

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION TO CONSIDER:**

**Case No. 13987
Order No. R-12865-A**

APPLICATION TO AMEND REFERENCE CASE ORDER R-12865 TO INCLUDE THE PICTURED CLIFFS AND FRUITLAND COAL GAS POOLS FOR PRE-APPROVAL OF DOWNHOLE COMMINGLING AS TO ALL CRITERIA FOR ITS SAN JUAN 28-4 UNIT AND TO ELIMINATE THE NOTICE REQUIREMENT, RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on September 19, 2019, and after considering the testimony, evidence, and the recommendations of the Hearing Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the OCD has jurisdiction of this case and its subject matter.
- (2) Hilcorp Energy Company (“Hilcorp”) is seeking to amend Order R-12865 to grant pre-approval to downhole commingle and an exemption from the notice requirements for downhole commingling: the Pictured Cliffs, Fruitland Coal, Mesaverde, and Dakota pools within wells producing from its San Juan 28-4 Unit.
- (3) An exemption from the notice requirements for downhole commingling the Mesaverde and Dakota pools within wells producing from the San Juan 28-4 Unit was granted in Order R-12865 on January 3, 2008.
- (4) Pre-approval to downhole commingle the Blanco Mesaverde (Prorated Gas) pool (Pool Code: 72319) and Basin Dakota (Prorated Gas) pool (Pool Code: 71599) was granted in Order R-11363 on April 26, 2000. These are the Mesaverde and Dakota pools within the San Juan 28-4 Unit.

- (5) Hilcorp, at hearing on September 19, 2019, dismissed its request for pre-approval to downhole commingle the Fruitland Coal pool with the Pictured Cliffs, Mesaverde, and Dakota pools, but was still requesting pre-approval to downhole commingle the Pictured Cliffs, Mesaverde, and Dakota pools within wells producing from its San Juan 28-4 Unit (the “Pools”).
- (6) This case was first heard at hearing on September 19, 2019, but was continued to January 23, 2020, to allow Hilcorp to notify additional persons. This case was taken under advisement at the January 23, 2020, hearing.
- (7) Hilcorp presented testimony and exhibits as follows:
 - a. If the Pools are downhole commingled within wells producing from the San Juan 28-4 Unit:
 - i. the downhole pressures from the Pools will not cause the Pictured Cliffs pool to fracture;
 - ii. there is no risk of permanent loss due to crossflow between the Pools;
 - iii. the value of production from the Pools will not be reduced;
 - iv. the fluids from any of the Pools will not cause damage to any other of the Pools; and
 - iv. the efficiency of future secondary recovery operations in the area will not be jeopardized.
 - b. Downhole commingling of the Pools is commonplace.
 - c. Due to the number of interest owners, providing notice to every interest owner of each application to downhole commingle is burdensome.
 - d. Each working interest owner receives notice when Hilcorp proposes to downhole commingle as they must elect whether to participate in the work.
 - e. The interest owners have received notice of the application for this case requesting that Hilcorp be exempted from the notice requirements for downhole commingling, and now those notice requirements are unnecessary.
 - f. 335 persons were sent notice of the application for this case prior to the September 19, 2019, hearing. On or about the date of the hearing, most of those notices were reported by the postal service to have been delivered, some were in transit, and a few were returned to the sender.
 - g. An additional 18 persons were sent notice of the application for this case between the September 19, 2019, hearing and the January 23, 2020, hearing.

- h. Public notice of the application for this case was provided via a listing made in Rio Grande Sun on August 22, 2019.
 - i. Hilcorp received two phone calls from interest owners with questions regarding this case, but no protests to this case were received.
 - j. Hilcorp proposed using the subtraction method to allocate the production from each well between the existing and newly added pools when it is downhole commingled. Hilcorp believes it will be unnecessary to amend the trend line used to determine that allocation at any time.
- (8) When the working, royalty, and overriding royalty interest owners of each spacing unit assigned to a pool being downhole commingled within the well bore of a well are not the same with exactly the same percentages, then the operator shall provide notice of an application to downhole commingle those pools to each working, royalty, and overriding royalty interest owner unless it is exempted from doing so by the OCD.
- (9) An application to downhole commingle pools within the well bore of a well, regardless of whether that downhole commingling has been pre-approved, shall include a proposed allocation method and supporting documentation. When the subtraction method is proposed, the supporting documentation shall include a decline curve for the existing pool unique to that well. The proposed allocation method shall provide a method to allocate to each of the pools even when there are more than two pools being commingled.
- (10) Hilcorp did not provide the documentation supporting its proposed allocation method for this case. That documentation shall include a decline curve unique to each well in which downhole commingling is being approved.
- (11) Hilcorp did not propose an allocation method that provides a method for allocating to each pool when more than two pools are commingled.
- (12) The stipulations within 19.15.12.11 A. NMAC have been sufficiently met to allow for granting pre-approval status for downhole commingling the Pools within wells producing from the San Juan 28-4 Unit. Pre-approval status should be granted.
- (13) The stipulations within 19.15.12.11 C.(2)(d) NMAC have not been met. A reference case exempting Hilcorp from the requirements within 19.15.12.11 C.(2)(f) NMAC should be denied.

IT IS THEREFORE ORDERED THAT:

- (1) Hilcorp is pre-approved to downhole commingle the Pictured Cliffs, Mesaverde, and Dakota pools, or any combination thereof, within existing and future wells producing from its San Juan 28-4 Unit. Prior to downhole commingling, Hilcorp shall submit and await approval of an application submitted in accordance with 19.15.12.11 C.(2) NMAC.
- (2) Hilcorp's request that it be exempted from the notice requirements for downhole commingling the Fruitland Coal and Pictured Cliffs pools within wells producing from its San Juan 28-4 Unit is denied. When downhole commingling the Fruitland Coal or Pictured Cliffs pools, Hilcorp shall provide notice in accordance with 19.15.12.11 C. NMAC.
- (3) The provisions of Order R-12865 remain in force or effect.
- (4) OCD retains jurisdiction of this case for the entry of such further orders as may be deemed necessary

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**



**DYLAN M. FUGE
DIRECTOR**

Date: 10/9/23