

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 NO. 20096
FOR AN EXCEPTION TO THE WELL DENSITY
REQUIREMENTS OF THE SPECIAL RULES AND
REGULATIONS OF THE BLANCO-MESAVERDE GAS
POOL, SAN JUAN COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 15, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 KEITH W. HERRMANN, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Keith W. Herrmann, Legal Examiner,
on Thursday, November 15, 2018, at the New Mexico
Energy, Minerals and Natural Resources Department,
Wendell Chino Building, 1220 South St. Francis Drive,
Third Floor Meeting Room, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT HILCORP ENERGY COMPANY:

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1 (10:05 a.m.)

2 EXAMINER McMILLAN: The next case we're
3 going to hear is Case 20096, application of Hilcorp
4 Energy Company for an exception to the well density
5 requirements of the special rules and regulations of the
6 Blanco-Mesaverde Gas Pool, San Juan County, New Mexico.

7 Call for appearances.

8 MR. RANKIN: Mr. Examiner, Adam Rankin,
9 with the law firm of Holland & Hart, appearing on behalf
10 of the Applicant, Hilcorp Energy Company.

11 EXAMINER McMILLAN: Are there any other
12 appearances?

13 Please proceed.

14 MR. RANKIN: Mr. Examiner, I have three
15 affidavits to present in support of this case. They're
16 marked as Exhibits A, B and C in the exhibit packet
17 before you.

18 Exhibit A is the affidavit of Hilcorp's
19 landman, Mr. Brad Pearson. In Mr. Pearson's affidavit,
20 he identifies the subject spacing unit and the wells.
21 Hilcorp in this case is requesting an exception to the
22 well density rules applicable to the Blanco-Mesaverde
23 Gas Pool, which limits the number of wells in a spacing
24 up to four, the number of wells in a half section to two
25 and the of number wells in a quarter section to one. In

1 this case Hilcorp is seeking an exception to permit two
2 wells in a quarter-quarter section.

3 He's identified the wells in his affidavit
4 in paragraph seven that are existing. He identifies in
5 paragraph eight the well that he is proposing to
6 recomplete. And based on their request, there will be
7 two wells in Unit P of the spacing unit. The subject
8 spacing unit is the south half of Section 27, Township
9 29 North, Range 10, I believe -- 10 West. And with the
10 approval of the application, there would be, as I said,
11 two wells in Unit P, which is the southeast -- southeast
12 quarter-quarter section of that spacing unit.

13 Exhibit A2 is a copy of an exhibit that
14 depicts the proposed spacing unit with red hash marks.
15 In that spacing unit is identified the two existing
16 wells with gray circles. The proposed recompletion is
17 the Maddox Gas Com C 1E Well, and it's identified in the
18 exhibit as a gray triangle. In that same exhibit, the
19 notice area is depicted by -- is contained within a red
20 dash-mark area. Those are the parties that Hilcorp has
21 identified as requiring notice. In Mr. Pearson's
22 affidavit, he identifies those parties in Exhibit 16 --
23 I'm sorry -- paragraph 16.

24 Attached also to his affidavit as Exhibit
25 A2 is a copy of the administrative application which was

1 originally filed with the Division. Upon receipt, the
2 Division notified Hilcorp that because Hilcorp is
3 seeking a second well in a quarter-quarter section, it
4 requires a hearing. Accordingly, Hilcorp moved to
5 present this case at hearing before the Division.

6 Exhibit B is a copy of the affidavit
7 prepared by my office and myself indicating that we
8 provided notice to the parties required notice presented
9 to us by Hilcorp. The second page of that exhibit is a
10 notice letter that was sent to those parties. The third
11 and fourth pages of that Exhibit B are a copy of the
12 United States Postal Service tracking list reflecting
13 that all parties identified have received notice except
14 for one, which the postal service indicates had
15 requested that the post office hold their mail.

16 If you flip through the rest of that
17 exhibit, the last page is a copy of the Affidavit of
18 Publication which reflects that all the parties
19 identified are identified by name -- notice parties are
20 identified by name and that Hilcorp has given notice to
21 those parties reflecting what Hilcorp is requesting in
22 their application.

23 And, again, it looks like a couple of those
24 names are cut off in the reproduction. I'll be happy to
25 supplement Exhibit B to provide a copy that doesn't cut

1 it off.

2 EXAMINER McMILLAN: Yes.

3 MR. RANKIN: Exhibit C is a copy of the
4 affidavit prepared by Mr. Kevin Lafferty. Mr. Lafferty
5 is a reservoir engineer with Hilcorp. He has not
6 previously testified before the Division and has not yet
7 had his credentials as an expert petroleum reservoir
8 engineer accepted and made a matter of record.
9 Paragraph three of Exhibit B recites his educational
10 background and work experience. He graduated from Texas
11 A & M University with a Bachelor of Science in Petroleum
12 Engineering and is now a reservoir engineer with
13 Hilcorp.

14 Mr. Lafferty, in his affidavit, outlines
15 his analysis that he undertook to review, based on
16 volumetrics, the potential for additional recovery of
17 gas reserves that remain unrecovered based on the
18 existing well density --

19 EXAMINER McMILLAN: Wait. Hold on a
20 second.

21 Based on his resume and experience, he's an
22 expert witness in both cases.

23 MR. RANKIN: Okay. Thank you,
24 Mr. Examiner. I will refrain from saying that portion
25 in the next case then.

1 Let's see. As I was saying, in
2 Mr. Lafferty's affidavit, he reviews the basis for their
3 requested exception to the well density rule by
4 identifying on a volumetric basis that gas remains
5 unrecovered based on the existing well density in the
6 spacing unit.

7 As he references in his affidavit, Exhibit
8 C2 is a bubble map which reflects Section 27 in that
9 township, identifies the proposed recompletion well and
10 reflects that he anticipates that the additional
11 recompletion will assist in the drainage of unrecovered
12 reserves in the southeast quarter of Section 27.

13 Exhibit C3 is a depiction of -- sort of a
14 graphical depiction of Mr. Lafferty's analysis of his
15 volume- -- his volumetric analysis. The first page of
16 the exhibit is a depiction of the original -- the
17 calculated original gas in place. The red star depicts
18 the location of the subject of the proposed recompletion
19 well. Mr. Lafferty describes the color variation in his
20 affidavit, essentially that there were relatively lower
21 volumes of original gas in place in this area relative
22 to other portions of the -- of the reservoir.

23 The second page of the exhibit is a
24 calculated -- depiction of the calculated accumulated
25 gas production for that area, and the red star depicts

1 the subject proposed recompletion. The third and final
2 pages of that exhibit is a depiction of the remaining
3 gas in place, showing that there are substantial gas
4 reserves that remain unrecovered in the subject spacing
5 unit near the well, which is depicted by the red star.

6 Exhibit C4 is a calculated -- a calculation
7 of the recovery factors at different scales for the
8 spacing unit and shows that based on his analysis, the
9 recovery factors for this spacing unit, based on the
10 existing density in that quarter-quarter section, is far
11 below what is anticipated for a reservoir of this type.
12 Based on those calculations, Mr. Lafferty testifies in
13 his affidavit that an additional well in a quarter
14 section will assist in the recovery of reserves that
15 would otherwise go unrecovered and further states that
16 approval of the application will be in the best interest
17 of conservation and protective of correlative rights.

18 With that, Mr. Examiner, I would move to
19 admit Exhibits A, B and C into the record.

20 EXAMINER McMILLAN: Exhibits A, B and C may
21 now be accepted as part of the record.

22 (Hilcorp Energy Company Exhibit Letters A,
23 B and C are offered and admitted into
24 evidence.)

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

1 will supplement Exhibit B in this case, 20096, to ensure
2 that the full Affidavit of Publication is visible.

3 EXAMINER McMILLAN: And the only question
4 I've got is: Would a nonstandard location be required
5 or not? I thought you had to be 660 feet -- there is a
6 special pool rule which may -- if it's within the unit
7 boundaries, may not be required. I was curious about
8 that.

9 MR. RANKIN: I'm looking at Exhibit B --
10 well, let's see. It's probably easier to go to Exhibit
11 A2, which is the administrative application that was
12 filed with the Division. If you flip through -- I think
13 there is a Form C-102, amended location plat, which is
14 the Maddox Gas Com C 1E well.

15 EXAMINER McMILLAN: Yes.

16 MR. RANKIN: And it reflects that the well
17 is -- let's see 70860 feet from the east line and 940
18 feet from the south line, which I think puts it well
19 within the standard location required under the special
20 pool rules. Did I --

21 EXAMINER McMILLAN: Is it the Gas Com C 1E,
22 or is it the --

23 MR. RANKIN: Yeah. It should be the Gas
24 Com C 1E well, is the subject well.

25 EXAMINER McMILLAN: Okay. So is the

1 objective [sic] well API number -- is it 23728, or is it
2 the -- or is it the 940 and the 860?

3 MR. RANKIN: It's the 23728.

4 EXAMINER McMILLAN: Well, that's showing
5 it's 500 from the south, 820 from the east.

6 MR. RANKIN: Huh.

7 EXAMINER McMILLAN: Is this the well
8 (indicating)?

9 MR. RANKIN: Yeah. I mean, if you look at
10 the next page --

11 EXAMINER McMILLAN: It shows a different
12 footage -- different footage calls?

13 MR. RANKIN: Yeah. Yeah. I'll need to
14 confirm that. But if it is the case that it's not
15 standard, we will submit --

16 EXAMINER McMILLAN: If it's required, but
17 there are special pool rules, special requirements.

18 MR. RANKIN: If it were 500 feet from the
19 line, I think then it would be --

20 EXAMINER McMILLAN: You'll figure that out.

21 MR. RANKIN: Yeah.

22 EXAMINER McMILLAN: Do you have any
23 questions?

24 MR. HERRMANN: No.

25 MR. RANKIN: Mr. Examiner, if an NSL is

1 required, I'll -- I'll confirm by e-mail, and then we'll
2 proceed to file one administratively.

3 EXAMINER McMILLAN: Okay.

4 MR. RANKIN: At this time, Mr. Examiner,
5 with those supplementations, I'd request that Case 20096
6 be taken under advisement.

7 EXAMINER McMILLAN: Case 20096 shall be
8 taken under advisement.

9 (Case Number 20096 concludes, 10:17 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 18th day of December 2018.

21

22

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

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