

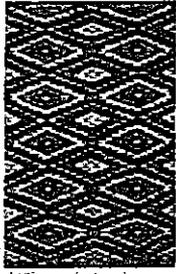
TRANSMITTAL LETTER Bureau of Land Management

December 12, 2016

Documents delivered for: Dave Mankiewicz
Joe Hewitt

Received by: *Joe Hewitt*

EXHIBIT 7



Robert L. Bayless, Producer LLC

Post Office Box 168
2700 Farmington Avenue, Building F Suite 1
Farmington, New Mexico 87499
505-326-2659
505-326-6911 Fax

621 Seventeenth Street, Suite 2300
Denver, Colorado 80293
303-296-9900
Fax 303-296-0753

December 12, 2016

David J. Mankiewicz
Assistant Field Manager
Bureau of Land Management
Farmington District Office
6251 Collegè Blvd., Suite A
Farmington, New Mexico 87402

Re: Request for Suspension of Operations and Production on Federal Oil and Gas
Leases NMN-117582

Mr. Mankiewicz:

In accordance with Section 39 of the Mineral Leasing Act and the Bureau of Land Management's (BLM) regulations at 43 C.F.R. §§ 3103.4-4(f) and 3165.1, Robert L. Bayless, Producer LLC (Bayless) hereby requests a suspension of operations and production on Federal Oil and Gas Leases NMN-117582 (Subject Leases) effective as of December 1, 2016. See BLM Manual § 3160-10.3.31.C.1 (Rel. 3-150, 3/13/87) (noting that suspensions should be dated effective the first month in which they arrive. Bayless' request is in the interest of conservation of resources as further development on the Subject Leases is inadvisable at the present time due to the pending application of the Unit Agreement for the Development and Operation of Horseshoe Gallup Unit Area, San Juan County, New Mexico (the "E. Gallup Unit"); and because of current limitations on the development of oil and natural gas wells in the area due to limits on the flaring and venting of natural gas pending additional regulatory approvals. The justifications for the suspension are set forth in more detail below.

I. History of Operations Within the Rubicon E. Gallup Unit Area

On October 20, 2016, representatives from Bayless met with the BLM regarding the designation of approximately 4,762.57, more or less, acres in San Juan County, New Mexico as an area logically subject to exploration and development under the unitization provisions in the Mineral Leasing Act of 1920, as amended. A map of the proposed E. Gallup Unit is attached

hereto as Exhibit 1. On October 27, 2016, the BLM issued a letter designating the lands within the E. Gallup Unit area as logically subject to exploration and development under the unitization procedures of the Mineral Leasing Act, as amended. See Exhibit 2. Bayless is currently in the process of securing the necessary ratifications and joinders to finalize the E. Gallup Unit Agreement. The BLM's letter of October 27, 2016, requires that the Horseshoe Gallup18-8H Well, located in Section 18, Township 30 North, Range 15 West, San Juan County, New Mexico be designated as the Initial Obligation well for the E. Gallup Unit.

II. Justification for the Suspension of Operations and Production

Because the BLM approved the area and depth of the proposed E. Gallup Unit, the lands within the unit are "logically subject to exploration and development" for the target formation. See *Prima Oil and Gas Co., et al.*, 148 IBLA 45, 50 (1999) (noting that BLM approval of a unit and plan of development establishes that the unit area is "logically subject to exploration and development that includes all acreage (leased or otherwise) needed to properly drill and explore the target formation."). Given the fact the lands are logically subject to development as a unit, it is in the interest of conservation to suspend operations and production on the Subject Leases at this time. First, the proposed unitization of the lands would be in the interest of conservation for several reasons. These include the minimization of overall surface disturbance and the maximum recovery of unitized substances. Unitization effectively allows lessees to develop large areas encompassing multiple leases as a single lease. See *Entek GRB, LLC v. Stull Ranches, LLC*, 763 F.3d 1252, 1256 (10th Cir. 2014), cert. denied sub nom. *Stull Ranches, LCC v. Entek GRB, LCC*, 135 S. Ct. 1895 (2015). Consequently, unit development typically involves fewer duplicative surface impacts than would otherwise result if each lease were developed on an individual basis. *Id.* (noting that unitization would allow the operator to "use an already existing road above one leasehold to service an existing well above another—rather than being forced to incur the waste of having to build a new and duplicative byway"). The reduction of environmental impacts from development on the Subject Leases on a unitized rather than individual basis would be in the interest of conservation.

Absent approval of the requested suspension, Bayless would be required to file multiple applications for permits to drill (APDs) that would need to be processed by the BLM. Such a requirement is not in the interest of conservation in this situation where the BLM and Bayless have determined the lands within the E. Gallup Unit should be developed in a comprehensive manner via unitization and subsequent development. Further, given the nature of the proposed unit, and the demonstration the Initial Well can produce in paying quantities, as defined in *Yates Petroleum Corp.*, 67 IBLA 246, 248 – 250 (1982), all the leases within the unit will be extended by production. The lands within the unit could then be developed in a manner to maximize development. At this time, it would waste resources of both the BLM and Bayless to file and process multiple APDs on a lease basis rather than a unit basis.

Further, the BLM has curtailed venting and flaring of natural gas on lands within the vicinity of the E. Gallup Unit due to concerns regarding additional emission sources in the area surrounding the P&M San Juan Generating Station, a Major Source under the Environmental Protection Agency's definition. Drilling additional wells at this time may only exacerbate permitting delays and other issues. Additionally, the BLM only recently promulgated new regulations regarding Waste Prevention and Resource Conservation that do not go into effect until January 17, 2017. The adoption of these new regulations, which Bayless is still reviewing, may require additional reviews and approvals from the BLM. The drilling of additional wells within this area prior to the installation of appropriate gathering systems or other mitigation measures approved by the BLM could not only lead to a waste of natural resources it would violate the purpose of the rule, which is to "carry out the purposes of statutes relating to the prevention of waste from Federal and Indian (other than Osage Tribe) leases, conservation of surface resources, and management of the public lands for multiple use and sustained yield." 81 Fed. Reg. 83008, 83080 (Nov. 18, 2016) (to be codified at 43 C.F.R. § 3179.1).

The BLM should note that Bayless is requesting a suspension of operations and production pursuant to Section 39 of the Mineral Leasing Act and not a suspension of operations or a suspension of production pursuant to Section 17 of the Mineral Leasing Act. Indeed, the agency does not have the statutory authority to grant a suspension of operations only or of production only on the Subject Leases as they do not contain a well capable of production. See *Savoy Energy, L.P.*, 178 IBLA 313, 323 – 325 (2010); *Paco Production Co.*, 145 IBLA 327, 332 (1998). Suspensions of operations only or production only are granted pursuant to Section 17(i) of the Mineral Leasing Act, 30 U.S.C. § 226(i), whereas suspensions of operations and production in the interest of conservation are granted pursuant to Section 39 of the Mineral Leasing Act, 30 U.S.C. § 209. As the Secretary of the Interior acting through the Interior Board of Land Appeals has made clear, the BLM has no authority to issue a suspension of operations only or production only in this case because there are currently no producing wells on the Subject Leases. *Savoy Energy, L.P.*, 178 IBLA at 323 – 325. For this reason, Bayless wants to clarify that this request asks for a Section 39 suspension of operations and production rather than a Section 17 suspension of operations only or production only.

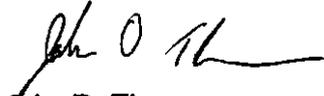
The requested suspension of operations and production would toll the running of the term of the Subject Leases and effectively add the period of suspension to the primary term of the Subject Leases. 30 U.S.C. § 209 (2012); 43 C.F.R. § 3103.4-4(b) (2016). In accordance with Section 39 of the Mineral Leasing Act (30 U.S.C. § 209) and 43 C.F.R. § 3103.4-4(d), Bayless also requests a suspension of annual rental and minimum royalty payments during the period of suspension of operations and production on the Subject Leases.

Bayless owns one hundred percent of the working interest in both leases and therefore, no additional signatures or approvals by other owners are required by 43 C.F.R. § 3165.1(b) (2016) and BLM Manual, 3160-10.3.31.A.1 (Rel. 3-150, 3/13/1987).

David J. Mankiewicz
December 12, 2016
Page 4 of 4

Please do not hesitate to contact me if you have any questions or comments regarding this matter, or if you need additional information to consider this request for a suspension of operations and production.

Very truly yours,

A handwritten signature in black ink, appearing to read "John D. Thomas", with a long horizontal flourish extending to the right.

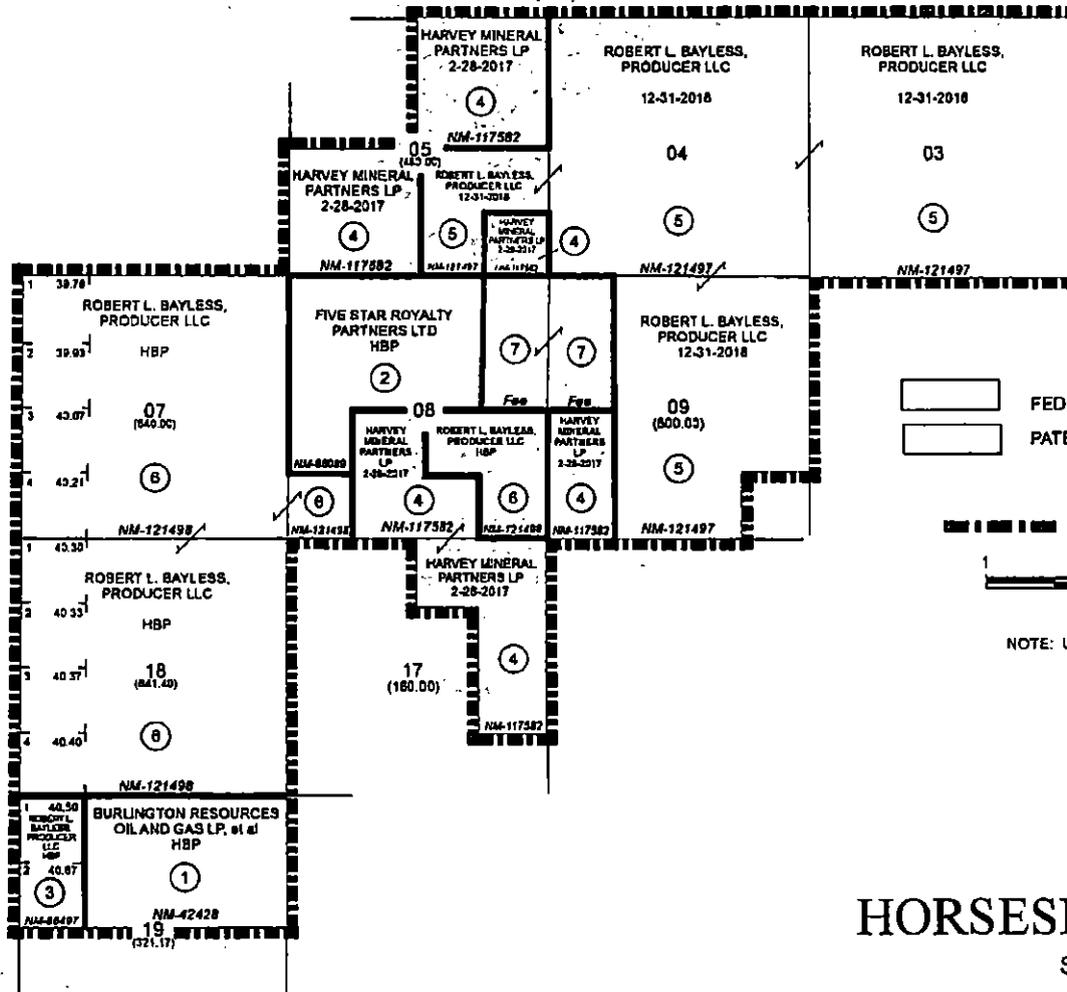
John D. Thomas
Production & Asset Manager
Robert L Bayless, Producer LLC

Enclosures

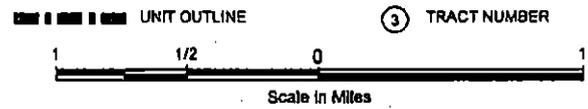
cc: Robert C. Mathes, Davis Graham & Stubbs
cc: Joseph Hewitt, Bureau of Land Management

R 15 W

T 30 N



	ACREAGE	PERCENTAGE
FEDERAL LANDS	4,602.57	96.64%
PATENTED LANDS	160.00	3.36%
TOTALS	4,762.57	100.00%



NOTE: UNLESS OTHERWISE NOTED HEREIN THE SECTIONS ON THIS PLAT CONTAIN 640.00 ACRES

EXHIBIT "1"

HORSESHOE GALLUP UNIT AREA

SAN JUAN COUNTY, NEW MEXICO

ROBERT L. BAYLESS, PRODUCER LLC
DENVER, COLORADO



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
6251 College Blvd Suite A
Farmington, New Mexico 87402
www.blm.gov



IN REPLY REFER TO
East Horseshoe Gallup Unit
NMNM136440X

October 27, 2016

Mr. John Thomas
Robert L. Bayless, Producer LLC
P. O. Box 168
Farmington, NM 87499

Reference is made to your request for the designation of 4,762.57 acres, more or less, in San Juan County, New Mexico as logically subject to exploration and development under unitization provisions of the Mineral Leasing Acts for Federal Lands. Pursuant to unitization regulations under 43 CFR Part 3180, the lands requested, as outlined on your plat marked Exhibit 'A' and dated 10/19/2016 for the **East Horseshoe Gallup Unit** is hereby designated as a logical unit area. Your proposed use of the modified form for Federal and patented lands and for a single formation undivided unit areas will be accepted. The undivided exploratory unit will unitize the Mancos Shale Group only within the vertical limits defined in type log shown as Exhibit C from Ute Mountain Tribal #35D well in your application. If conditions are such that further modification of said form is deemed necessary, two copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

The unit agreement to be submitted for the area designated will provide for the initial obligation well to be the East Horseshoe Gallup 18-8H, a horizontal lateral which will develop the Mancos Shale Group within the defined vertical limits.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form will be approved if submitted in an approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted that, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

Please include the latest status of all acreage when the executed agreement is submitted for final approval. The format of the sample exhibits attached to the model unit agreement (43 CFR 3186.1) should be followed closely in the preparation of Exhibits A and B. A minimum of Four (4) copies of the executed agreement should be submitted with your request for final approval. If you require additional executed copies of the agreement for further distribution, please increase the number of copies accordingly.

If you have questions regarding the above unit, please contact me at (505) 564-7740 or jhewitt@blm.gov.

Sincerely,

Joe Hewitt,
Geologist, Petroleum Mgt Team