned, or productivity, and

1 we consider this not a low-risk location.

2 Q. How close is the nearest Dakota production to
3 your well?

4 A. I believe there is a well within a mile to the
5 northwest.

6 And I'd be happy to furnish you with a plat of
7 the Dakota wells in close proximity and their cumulative,
8 along with the survey plat that I'm going to furnish you,
9 if that would be of benefit.

10 Q. I would appreciate that. So this is basically
11 kind of on the outskirts of the Basin-Dakota Pool?

12 A. It's on the skinny edge, yes, sir.

13 Q. And in what direction?

14 A. To the south.

15 Q. To the south, south end. And have you drilled
16 any Dakota wells in this area?

17 A. Probably not within five miles.

18 Q. Okay.

19 A. And in our view, five miles is a long ways. A
20 mile is quite a ways.

21 Q. So I gather that the Dakota sand at this location
22 is probably thinning to the south?

23 A. Yes, sir. I believe that if you were to look at
24 this you would say, because of the current status of the
25 industry, we're looking at prospects that we might not look

1 at -- have looked at two years ago.

2 Q. What do you expect in terms of production from
3 this well, Mr. Bayless?

4 A. We would like to see 400 MM, but, you know, these
5 things are speculative.

6 Q. What about a daily rate? Do you have any idea?

7 A. Probably, in our view, after 90 days if you were
8 at 150 you would probably be -- that would take off some of
9 the flesh and be a fairly stabilized flow.

10 Q. And let's see, did you provide notice of this
11 hearing to the interest owners?

12 A. Yes, sir.

13 Q. And were --

14 A. And this hearing has been postponed twice, I
15 believe, and we have notified them in advance of the
16 postponements.

17 Q. And do you have that notice in here, Mr. Bayless?

18 A. I believe it will be in there.

19 Q. Okay. Yeah, it looks like it's on the --

20 A. Under each name, I believe.

21 Q. Okay.

22 A. And you'll find copies of the AFEs that we've
23 submitted to them, and as I indicated, we have offered to
24 purchase, farm out or join.

25 EXAMINER CATANACH: Okay, I believe that's all

1 the questions I have in this case.

2 Do you have anything further to add in this case?

3 MR. BAYLESS: No, sir, thank you.

4 EXAMINER CATANACH: Okay, there being nothing
5 further, Case 12,557 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at
7 9:10 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12557,
heard by me on February 22 192001.
David R. Catnach, Examiner
Oil Conservation Division

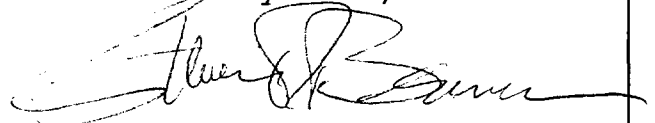
CERTIFICATE OF REPORTER

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 23rd, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002