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January 10, 2017

FEDERAL EXPRESS

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

**RE: Application for Approval of East Horseshoe Gallup Unit, etc.
Case No. 15622**

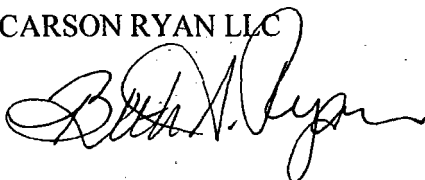
Dear Ms. Davidson:

On behalf of Robert L. Bayless, Producer LLC, enclosed please find two original sets of the Pre-Hearing Statement. 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

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**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

APPLICANT'S PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Robert L. Bayless, Producer LLC ("Bayless")
as required by 19.15.4.13.B NMAC.

APPEARANCES

APPLICANT

Robert L. Bayless, Producer LLC

ATTORNEY

Elizabeth A. Ryan
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STATEMENT OF THE CASE

Bayless seeks an order from the Division (1) approving its East Horseshoe Gallup Unit;
(2) creating a new pool for horizontal wells within that unit area; and (3) allowing for 330 foot
setbacks from the exterior of the proposed Unit.

The proposed East Horseshoe Gallup Unit Area consists of 4,762.57 acres, more or less,
of federal and patented 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. Bayless anticipates

preliminary approval of the Unit Agreement from the New Mexico State Land Office and the Bureau of Land Management. The entire Unit Area will be developed and operated as a single Participating Area.

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. Rule C of the Special Rules for the Basin Mancos Gas Pool requires 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.

In order to allow for the most efficient horizontal well development pattern, 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 East Horseshoe Gallup Unit that covers the unitized interval and allows for 330 foot setbacks from the exterior boundary of the Unit.

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

Currently, no producing vertical wells are present in the proposed Unit but 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.

Alternatively, if the Division is not inclined to create a new pool, Bayless requests the Division expand the "frozen" Horseshoe Gallup Gas Pool, which currently allows for 330 foot setbacks, to cover the proposed Unit Area. Additionally, Bayless requests an exclusion from the

Horseshoe Gallup Rules for no allowables because of the possible crossover with the gas injection project.

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 three existing horizontal wells in the Unit, as detailed in its Application. Bayless seeks authorization in order to reduce impact to air quality in the area because the San Juan Generating Station, a coal-burning power plant, is in close vicinity to the Unit Area.

APPLICANT'S PROPOSED EVIDENCE

WITNESS Name and Expertise	ESTIMATED TIME	EXHIBITS
Cranford Newell, Land	Approximately 15 minutes	Approximately 7 Exhibits
John Thomas, Operations/Drilling	Approximately 15 minutes	Approximately 2 Exhibits
George Coryell, Engineer	Approximately 15 minutes	Approximately 4 Exhibits

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

DAVIS GRAHAM & STUBBS, LLP

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/s/ Matthew A. Hartford

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