

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:

APPLICATION OF HILCORP ENERGY COMPANY	CASE NOS. 20348,
FOR AN EXCEPTION TO THE WELL DENSITY	20349, 20350,
REQUIREMENTS OF THE SPECIAL RULES AND	20351, 20352,
REGULATIONS FOR THE BLANCO-MESAVERDE	20353, 20354,
GAS POOL, SAN JUAN COUNTY, NEW MEXICO.	20355, 20356,
	20357, 20358,
	20359, 20360,
	20361, 20362,
	20363

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 5, 2019

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
SUSAN SITA, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Susan Sita, Legal Examiner, on Friday, April 5, 2019, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

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APPEARANCES

FOR APPLICANT HILCORP ENERGY COMPANY:

ADAM G. RANKIN, ESQ.
HOLLAND & HART, LLC
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
agrarkin@hollandhart.com

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1 (8:17 a.m.)

2 EXAMINER McMILLAN: Call the hearing back
3 to order.

4 Call Case Number 20348, application of
5 Hilcorp Energy Company for exception to the well density
6 for the Blanco-Mesaverde Gas Pool, San Juan County, New
7 Mexico.

8 Will this case be combined with Case
9 Numbers 20349 through 362?

10 MR. RANKIN: It will be, 16 cases together.

11 EXAMINER McMILLAN: Call for appearances.

12 MR. RANKIN: Good morning, Mr. Examiner.
13 Adam Rankin on behalf of the Applicant in these cases,
14 Hilcorp Energy Company. I am going to present these
15 cases by affidavit.

16 EXAMINER McMILLAN: Any other appearances?
17 Please proceed.

18 MR. RANKIN: Good morning, Mr. Examiner.
19 In front of you is an exhibit packet containing 16
20 cases. We are presenting them here today by affidavit.
21 Each case is presented in the exhibit book in front of
22 you with a tab identifying the case number, as well as
23 Exhibits A, B and C. Behind each exhibit, A, B and C,
24 there are additional tabs reflecting the exhibits to
25 each of the affidavits contained within each exhibit.

1 The exhibits follow the same pattern as
2 they have in the past. There is a -- in this case there
3 is an affidavit from the landman giving an overview of
4 the request for the application, a specific spacing
5 unit. The exhibit that references -- identifies each of
6 the notice parties in the affected area surrounding the
7 spacing unit.

8 And the next exhibit is an affidavit from
9 the engineer who is working on that case, and the
10 engineer gives an overview of the petroleum reservoir
11 engineering analysis that was done to determine whether
12 or not there are any unrecovered reserves that would not
13 otherwise be produced under the existing well density
14 under the special pool rules for the Blanco-Mesaverde
15 pool rule. And attached to that affidavit is a series
16 of exhibits reflecting that analysis, the volumetric
17 analysis, and the conclusion that remaining unrecovered
18 reserves will be left in place unless the well density
19 is increased.

20 Now, the way -- there are two cases in this
21 group that are in the San Juan Basin. The rest are in
22 Rio Arriba County. For some of the cases, there is a
23 new engineer who has not previously testified, so we
24 have attached his CV and his resume to his affidavit.

25 If you'd like, Mr. Examiner, I can just

1 briefly give you --

2 EXAMINER McMILLAN: Yeah. Let's go through
3 that.

4 MR. RANKIN: -- so we can accept him as an
5 expert.

6 Starting with Case 20348, if you flip to
7 Tab B -- I'm sorry -- Exhibit C, Exhibit C is the
8 affidavit of Tyler -- and I apologize; I'm going to
9 butcher his name -- Teykl, T-E-Y-K-L. Mr. Teykl is an
10 engineer who is employed by Hilcorp Energy Company.
11 He's not previously testified before the Division or the
12 Commission. He graduated from Purdue University in 2012
13 with a Bachelor of Science in Chemical Engineering from
14 Harvard University -- oh, sorry -- from Purdue
15 University in 2012 with a Bachelor of Science in
16 Chemical Engineering, and from Harvard University in
17 2017 with a Master's in Business Administration.

18 And then from 2012 to 2015, he worked as a
19 construction engineer for major oil-and-gas projects for
20 companies in the Middle East, Indonesia and the North
21 Slope of Alaska.

22 In 2017, he started with Hilcorp as an
23 onshore operations engineer in the Texas Gulf Coast
24 region managing completions, workovers and facility
25 installation projects. Since then he's been an engineer

1 for Hilcorp in the San Juan Basin where his
2 responsibilities include identifying and executing
3 development projects for new drills and recompletions,
4 overlooked opportunities, and he manages the plans of
5 development within the Mesaverde reservoir. His CV is
6 attached as Exhibit C1.

7 So with that, Mr. Examiner, we ask that
8 Mr. Teykl be accepted on the record as an expert in
9 petroleum reservoir engineering.

10 EXAMINER McMILLAN: So qualified.

11 MR. RANKIN: Thank you, Mr. Examiner.

12 Now, just to back up again, starting -- if
13 it's okay with you, Mr. Examiner, I would just like to
14 use one example, this first case, and then just
15 reiterate that the opinions and conclusions that are
16 reached are the same in each case, though the facts and
17 the spacing units are different. And I will review with
18 you what was done in terms of notice and how notice was
19 provided and whether or not there are any issues in
20 providing notice.

21 EXAMINER McMILLAN: Are you incorporating
22 the geology --

23 MR. RANKIN: Geology, yes.

24 EXAMINER McMILLAN: -- geologic testimony
25 from the previous cases?

1 MR. RANKIN: Yes, we are. We ask that
2 the -- and I think we noted that in our prehearing
3 statement. We ask that the geology testimony that was
4 presented originally along with these cases that gives
5 an overview of the Mesaverde Formation and their
6 analysis that gave the basis for the volumetric
7 engineering be accepted as a matter of record in this
8 case.

9 EXAMINER McMILLAN: Okay. So the geologic
10 testimony from the previous cases shall be accepted as
11 part of the record for Cases 20348 through 20363.

12 MR. RANKIN: So turning to the first tab in
13 your exhibit book, Case 20348, if you look at Exhibit A,
14 this first Exhibit A is an affidavit of Brad Pearson,
15 who has previously testified before the Division and had
16 his credentials as an expert in petroleum land matters
17 accepted.

18 In this case Hilcorp is seeking exception
19 to the special pool rules of the Blanco-Mesaverde
20 pool -- pool. Those rules -- that pool is governed by
21 special rules, which is essentially limit the number of
22 wells of a 320-acre spacing unit to four with two in
23 a -- in a quarter section -- rather, a half section.
24 Hilcorp is the operator in this case of a 320-acre
25 spacing unit. There are four existing wells in the

1 spacing unit, and Hilcorp is asking for an exception to
2 enable it to drill a fifth well in the spacing unit,
3 making the total of five wells in the spacing unit and
4 three wells in the same quarter section, which thereby
5 would exceed the well density that is imposed by the
6 special pool rules.

7 The well they are seeking to be permitted
8 to be drilled here in excess of the rules is the Hardie
9 5E well. It has an API number of 30-045-24935, and it's
10 in Unit A, Section 23, Township 28 North, Range 8 West.

11 Mr. Pearson reviews the process by which
12 they identify the notice parties. Pursuant to the
13 special rules, notice is required to all the spacing
14 units offsetting the spacing unit in which the
15 well-density exception is being requested.

16 Exhibit A1 is an overview map that shows
17 each of the spacing units that are the subject of these
18 cases today. The next page of that exhibit -- those are
19 highlighted in green. The outline of the federal units
20 are in blue. The next page is the specific spacing in
21 this case for which Hilcorp is seeking an exception to
22 the well-density limits. The spacing unit is outlined
23 in green. The existing wells within the spacing unit
24 are identified by those gray circles. Each well is
25 identified by name, along with their API numbers.

1 The well which is a current Dakota well,
2 which Hilcorp is requesting approval for simultaneous
3 dedication, is the Hardie 5E well, and it's identified
4 with a triangle here. And it's currently completed in
5 the Dakota Formation. And what Hilcorp is seeking to do
6 is come uphole and complete in the Mesaverde so that it
7 can access these additional reserves.

8 The dashed red line that surrounds the
9 spacing unit identifies the offsetting 320-acre spacing
10 units, which under the special pool rules are required
11 notice. In this case the acreage is outside of the
12 federal unit, so Hilcorp has identified each of the
13 offsetting interest owners.

14 As it turns out, on the next page, Exhibit
15 2 -- A2 is a list of those affected parties. In this
16 case the only affected parties are BP American
17 Production Company and Hilcorp Energy.

18 Exhibit B is a copy of the affidavit that
19 was prepared by my office reflecting that we provided
20 notice in each of these cases pursuant to the list of
21 parties that were provided to us by Hilcorp. The second
22 page is a copy of the notice letter that went out to
23 each of those parties, followed by a United States
24 Postal Service tracking information sheet reflecting
25 that notice was sent to each of those parties identified

1 and that signatures were received indicating that they
2 had actually received the notice. The last page of that
3 exhibit is a copy of the Notice of Publication, which
4 reflects that we went ahead and, out of an abundance of
5 caution, identified each of those parties by name for
6 each case, public notice, so that there was no question
7 that they got notice.

8 Exhibit C in that packet is the engineering
9 exhibit. In this case it was prepared by Mr. Tyler
10 Teykl. Mr. -- Mr. Teykl has conducted similar
11 analyses -- the same analysis which was done in the
12 past, which I hope, Mr. Examiner, you're familiar with.
13 They looked at the calculation of the original gas in
14 place and then looked at the cumulative production over
15 time and then did a volumetric analysis to determine
16 whether or not there are any remaining reserves which
17 have been unrecovered and unproduced in the area.

18 Mr. Teykl attached to his affidavit Exhibit
19 Number 1, which is his resume, which we've also
20 discussed.

21 Exhibit Number 2 is sort of a locator map
22 that identifies in cartoon fashion the volumetric
23 analysis that was conducted and the offsetting wells and
24 acreage. It identifies the proposed well here, which is
25 surrounded by a blue circle, and that reflects where

1 they would like to have their recompletion within the
2 spacing unit. And based on his analysis, he expects
3 this well to -- and his testimony is that he expects to
4 help drain the area to the east within the spacing unit
5 where the existing well density is not draining those
6 reserves.

7 Exhibit 3 is just a color map that shows
8 Mr. Teykl's analysis of the original case in place. The
9 cooler colors reflect there was less original gas in
10 place. The warmer colors reflect higher volumes of
11 gas -- original gas in place based on their
12 calculations.

13 Exhibit 4 is a copy of their analysis
14 reflecting the Mesaverde estimated ultimate recovery and
15 drainage radius for each of these wells that are
16 completed within the Mesaverde. The larger radii
17 reflect the larger URA, larger radius of drainage.
18 You'll see -- it's hard to identify, but there is a red
19 star along that Mesaverde water-cut line. That reflects
20 the location -- approximate location of the Hardie 5E
21 well. You'll see in that area the radii circles are a
22 little bit smaller reflecting a little bit lower
23 drainage area.

24 The next exhibit is the calculated
25 recoverable gas. Again, the cooler colors reflect

1 lower -- lower recoverable gas remaining where there has
2 been -- recovery or there was less original gas in place.
3 Then the warmer colors reflect where there are still
4 significant remaining gas reserves in place that have
5 not been recovered by existing wells. Again, the red
6 star reflects where the proposed Hardie 5E is located.

7 The last exhibit is Mr. Teykl's analysis of
8 the volumetrics here on three different scales, on a
9 quarter-section scale, a section scale and a
10 nine-section scale, using their calculations to
11 determine -- basically reflect what the expected EURs
12 are and their recovery factors for each of these scales.
13 If you look at the right-hand column, you'll see that
14 Mr. Teykl testifies in his affidavit that some of these
15 recovery factors are lower than he expects for a gas
16 reservoir of this nature. And in his testimony, he's
17 expecting recoveries of up to 85 percent, and these are
18 significantly below that. Accordingly, he testifies
19 that the remaining gas in place is not being recovered
20 effectively by the existing well density, so he's asking
21 for an additional well.

22 With that, Mr. Examiner, I would ask --

23 Now, each of the exhibits for each of the
24 cases have the same analysis but different facts,
25 slightly different notice parties but the same thing

1 undertaken for each case. If you would like, I would go
2 through each one. However, I would just suggest if you
3 have any questions -- rather than going through each one
4 if you have any questions, I would ask that I be
5 permitted to submit these affidavits en masse. And if
6 you have any questions, we can address them, since there
7 are no parties here objecting to presentation of these
8 cases by affidavit.

9 EXAMINER McMILLAN: That's fine. So
10 Exhibits --

11 MR. RANKIN: Yeah. So I move the admission
12 of Exhibits A, B and C in each of these cases, starting
13 with 20348 through 20363.

14 EXAMINER McMILLAN: Exhibits A, B, C in
15 Cases 20348 through 20363 may now be accepted as part of
16 the record.

17 (Hilcorp Energy Company Exhibits A, B and C
18 for each case are offered and admitted into
19 evidence.)

20 EXAMINER McMILLAN: What I would like to
21 see from the engineer is I want to see a current
22 wellbore diagram for each well and then a proposed
23 wellbore diagram for all of the wells. We want to make
24 sure -- we're always concerned about the cement tops on
25 these wells.

1 MR. RANKIN: Right.

2 EXAMINER McMILLAN: Do you have any
3 questions?

4 MS. SITA: (Indicating.)

5 EXAMINER McMILLAN: In any of the cases,
6 are there unlocatable interests?

7 MR. RANKIN: No. The vast majority of the
8 interest parties are within federal units, making --
9 those cases where Hilcorp is the operator of the federal
10 unit. So the interest owners being impacted are the
11 working interest owners in the unit themselves, so
12 Hilcorp has all those folks in their pay decks. So it's
13 just a matter of identifying them. They get notice not
14 only from these applications, but they are also being
15 balloted so they have to elect to participate in each of
16 these wells.

17 EXAMINER McMILLAN: Okay.

18 MR. RANKIN: With that, we ask that these
19 cases be taken under advisement. Mr. Examiner, I will
20 supplement the record with copies of the existing and
21 proposed wellbore diagrams for each of the recompletions
22 that are proposed in each of these cases.

23 EXAMINER McMILLAN: Cases 20348 through
24 20363 may now be taken under advisement.

25 MR. RANKIN: Thank you very much.

1 As with the other cases, we will submit
2 electronic versions of all the exhibits.

3 EXAMINER McMILLAN: Okay.

4 MR. RANKIN: If the Division doesn't want
5 these binders and doesn't want the paper, I'd be happy
6 to come pick them up and take them back. But you may
7 want a hard copy, or Will may want a hard copy.

8 EXAMINER McMILLAN: Yeah. Will's writing
9 these, so he's going to want a copy.

10 MR. RANKIN: But, you konw, I know it's a
11 burden to the Division to have to deal with it, but if
12 you don't want them, let me know. I can come get them
13 later.

14 EXAMINER McMILLAN: We need at least one
15 copy so Will can --

16 MR. RANKIN: Okay.

17 (Case Numbers 20348 through 20363 conclude,
18 8:35 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED THIS 24th day of April 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25