

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. 12,593

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 MAR - 8 AM 9:11

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.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

February 22nd, 2001
 Examiner Hearing
 CASE NO. 12,593

PAGE

APPLICANT'S WITNESS:

ROBERT L. BAYLESS

Direct Testimony by the witness *pro se*

3

REPORTER'S CERTIFICATE

17

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Affidavit	5	-
Exhibit A	5	-
Exhibit B	5	-
Exhibit C	6	-
Exhibit D	7	-
Exhibit E	8	-
Exhibit F	8	-

* * *

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 9:14 a.m.:

3 EXAMINER CATANACH: And at this time I will call
4 Case 12,593, the Application of Robert L. Bayless for
5 compulsory pooling, San Juan County, New Mexico.

6 I will call again for appearances in this case.
7 Mr. Bayless?

8 MR. BAYLESS: Yes, sir.

9 EXAMINER CATANACH: Mr. Bayless will be appearing
10 on behalf of himself in this case. And are there any
11 additional appearances?

12 Let the record show that Mr. Bayless has
13 previously been sworn in and is still under oath.

14 And Mr. Bayless, I will turn it over to you.

15 ROBERT BAYLESS,
16 the witness herein, having been previously duly sworn upon
17 his oath testified as follows:

18 DIRECT TESTIMONY

19 BY THE WITNESS:

20 MR. BAYLESS: Thank you.

21 I have to apologize for all the material I'm
22 giving you, but I'd like to give you a little background
23 first. This is a well that's going to be drilled east of
24 the town of Aztec, which is the county seat, and it was
25 formed about 1890.

1 This is a laydown 320 for a Mesaverde test. The
2 east 240 acres are relatively simple leases, and we have
3 those under good control.

4 The west standup 80 in this 320 is in the
5 original town site of Aztec. We have many, many 25-foot-
6 wide lots in this 80 acres.

7 They first started leasing and drilling for gas
8 in approximately 1921. I think they got gas into the
9 little town of Aztec in 1922. What this has really led to
10 is that the minerals have been segregated in many
11 instances. In many instances, there is no documentation of
12 whether the minerals have been segregated, and obviously in
13 that case, you would think that the minerals have gone on
14 with the surface ownership.

15 It's not quite as simple as that, as we've found.
16 We have a stack of abstracts, oh, probably that high, and I
17 specifically remember \$22,000 worth, trying to make a
18 determination of ownership and who to contact and how to
19 contact over the long period of time.

20 And basically that's why we have so many records
21 here, and we have -- Just literally hundreds of registered
22 letters have gone out to parties that we think have
23 involvement in those minerals.

24 That's just a background, and then I'll start in
25 with my formal presentation, if that's all right, but I

1 sort of wanted to give you a picture of what we're working
2 with.

3 EXAMINER CATANACH: Okay.

4 THE WITNESS: And the wellsite itself will be to
5 the east and is on larger leases. Actually, I think our
6 drillsite will be on a federal lease. So it is not the
7 problem of where we're drilling, it's the problem of the
8 communitization of the full 320 to make the proration unit
9 that includes this 80 acres in the townsite.

10 We have an affidavit, as we had previously, that
11 to our knowledge the information is accurate. This well
12 will be called the Hazel Bolack Number 2. And just as a
13 historical item, Tom Bolack drilled the Number 1, and he
14 drilled up in the middle 1950s, and we eventually bought
15 that well, which was a Pictured Cliff, and bought these
16 rights that we have under this 320.

17 On Exhibit A, the plat, you'll see laid out what
18 I have spoken earlier, that the east 240 is under control;
19 it's the west 80 that includes all the townsite wells.

20 On Exhibit B I'm going to show you what we have
21 in the way of leases, and those are the larger leases which
22 are no problem. And then as we get toward the back -- on
23 page 10, for example -- we start in with the leases that we
24 have. And you will see that their number of acres will be
25 .15, .145, .8 and so forth, .2. That's not much of an

1 acreage position, but that's what we have done.

2 On behind there -- That was leased. Now, on page
3 11 you will see what we have that is unleased. And roughly
4 that is 40 acres, out of the 80 acres.

5 We have 91 unleased parties, to our knowledge.
6 And 84 of these individuals have received and signed for
7 registered letters. The balance, they have not indicated
8 they received anything. But those were the best addresses
9 that we could come up with. And simply undeliverable by
10 the post office.

11 We've gone through phone lists on a national
12 basis, and we have not been able to obtain any better
13 address for the names that we cannot contact.

14 Moving on to Exhibit C, we give the AFE, the
15 drilling depth, costs. Cost, dryhole, approximately
16 \$157,000, a producing well will be \$335,000.

17 And then you'll find the operating agreement
18 again that is commonly used in the San Juan Basin, and it
19 will be limited from the surface of the earth to the base
20 of the Mesaverde.

21 Our TD will be approximately 5000 feet.

22 EXAMINER CATANACH: Let me stop you there, Mr.
23 Bayless. Your Application says surface to the base of the
24 Dakota. Are you requesting that it now be amended from the
25 surface to the base of the Mesaverde?

1 THE WITNESS: I can't give you a real intelligent
2 answer on that. This test is going to be to the base of
3 the Mesaverde, we believe. We own rights to the base of
4 the Dakota, I believe, and I would probably ask that we
5 have the pooling applied to from the surface to the base of
6 the Dakota, which would allow us, if we wanted to go
7 deeper, to do that without any further hearing.

8 If that does not fall within a normal protocol,
9 we will amend it.

10 EXAMINER CATANACH: Well, I would ask you then if
11 the interest owners that you've contacted and noticed of
12 this hearing, are they under the impression that the well
13 is a Mesaverde test?

14 THE WITNESS: I think they -- If they were
15 knowledgeable, I believe they would determine from what
16 we've sent them that it's a Mesaverde test. So under your
17 line of reasoning there, to do the Dakota would probably be
18 improper.

19 EXAMINER CATANACH: Probably so. I suggest we
20 limit it to from the surface to the base of the Mesaverde
21 at this point.

22 Okay, I'm sorry, you may proceed.

23 THE WITNESS: Okay, I've already addressed the
24 AFE there, the operating agreement.

25 You on Exhibit D will see the partners at this

1 point as Bayless 62 percent, Burlington 14, W.P. Carr 10,
2 and unleased interests that we're referring to now, 12.8
3 percent.

4 Attachment C, more accounting exhibits, and it
5 refers to gas balancing agreement. This operating
6 agreement has been approved by the participants that we
7 just recited, Burlington 14, W.P. Carr and myself.

8 In Exhibit E you'll see the overheads that we
9 propose to use.

10 EXAMINER CATANACH: What are those, Mr. Bayless?

11 THE WITNESS: Well, I'm fumbling. They should
12 be, I believe, the same as what we used on the last case
13 and that they cover the same period and the same --
14 basically the same depth, \$5530 for a drilling well, \$553
15 for a producing well, which is the same we used last time,
16 and it is shown on page 4 of the accounting schedule.

17 EXAMINER CATANACH: And the interest owners who
18 have signed the JOA have agreed to those rates?

19 THE WITNESS: Yes, sir.

20 EXAMINER CATANACH: Okay, very good.

21 THE WITNESS: Exhibit F will be our next file
22 folder, and it covers two file folders, and here is where
23 you will see the multitude of letters and communication
24 efforts.

25 I don't know in what detail you want to go.

1 You'll just find a myriad of names and letters that have
2 gone out, and receipts that have either come back or not
3 come back.

4 The few people that we've actually been able to
5 talk to and sign up basically have taken the position we
6 don't know whether we own it, if there's no liability on
7 our part we'll sign this, we'll take your money. Certainly
8 they do not warrant title to us, and we don't ask them to,
9 in reality, we're not asking them to warrant title. We're
10 doing the best we can, and I don't think we'd make any
11 progress if we asked for warrants on their part.

12 EXAMINER CATANACH: So what process did you guys
13 go through in trying to determine who these owners were?

14 THE WITNESS: We went through abstracts first,
15 then tax rolls second. And then as we started coming up
16 with what we thought were reasonable names that they did
17 truly own something, then we used the last addresses.

18 And then we went through these national tele- --
19 and I'm not skilled in doing this, but national telephone
20 information sources, through the Internet, and came up with
21 some addresses for people and sent communications out to
22 them. Some we got response, some we didn't.

23 Because of the age of the ownership, we also
24 relied to some degree on old-timers, basically going to
25 them and saying, Do you remember so-and-so, or any children

1 from so-and-so? And Aztec is a relatively small village,
2 and we were able to do some good there.

3 It was much more complex than the previous case I
4 gave you, as far as finding ownership.

5 EXAMINER CATANACH: So within that tract there's
6 houses, existing houses?

7 THE WITNESS: Yes, sir.

8 EXAMINER CATANACH: And that the mineral --

9 THE WITNESS: -- and we got that information, of
10 course, from the current county tax records.

11 EXAMINER CATANACH: Okay, so you know who the
12 surface owner is --

13 THE WITNESS: Yes, sir.

14 EXAMINER CATANACH: -- basically? I mean, that
15 should be pretty basic.

16 THE WITNESS: That was simple.

17 EXAMINER CATANACH: In most cases, though, the
18 minerals were not the same as the surface?

19 THE WITNESS: I hate to use the word "most".
20 Probably that is an accurate -- in most cases they were
21 not. Over a period of the years we're talking about, right
22 at 75 years or more, just a lot of things have happened,
23 ownership of those houses.

24 EXAMINER CATANACH: So you did go to a title
25 company to try and determine who the --

1 THE WITNESS: The title company is the one that
2 pulled the abstracts for us, that prepared the abstracts,
3 would be a better word.

4 EXAMINER CATANACH: And from that data plus the
5 other data, you were able to determine what you think is
6 the interest ownership?

7 THE WITNESS: From that and the Internet work, we
8 think that we have done as thorough a job as we know how to
9 do, to determine ownership.

10 EXAMINER CATANACH: How long have you been
11 working on this, Mr. Bayless?

12 THE WITNESS: I don't really want to discuss it.

13 (Laughter)

14 THE WITNESS: Three years, I believe. And I hope
15 you're not going to ask me what we've spent on it so far,
16 because I was just telling my guys the other day, Is this
17 really feasible? And the response was, We've gone this
18 far, we need to go further.

19 EXAMINER CATANACH: Is this -- I'm just curious.
20 Is this the same case we had --

21 THE WITNESS: You're darn right --

22 EXAMINER CATANACH: -- a year earlier or several
23 years ago?

24 THE WITNESS: -- and we've been working on it
25 since.

1 EXAMINER CATANACH: Okay, I remember that one
2 now.

3 THE WITNESS: Yes, sir.

4 EXAMINER CATANACH: Okay, so that answers my
5 question.

6 In your opinion, you think you've reasonably
7 defined the interest owners in that tract?

8 THE WITNESS: Yes, sir.

9 EXAMINER CATANACH: At this point you don't
10 believe that there's anything else you could do or anything
11 further that you could do to more accurately determine
12 those interest owners?

13 THE WITNESS: I have asked that question of our
14 folks, and their response has been, We've done everything
15 that we can do. And I believe that they have.

16 EXAMINER CATANACH: Okay. The proposal letters
17 you initially sent to these interest owners, I just looked
18 at the first one, and it was dated sometime in November.
19 Does that sound right to you?

20 THE WITNESS: I believe so. I would have thought
21 it was a little earlier, but we worked and worked until we
22 finally -- We wanted to send everything out more or less at
23 one time and not piecemeal.

24 We feel that we have done everything with any
25 kind of -- within any reason that can be done. We

1 certainly -- and this probably is not the appropriate thing
2 for me to say, but it's true. If somebody comes to us and
3 says, We really own that quarter of an acre there, my
4 grandmother had it and da, da, da, da, da --

5 EXAMINER CATANACH: Uh-huh.

6 THE WITNESS: -- we're not going to quibble.
7 It's easier for us to pay, either to buy them out or to
8 lease with them or pay them the royalty they have coming.
9 It's much easier for us to do that than to try to argue
10 with them or go to court with them to cause them to approve
11 it. If they seem to have a reasonable position, that's all
12 that we're going to ask for.

13 If we turn out paying -- and again, this may not
14 be the appropriate thing to say to you, but if you turn out
15 paying more than 100 percent for those town lot wells, we
16 just take it as business risk, and that's the way it is.

17 EXAMINER CATANACH: So how would you handle two
18 months from now, somebody coming on up to you and saying,
19 Well, we actually own that interest? I mean, what would
20 you do?

21 THE WITNESS: I'd say, Let's sign a lease, we'll
22 pay you the bonus, and we'll either -- we'd certainly buy
23 their minerals, but we'll buy your minerals, we'll sign the
24 lease with you or let you join in drilling the well. And
25 as I say, if it exceeds 100 percent, we can live with that.

1 But we think we've been thorough enough that that's not
2 likely to happen to any significant degree.

3 EXAMINER CATANACH: Okay, I believe we've covered
4 everything except risk penalty for the well, Mr. Bayless.

5 THE WITNESS: Yes, sir, we would like to recover
6 100 percent of those costs and then an additional 200
7 percent for our risk factor on the unleased acreage, and I
8 believe I'd be redundant in going into what the risk is.

9 However, geologically we're on the edge of what
10 will be Mesaverde production in that area. We also have
11 one Mesaverde well in the next proration unit, which has
12 been there a prolonged period of time, many years. We
13 probably have some drainage risk in addition to sand
14 quality development risk.

15 EXAMINER CATANACH: So you do have a Mesaverde
16 well in the next section? Is that what you said?

17 THE WITNESS: To the north, I believe.

18 EXAMINER CATANACH: To the north. And you
19 operate that well?

20 THE WITNESS: No, sir.

21 EXAMINER CATANACH: Is that not a very good well?
22 Is that your recollection?

23 THE WITNESS: I think it's a commercial well, but
24 it's been there a prolonged period, and that's what worries
25 us about the drainage. If it would be of benefit, I can

1 certainly provide that type of a map also.

2 EXAMINER CATANACH: I would appreciate that. And
3 also, if you could provide a plat for this well. I assume
4 the well location has already been determined and approved?

5 THE WITNESS: Yes, sir, and under -- there is a
6 -- We will provide you with a surveyor's plat, but on your
7 Exhibit A you will see where that well is, and that's
8 pretty accurate. But we will give you an exhibit.

9 EXAMINER CATANACH: Okay. So other than the well
10 to the north there, there's not very much Mesaverde
11 production in this area?

12 THE WITNESS: No, I don't think there's anything
13 to the south. My memory isn't -- We again view this as a
14 well that would have been drilled some time ago, except for
15 the complexities of it, and now we're going over wells that
16 have been slow to get drilled.

17 EXAMINER CATANACH: Is the Hazel Bolack 1 still
18 producing?

19 THE WITNESS: It is an extraordinarily marginal
20 Pictured Cliff well. At one point we contemplated
21 deepening it. There were some problems mechanically with
22 the well and the wellbore size, and we made the decision to
23 go ahead and drill this as a new top-to-bottom, rather than
24 a deepening project.

25 EXAMINER CATANACH: Okay. And again, notice was

1 provided to these interest owners in this case, Mr.
2 Bayless?

3 THE WITNESS: Yes, sir.

4 EXAMINER CATANACH: Okay, I believe I don't have
5 any other questions. Do you have anything else to add?

6 If there's nothing else this case, Case 12,593,
7 will be taken under advisement.

8 Thank you, Mr. Bayless.

9 (Thereupon, these proceedings were concluded at
10 9:35 a.m.)

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17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
the Examiner hearing of Case No. 12593,
heard by me on February 22 19 2007.
19 David R. Catnach, Examiner
20 Oil Conservation Division
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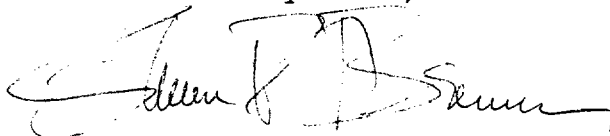
CERTIFICATE OF REPORTER

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