

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

**APPLICATION OF HILCORP ENERGY
COMPANY TO AMEND THE WELL
DENSITY REQUIREMENTS AND
ADMINISTRATIVE EXCEPTIONS OF THE
SPECIAL RULES FOR THE BLANCO-
MESAVERDE GAS POOL TO PERMIT
ADMINISTRATIVE APPROVAL FOR WELL
DENSITY EXCEPTIONS, RIO ARRIBA AND
SAN JUAN COUNTIES, NEW MEXICO.**

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CASE NO. 16193

APPLICATION

Hilcorp Energy Company, ("Hilcorp") (OGRID No. 372171), through its undersigned counsel, hereby files this application with the Oil Conservation Division for an order amending the Acreage and Well Location Requirements, Well Density Requirements, and Administrative Exceptions of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool (72319) to permit administrative approval of well density exceptions. In support of this application, Hilcorp states:

1. Hilcorp is the operator of approximately 5,329 wells currently producing from the Blanco-Mesaverde Gas Pool, which covers a large portion of the San Juan Basin across Rio Arriba and San Juan Counties, New Mexico.

2. Hilcorp also operates thousands of wells that are currently producing from other formations in the region that are well situated to be simultaneously dedicated and completed within the Blanco-Mesaverde Gas Pool to recover additional reserves which are not being adequately drained under the existing well density pattern in the existing Special Rules.

3. In most circumstances, however, additional simultaneous dedications require exceptions to the existing Well Density Requirements under governing special pool rules.

4. The Blanco-Mesaverde Gas Pool is governed by Special Rules and Regulations which provide for 320-acre spacing and proration units on which as many as four wells may be drilled. *See* Order No. R-8170, as superseded by Order No. R-10987-A, and amended by Order No. R-10987-A(1), effective Dec. 2, 2002. These Special Pool Rules and Regulations require exceptions to the well density requirements to be approved only after hearing:

I. ACREAGE AND WELL LOCATION REQUIREMENTS

A. Standard GPU (Gas Proration Unit): A standard GPU in the Blanco-Mesaverde Pool shall be 320 acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U. S. Public Land Surveys.

B. Well density:

(1) Up to four (4) wells may be drilled on a standard GPU, as follows:

(a) the FIRST OPTIONAL INFILL WELL drilled on a GPU shall be located in the quarter section not containing the INITIAL Mesaverde well;

(b) the SECOND OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(c) the THIRD OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(d) at the discretion of the operator, the second or third optional infill well may be drilled prior to the drilling of the first optional infill well;

(e) no more than two wells shall be located within either quarter section in a GPU; and

(f) any deviation from the above-described well density requirements shall be authorized only after hearing.

II. ADMINISTRATIVE EXCEPTIONS:

The Division Director, in accordance with Division Rule 104, may administratively grant an exception to the well locations [sic] requirements of I.C above upon application to the Division which includes notification by certified mail-return receipt requested to affected parties. [See Division Rule 1207.A(2)].

Order No. R-10987-A(1) (emphasis added).

5. In more than thirty recent applications before Division hearing examiner, Hilcorp requested and received orders granting exceptions to the well density requirements under the Special Rules. In every case, testimony and exhibits on the geology and reservoir supported increasing well density to allow Hilcorp to target additional reserves in the Mesaverde formation which likely would remain unproduced under the existing well density requirements imposed by the Special Rules.

6. Hilcorp has ten additional applications pending hearing before the Division requesting similar exceptions to the well density requirements under the Special Rules. The evidence and testimony in support of these applications will be substantially the same as the evidence and testimony presented in every prior case.

7. Hilcorp has undertaken, through significant effort and cost, to notify potentially affected parties in offsetting spacing units. It has not received a single objection to any of its applications to increase well density in the Blanco-Mesaverde Gas Pool. No parties or affected interests have entered an appearance in any of the well-density exception cases. All previous hearings have been unopposed.

8. The requirement under the existing Special Rules to bring every well density exception request to a Division examiner hearing has created a significant administrative burden

on the Division, which must hear and review testimony and exhibits in support of each individual application and issue individual hearing orders in each case at a time when the Division examiner hearing dockets are full and numerous hearing orders remain pending. Similarly, the hearing requirement imposes significant unnecessary resource demands on Hilcorp in terms of time and finances by requiring technical witnesses to prepare, travel, and appear at hearings.

9. These costs and additional burdens for hearing are unjustified. Administrative applications for exceptions to the well density requirements would be supported by the same type of analysis and evidence, and undergo the same level of Division review and scrutiny, as an application presented at a hearing.

10. Affected parties also would be fully protected under this proposal for administrative review. By Division rule, an administrative application which is protested goes to hearing, affording affected parties a full and fair opportunity to challenge density exceptions and to otherwise be heard even when the application is initially subject to administrative review. *See* 19.15.4.E and 19.15.15.11(C) NMAC.

11. Hilcorp has identified numerous additional existing wells which are ideal candidates for simultaneous completion in the Blanco-Mesaverde Gas Pool. Without amendment, the Special Rules will require that all of these applications be presented to a Division examiner at hearing.

12. Accordingly, Hilcorp requests that the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool (72319) be amended to allow administrative approval by the Division for exceptions to the well density requirements.

13. Hilcorp proposes that the Blanco-Mesaverde Gas Pool Rules be amended as follows:

I. ACREAGE AND WELL LOCATION REQUIREMENTS

A. **Standard GPU (Gas Proration Unit):** A standard GPU in the Blanco-Mesaverde Pool shall be 320 acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U. S. Public Land Surveys.

B. Well density:

(1) Up to four vertical (4) wells may be drilled on a standard GPU, as follows:

(a) the FIRST OPTIONAL INFILL WELL drilled on a GPU shall be located in the quarter section not containing the INITIAL Mesaverde well;

(b) the SECOND OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(c) the THIRD OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(d) at the discretion of the operator, the second or third optional infill well may be drilled prior to the drilling of the first optional infill well; and

(e) no more than two wells shall be located within either quarter section in a GPU; and

(f) ~~any deviation from the above-described well density requirements shall be authorized only after hearing.~~

II. ADMINISTRATIVE EXCEPTIONS:

The Division Director, in accordance with ~~Division Rule 104~~ Subsection C of 19.15.15.11 NMAC, may administratively grant an exception to the well density and locations requirements of I.C above upon application to the Division which includes notification by certified mail-return receipt requested to affected parties [see 19.15.4.12.A(2) NMAC]; provided, however, that notice is not required to affected parties where ownership between an adjoining spacing unit and the spacing unit containing the proposed additional simultaneous dedication is common. ~~[See Division Rule 1207.A(2)].~~

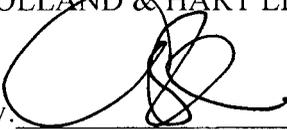
14. Copies of this application have been provided to all operators in the northwest portion of the state identified to Hilcorp by the Division.

15. Approval of this application will be in the best interest of conservation, the prevention of waste, and the protection of correlative rights.

WHEREFORE, Hilcorp Energy Company requests that this application be set before an Examiner of the Oil Conservation Division on May 31, 2018, and, after notice and hearing as required by law, that the Division enter an order granting this application.

Respectfully submitted,

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CASE 16193

Application of Hilcorp Energy Company to Amend the Well Density Requirements and Administrative Exceptions of the Special Rules for the Blanco-Mesaverde Gas Pool to Permit Administrative Approval for Well Density Exceptions, Rio Arriba and San Juan Counties, New Mexico. Applicant seeks to amend the Well Density Requirements and Administrative Exceptions of the Special Rules and Regulations for the Blanco-Mesaverde Gas Pool (72319) to permit administrative approval for well density exceptions and to require notice only to affected parties where ownership is not common between an adjoining spacing unit and the spacing unit containing the proposed additional simultaneous dedication within the Blanco-Mesaverde Gas Pool.