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December 14, 2016

VIA FACSIMILE & FEDERAL EXPRESS
(505) 476-3462

Ms. Florene Davidson
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 15622

RE: Application for Approval of East Horseshoe Gallup Unit, etc.

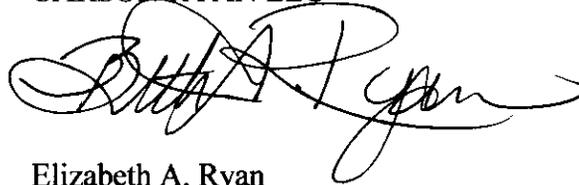
Dear Ms. Davidson:

On behalf of Robert L. Bayless, Producer LLC, enclosed please find an original and two copies of the Application of Robert L. Bayless, Producer LLC for Approval of the East Horseshoe Gallup Unit, Creation of a New Pool for Horizontal Development within the Unit Area with No Allowables, and for Allowance of 330 Foot Setbacks from the Exterior of the Proposed Unit, San Juan County, New Mexico, and Application for Authorization to Inject, together with a proposed Advertisement. Please set this matter for the January 19, 2016 Examiner hearing. Thank you.

Should you have any questions or concerns, please do not hesitate to contact me.

Very truly yours,

CARSON RYAN LLC



Elizabeth A. Ryan

BAR/rmt
Enclosures

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

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**APPLICATION OF ROBERT L. BAYLESS, PRODUCER LLC
FOR APPROVAL OF THE EAST HORSESHOE GALLUP UNIT,
CREATION OF A NEW POOL FOR HORIZONTAL
DEVELOPMENT WITHIN THE UNIT AREA WITH NO ALLOWABLES,
AND FOR ALLOWANCE OF 330 FOOT SETBACKS FROM
THE EXTERIOR OF THE PROPOSED UNIT,
SAN JUAN COUNTY, NEW MEXICO, AND
APPLICATION FOR AUTHORIZATION TO INJECT.**

CASE NO. 15622

APPLICATION

Robert L. Bayless, Producer LLC ("Bayless"), pursuant to N.M.A.C. 19.15.20.14, hereby makes application for an order (1) approving its East Horseshoe Gallup Unit; (2) creating a new pool for horizontal wells within that unit area, or alternatively, expanding the currently "frozen" Horseshoe Gallup Pool to cover the unit area; and (3) allowing for 330 foot setbacks from the exterior of the proposed Unit. In support of this application, Bayless states:

1. The proposed "Unit Area" for the East Horseshoe Gallup Unit consists of 4,762.57 acres, more or less, of federal and fee lands situated in San Juan County, New Mexico, specifically:

TOWNSHIP 30 NORTH, RANGE 15 WEST, N.M.P.M.

Section 3:	All
Section 4:	All
Section 5:	S/2, NE/4
Section 7:	All
Section 8:	All
Section 9:	N/2, SW/4, N/2SE/4, SW/4SE/4
Section 17:	N/2NE/4, SE/4NE/4, NE/4SE/4
Section 18:	All
Section 19:	N/2

See Plat of Unit Area attached hereto as Exhibit A.

2. Once approved, Bayless will be the designated operator under the proposed Unit Agreement for the Development and Operation of the Horseshoe Gallup Unit Area, San Juan, County, New Mexico ("Unit Agreement"). The unitized interval includes all formations from the base of the Point Lookout Sandstone to the base of the Greenhorn Limestone Member of the Mancos Shale, specifically described in the Unit Agreement as: all oil and gas in the Mancos Shale Group, including genetically related rocks below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) at a measured depth of 2,932 feet down to the stratigraphic equivalent of the base of the Greenhorn Limestone Formation at a measured depth of 4,980 feet as shown in the Ute Mountain Tribal #35-D Well in the SE/4 of Section 35, Township 31 North, Range 15 West, N.M.P.M. (API #30-045-33562) (the "Unitized Interval").

3. By hearing date, Bayless anticipates it will have obtained a sufficient percentage of the interest owners' approval of the Unit Agreement within the proposed Unit Area to provide effective control of unit operations.

4. Bayless has received preliminary approval of the Unit Agreement from the Bureau of Land Management. *See Pre-Approval Letter* attached hereto as Exhibit B.

5. Pursuant to the terms of the proposed Unit Agreement, the entire Unit Area will be developed and operated as a single Participating Area.

6. Pursuant to 19.15.20.14 NMAC, after notice and hearing, the Division may approve the combining of contiguous developed proration units into a unitized area.

7. The Unit Area is currently subject to the Special Rules and Regulations for the Basin-Mancos Gas Pool adopted in 2008 under Division Order R-12984.

8. Rule C of the Special Rules for the Basin-Mancos Gas Pool require gas wells to be located no closer than 660 feet to the outer boundary of a spacing unit, or in this case, the outer boundary of the Unit Area.

9. In order to allow for the most efficient horizontal well development pattern for the production of oil and associated gas, and to effectively drain the reserves in the unitized formation underlying the Unit Area, Bayless requests that the Division create a new pool for horizontal development within the Unit Area that covers the Unitized Interval and allows for 330 foot setbacks for oil wells and no internal setbacks.

10. Bayless requests the Division grant an exception to 19.15.20.12(A) NMAC to the statewide rules on oil allowables for the newly created pool because there is little other oil production that would be affected by Unit development in the vicinity of the Unit Area¹ and due to the possible crossover with the gas injection project. Bayless has provided offset operators with notice of this request.

11. Currently, no producing vertical wells are present in the proposed unit; however, three horizontal wells exist. Bayless requests that the three existing horizontal wells be contracted from the Horseshoe Gallup Pool and be placed in the newly created pool, described as follows:

- a. Horseshoe Gallup 18-8H Well (API No. 30-045-35373)
S.H. Location: 2420' FNL & 245' FEL Sec. 18, T30N-R15W
B.H. Location: 1720' FNL & 400' FWL Sec. 18, T30N-R15W
Spudded on September 2, 2012.
- b. Horseshoe Gallup 18-16H Well (API No. 30-045-35300)
S.H. Location: 220' FSL & 140' FEL Sec. 18, T30N-R15W
B.H. Location: 1253' FSL & 1273' FWL Sec. 18, T30N-R15W

¹ There exists two oil wells which offset the Unit Area, each operated by LOGOS Operating, LLC: (1) Anador Federal 19 No. 1 Well (API No. 30-045-25267) located in NE/4SW/4 Section 19, 30N-15W; and (2) Black Diamond Com 20 No. 1 Well (API No. 30-045-28966) located in NW/4NW/4 Section 20, 30N-15W. Each produce oil from the Horseshoe Gallup Extension.

Spudded on August 15, 2011.

- c. Horseshoe Gallup 19-8H Well (API No. 30-045-35376)
S.H. Location: 1500' FNL & 555' FEL Sec. 19, T30N-R15W
B.L. Location: 1653' FNL & 1029' FWL Sec. 19, T30N-R15W
Spudded on August 24, 2012.

12. As an alternative to creating a new pool, Bayless requests the Division expand the "frozen" Horseshoe Gallup Gas Pool to include the proposed Unit Area, which rules currently allow for 330 foot setbacks. The Horseshoe-Gallup Oil Pool has no special rules on allowables and is therefore governed by statewide rules for development of oil wells in NMAC 19.15.20.12(A). In this instance, Bayless requests an exclusion from the Rule NMAC 19.15.20.12(A) for no allowables because there is little other oil production that would be affected by Unit development in the vicinity of the Unit Area² and due to the possible crossover with the gas injection project. Bayless has provided offset operators with notice of this request.

13. Notice of this Application has been provided to the affected parties in the spacing units offsetting the proposed Unit Area, as well as all affected parties inside the Unit Area.

14. Bayless has also caused notice of this Application to be published in a local newspaper of general circulation in San Juan County, New Mexico.

15. Approval of this Application and the creation of a new pool for horizontal development in the Unit Area will be in the best interests of conservation, the preservation of waste, and the protection of correlative rights.

16. Bayless also seeks the Division to authorize the injection of produced gas to prevent waste from venting and flaring associated gas with oil production from the Horseshoe Gallup 18-16H located 220' FSL & 140' FEL Section 18, T30N, R15W, San Juan County, NM; Horseshoe Gallup 18-8H located 2420' FNL & 245' FEL Section 18, T30N, R15W, San Juan

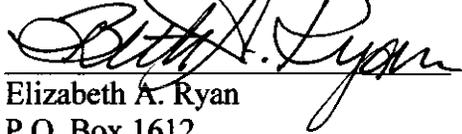
² See *infra* Footnote 1.

County, NM; and Horseshoe Gallup 19-8H located 1500' FNL & 555' FEL Section 19, T30N, R15W, San Juan County, NM (a/k/a the above described existing horizontal wells in the Unit Area, collectively, the "Wells"). Production from the Gallup 18-16H and the Horseshoe Gallup 18-8H Wells will be temporarily injected in the Horseshoe Gallup 19-8 Well into the Gallup formation in the Horseshoe Gallup Pool. Producing and Injection wells will be rotated every four (4) months. Bayless requests a one-year approval with one-year extensions with request to the Division. The San Juan Generating Station, a coal-burning power plant, is in close vicinity to the Unit Area. Bayless seeks authorization from the Division to ensure air quality in the area remains the same, which would otherwise be impacted from venting and flaring of associated gas produced from the Wells. The BLM supports Bayless' application to temporarily inject gas to prevent waste. *See BLM Letter of Approval* attached hereto as Exhibit C; *See also C-108 Form and Injection Information* attached hereto as Exhibit D.

17. Form C-108 and the information relative to the proposed injection request are attached hereto and incorporated as part of this Application.

WHEREFORE, Robert L. Bayless Producer LLC requests that this Application be set for hearing before an Examiner of the Oil Conservation Division on January 19, 2017, and that after notice and hearing this Application be approved.

CARSON RYAN LLC



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Respectfully submitted,

DAVIS GRAHAM & STUBBS, LLP

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*Attorneys for
Robert L. Bayless, Producer LLC*

Case No. 15622 **Application of Robert L. Bayless, Producer LLC For Approval of the East Horseshoe Gallup Unit, Creation of a New Pool For Horizontal Development Within the Unit Area With No Allowables, and For Allowance of 330 Foot Setbacks From The Exterior of the Proposed Unit, San Juan County, New Mexico and Application For Authorization To Inject.** Applicant seeks approval for its East Horseshoe Gallup Unit consisting of 4,762.57 acres, more or less, of federal and fee lands situated in all or parts of Sections 3-5, 7-9, and 17-19 of Township 30 North, Range 15 West, N.M.P.M., San Juan County, New Mexico. The Unitized Interval includes all formations from the base of the Point Lookout Sandstone to the base of the Greenhorn Limestone Member of the Mancos Shale. In addition, Applicant seeks an order creating a new pool which would extend from the bottom of the Point Lookout formation to the top of the Greenhorn Formation within the proposed Unit Area that will allow for horizontal oil development with 330 foot setbacks from the exterior of the proposed Unit with no allowables. Alternatively, Applicant seeks expansion of the existing "frozen" Horseshoe Gallup Gas Pool to cover the proposed unit. Bayless also seeks authorization to inject produced gas into the Gallup formation in the Horseshoe Gallup Pool. The San Juan Generating Station, a coal-burning power plant, is in the vicinity of the proposed location. Bayless seeks this authorization in order to ensure air quality is not impacted in the area which could otherwise be affected from venting and flaring excess associated gas.