

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

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF HILCORP ENERGY COMPANY	CASE NOS. 16367,
FOR AN EXCEPTION TO THE WELL DENSITY	16368,
REQUIREMENTS OF THE SPECIAL RULES AND	16369,
REGULATIONS OF THE BLANCO-MESAVERDE	16370,
GAS POOL, SAN JUAN COUNTY, NEW MEXICO.	16402

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 6, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, September 6, 2018, 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
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APPEARANCES

FOR APPLICANT HILCORP ENERGY COMPANY:

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1 (3:42 p.m.)

2 EXAMINER McMILLAN: I'd like to call Cases
3 16367 through 16370 and Case 16402, application of
4 Hilcorp Energy Company for an exception to the well
5 density requirements of the special pool rules and
6 regulations of the Blanco-Mesaverde Gas Pool, San Juan
7 County, New Mexico.

8 Call for appearances.

9 MR. RANKIN: Mr. Examiner, Adam Rankin on
10 behalf of Hilcorp Energy Company. I'd like to present
11 these five cases by affidavit.

12 EXAMINER McMILLAN: Okay. I need another
13 set of these.

14 MR. RANKIN: Another set?

15 EXAMINER McMILLAN: I need another set to
16 give to Will.

17 MR. RANKIN: Gotcha.

18 EXAMINER BROOKS: I have an extra set to
19 give to Will. I throw all this stuff in the trash.

20 EXAMINER McMILLAN: Okay. We don't need
21 it.

22 Any other appearances?

23 Please proceed.

24 MR. RANKIN: Mr. Examiner, if it is
25 acceptable to you, I would propose, rather than walk

1 through each of these ten affidavits for these five
2 cases, that I present just one case by affidavit, and
3 then after that, as that the others be accepted into the
4 record, since they're all very similar in terms of what
5 the evidence is for each one. Otherwise, I can walk
6 through each one.

7 EXAMINER McMILLAN: Let's not walk through
8 each one because it's kind of the same thing over and
9 over.

10 EXAMINER BROOKS: Yes. I think one
11 presentation is better than five.

12 EXAMINER McMILLAN: I need 370 and 402.

13 MR. RANKIN: Starting with the first case,
14 Mr. Examiner, Case Number 16367, which involves the
15 application for the simultaneous dedication of the Davis
16 011 well, in each of these cases Mr. Examiner, there are
17 three affidavits, one by the landman, Mr. Brad Pearson,
18 which is marked as Exhibit A in each of these five
19 cases.

20 The second exhibit, Exhibit B, is the
21 attorney's affidavit prepared by myself reflecting that
22 we have given notice to all the affected parties
23 identified by Hilcorp, as well as published notice in a
24 newspaper of record identifying each of the parties by
25 name.

1 Exhibit C is a copy of the affidavit
2 prepared by the engineer with responsibility for these
3 cases, Mr. James Osborn, and he's prepared a suite of
4 exhibits, C1, 2, 3, 4 and 5, reflecting his analysis on
5 the drainage issues in that reservoir.

6 Walking through briefly this first case,
7 Case Number 16367, in each of these cases, Hilcorp is
8 seeking an exception to the special pool rules for the
9 Blanco-Mesaverde Gas Pool. Under those special pool
10 rules, well density is limited to four wells for
11 standard -- per standard 320-acre spacing unit, where
12 the rule requires there be no more than two wells per
13 quarter section in each spacing unit. In these cases,
14 Hilcorp is seeking an exception to those density
15 requirements, either a third well in a quarter section
16 or a fifth well in the spacing unit. In one case,
17 Hilcorp is seeking a sixth well in that spacing unit.

18 In this case, Number 16367, the first
19 exhibit is Mr. Brad Pearson's affidavit, as I mentioned,
20 Exhibit A. Mr. Pearson reviews what Hilcorp is seeking
21 in that case, identifies the spacing unit at issue and
22 identifies the well -- an additional well that Hilcorp
23 is seeking to recomplete in that spacing unit.

24 He's also identified the notice area in the
25 attached exhibit, Number 2 -- I'm sorry -- A2, where he

1 identifies the spacing unit at issue, the proposed well
2 that they're seeking to recomplete within that spacing
3 unit within the Mesaverde Formation, as well as the
4 notice area, identifying the area in which they give
5 notice, which is all the offsetting 320-acre spacing
6 units.

7 Exhibit B is the attorney affidavit
8 prepared by myself, along with the notice letters that
9 were sent out to each of the parties that Hilcorp
10 identified in the offsetting 320-acre spacing units. In
11 this case, there was only one party to be noticed, one
12 working interest, and that was the Robert Umbach Cancer
13 Foundation. And the subsequent pages behind my
14 affidavit are copies of the proof of notice, proof of
15 receipts and delivery of notice, as well as a copy of
16 the Affidavit of Publication that was published in the
17 "Farmington Daily Times."

18 Exhibit C is an affidavit that was prepared
19 by Hilcorp's engineer, Mr. James Osborn. Mr. Osborn
20 prepared a volumetric analysis of the spacing unit and
21 the land around the spacing unit establishing that there
22 is unrecovered reserves that are not being drained by
23 the existing well-density spacing pattern under the
24 special pool rules.

25 In this application, Hilcorp is seeking

1 a -- there are four existing wells in the spacing unit,
2 and Hilcorp is seeking a fifth well exceeding the
3 density requirements from the special pool rules. So
4 there would be five wells in a spacing unit, three wells
5 in a quarter section, and, in this case, two wells in
6 one quarter-quarter section.

7 Mr. Osborn analyzes through his volumetric
8 analysis and identifies that there are unrecovered
9 reserves based on the comparison of the original gas in
10 place against the cumulative gas produced to date and
11 their estimate of -- of -- estimate of -- of future
12 production.

13 His analysis is depicted in Exhibits C1, 2,
14 3, 4 and 5, where he shows that the recovery factor in
15 the spacing unit is approximately 30 percent where, as
16 he testifies in his affidavit, the recovery factors in a
17 pool of this type ought to be closer to 70 to 80
18 percent. Therefore, there are reserves that are
19 remaining that will remain unrecovered unless they are
20 able to increase the well density. So he's asking here
21 for the approval to drill this additional well.

22 Each of the other cases contains a similar
23 analysis, identifies the same offsetting notice -- not
24 the same offsetting notice parties, but identifies the
25 same process for identifying offsetting notice parties.

1 And the engineer goes through the same volumetric
2 analysis in each of these cases.

3 We understand the Division has requested
4 that we submit a supplemental exhibit, essentially an
5 Excel spreadsheet, identifying the information that the
6 Division has requested for each of these cases, and
7 we'll do that to make it easier for the Division to
8 enter orders.

9 EXAMINER McMILLAN: And will you send it to
10 Will Jones?

11 MR. RANKIN: I will send it to Mr. Jones.

12 EXAMINER McMILLAN: Yes.

13 MR. RANKIN: And with that, Mr. Examiner, I
14 would ask that Exhibits A, B and C in Cases 16367
15 through 16370 and Case Number 16402 be admitted into the
16 record.

17 Mr. Examiner, before I do that, I will
18 point out -- I'm sorry for not doing this. Mr. Brad
19 Pearson is a landman, and he and Mr. James Osborn have
20 previously been recognized by the Division as experts in
21 petroleum land matters and petroleum reservoir
22 engineering, respectively. So I would ask that they
23 both be retendered as experts in each of these cases.

24 EXAMINER McMILLAN: So qualified.

25 MR. RANKIN: With that, Mr. Examiner, I'd

1 ask that these exhibits be entered into the record in
2 each of these cases separately.

3 EXAMINER McMILLAN: Exhibits A, B and C in
4 16367 and through 16370 and Case 16402 shall be accepted
5 as part of the record.

6 (Hilcorp Energy Company Exhibit Letters A,
7 B and C are offered and admitted into
8 evidence.)

9 EXAMINER McMILLAN: Were there any
10 unlocatable interests?

11 MR. RANKIN: No, Mr. Examiner, no
12 unlocatable. Each of the parties received notice, with
13 the exception of BP. Their notice was not picked up by
14 receipt. They did not sign for it.

15 But in each case, all the parties -- there
16 were no unlocatable interests. All the parties are
17 known. All the parties have known addresses. So they
18 were -- that's all covered in the affidavit.

19 EXAMINER McMILLAN: Did they have
20 discussions with BP?

21 MR. RANKIN: Not for these. I don't
22 believe they have had discussions specific to the
23 individual case, but BP did not protest any of these
24 cases.

25 EXAMINER McMILLAN: That's really --

1 EXAMINER BROOKS: I thought BP sold out.

2 MR. RANKIN: They're in the process. Yeah.

3 EXAMINER BROOKS: I don't have any
4 questions.

5 EXAMINER McMILLAN: Okay. Then Cases 16367
6 and through 16370 and 16402 shall be taken under
7 advisement.

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

9 (Case Numbers 16367, 16368, 16369, 16370
10 and 16402 conclude, 3:53 p.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 28th day of September 2018.

21
22 
23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters