

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	CASE NOS. 20426,
COMPANY FOR AN EXCEPTION TO THE	20427, 20428,
WELL DENSITY REQUIREMENTS OF THE	20429, 20430,
SPECIAL RULES AND REGULATIONS FOR	20431, 20432,
THE BLANCO-MESAVERDE GAS POOL, SAN	20433, 20434,
JUAN COUNTY, NEW MEXICO.	20435, 20436,
	20437, 20438,
	20439, 20440

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 2, 2019

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 2, 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.

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APPEARANCES

FOR APPLICANT HILCORP ENERGY COMPANY:

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1 (4:49 p.m.)

2 EXAMINER DAWSON: The next cases to be
3 heard are Hilcorp Energy Cases 20426 through 20440, so
4 that'll be 15 cases, and it's for simultaneous
5 dedication, Mesaverde, San Juan County.

6 Call for appearances, please.

7 MR. RANKIN: Mr. Examiner, Adam Rankin,
8 with the Santa Fe office of Holland & Hart, on behalf of
9 the Applicant, Hilcorp Energy Company, in these cases.
10 I have no witnesses, but we'll be presenting these cases
11 by affidavit. I ask they be consolidated for
12 presentation purposes.

13 EXAMINER DAWSON: Okay.

14 Are there any other appearances in this
15 case -- in any of these cases?

16 Seeing none, when you're ready, Mr. Rankin.

17 MR. RANKIN: With your permission, I'd like
18 to present and walk through with you the first case and
19 explain the organization of the exhibit notebook before
20 you and then reference and incorporate the testimony of
21 the -- of all the subsequent cases because they come to
22 the same conclusion and are based on the same analysis
23 involving the same procedures for notice, so that way I
24 wouldn't have to walk through all 15 cases. And that's
25 the way we've done it in the past. I'd appreciate the

1 opportunity to do so again today.

2 EXAMINER DAWSON: That would be okay,
3 Mr. Rankin.

4 MR. RANKIN: Mr. Examiner, in front of you
5 is an exhibit notebook, three-ring binder. That
6 contains all 15 cases, beginning with the first case in
7 the series, 20426. Each case is identified by a tab by
8 case number. They are in sequence -- numerical
9 sequence, the first case to the last case by highest
10 case number.

11 Within each exhibit packet for each case,
12 there are three affidavits. The first affidavit is an
13 affidavit from the landman from Hilcorp. The second
14 affidavit is a notice affidavit prepared by me
15 reflecting the notice that was provided, and the third
16 affidavit, Exhibit C, is an affidavit prepared by one of
17 Hilcorp's engineers testifying as to their analysis on
18 the inadequacy of the existing well density under the
19 special pool rules for the Blanco-Mesaverde Pool.

20 EXAMINER DAWSON: Okay.

21 MR. RANKIN: If you look at the first
22 exhibit in the first case, Exhibit A, which is the
23 affidavit of Rob Carlson -- let me just step back real
24 quick.

25 There are three -- Hilcorp operates in the

1 San Juan Basin and has divided its area into three
2 parts. So in these cases, there are affidavits from
3 three different landmen and three different engineers
4 representing the three different areas of the
5 development that Hilcorp is pursuing.

6 EXAMINER DAWSON: Okay.

7 MR. RANKIN: This first affidavit that I'm
8 referencing here in Case 20426 is from Mr. Rob Carlson.
9 He's a landman who has previously testified at the
10 Division and has had his expert credentials recognized
11 and acknowledged by the Division as an expert petroleum
12 land matters. His affidavit reviews the process by
13 which Hilcorp has identified the affected parties and
14 provided notice, and he identifies Exhibits 1 and 2,
15 which are attached to his affidavit. And I'll just
16 review for you those and what his affidavits testify to.

17 EXAMINER DAWSON: Okay.

18 MR. RANKIN: Exhibit A1 is an overview map
19 of the San Juan Basin reflecting the various units in
20 the northwest of the San Juan Basin, and the federal
21 units are shaded with the red hatch mark and are
22 operated by Hilcorp. Other units are shaded with
23 different colors, meaning they're not operated -- not by
24 Hilcorp. And the specific spacing units that are the
25 subject of these 15 cases are highlighted in green. And

1 you'll see that some of them are located within federal
2 units and some of them are outside federal units. In
3 the cases where I'll -- and I'll explain this in more
4 detail on the next page. But in the cases where the
5 spacing units -- the subject spacing units are within a
6 federal unit, the interest owners are all identical in
7 the participating area. Therefore, Hilcorp has simply
8 just noticed all the working interest owners within the
9 participating area in that unit. If the spacing unit
10 falls on a boundary of a federal unit, as some of them
11 do in this case, they have identified the working
12 interest owners within the participating areas in that
13 adjoining federal unit.

14 In two cases, the spacing units are
15 adjacent to the Rincon Unit, which is operated by
16 Enduring. In that case notice was simply provided to
17 the operator of that unit, Enduring, where it was --
18 where the offsetting spacing units were within the
19 Rincon Unit. Otherwise, as to those cases, the notice
20 parties would simply be the working interest owners
21 within the existing PA within the unit that Hilcorp is
22 operating.

23 In the cases where Hilcorp spacing units
24 are outside of any federal units, Hilcorp just
25 identified the offsetting spacing units and the operator

1 in those spacing units. If Hilcorp was the operator
2 itself, then it gave notice to all the working interest
3 owners in those offsetting spacing units. Otherwise, if
4 it was a nonoperating spacing unit, then it just gave
5 notice to the operator of that spacing unit. Hopefully
6 that's clear as mud.

7 EXAMINER DAWSON: Okay.

8 MR. RANKIN: The next page, Mr. Examiner,
9 is a close-up. Each of the exhibits has that overview
10 map. It's an identical exhibit for each of the cases.

11 The next page of Exhibit A1 is specific to
12 each case, and it is a close-up of the spacing unit at
13 issue with the well that is being proposed for
14 recompletion from the Dakota into the Mesaverde. This
15 exhibit reflects the existing wells within the
16 Blanco-Mesaverde Pool, which are reflected by the
17 circle. A notation identifies the well, the well name
18 and API number. The exhibit reflects the proposed
19 recompletion well. In this case it's the Clayton 1. It
20 identifies it by name with the API, and the triangle is
21 the symbol indicating that this is a Dakota completion
22 and the one they're proposing to recomplete up into the
23 Blanco-Mesaverde Pool.

24 This exhibit also shows the offsetting
25 spacing units -- 320-acreage spacing units, which

1 Hilcorp has identified as the areas requiring notice
2 under the special pool rules. In this case these are
3 all Hilcorp except for the one spacing unit with the
4 diagonal hatch mark. These are all Hilcorp-operated
5 spacing units. The other is operated by Enduring.

6 The next exhibit, A2 -- it's the same
7 pattern for each of these cases -- is a list of all the
8 parties that fell -- fall within that -- the spacing
9 units offsetting the subject spacing unit in each case.
10 So for each exhibit, A2 is a list of the parties that
11 Hilcorp has identified as requiring notice under the
12 Blanco-Mesaverde Pool rules. And in some cases, Hilcorp
13 was the only 100 percent working interest owner or
14 offsets, and so those were identified. You'll see as
15 you go through that in some cases, Hilcorp is the only
16 noticed party, and they didn't obviously give themselves
17 notice.

18 So with respect to each of the cases, the
19 land affidavit reviews the process for giving notice,
20 the offsetting parties and the -- essentially, what the
21 application is seeking. It identifies the wells that
22 are existing in place and the well that is requested to
23 be recompleted within that particular spacing unit.

24 Exhibit C -- sorry -- B is a copy of the
25 affidavit prepared by me and my law firm reflecting that

1 we have given notice to each of the parties that was
2 provided to us by Hilcorp and identified as an affected
3 party in those offsetting spacing units.

4 Exhibit B1 is the letter that was sent to
5 each of those parties, and behind that letter is a list
6 of those notice parties that were identified to us by
7 Hilcorp. And the last page of that exhibit is a list --
8 report reflecting the status of the certified mails --
9 mailings to each of those parties as of yesterday. So
10 in some cases, you'll see that the United States Postal
11 Service is reflecting that some of those packages are
12 still in transit, so for whatever reason, the United
13 States Postal Service has not updated their delivery
14 status. And just as a consequence of that and to
15 confirm that we have identified all parties, we have
16 given constructive notice as well by publishing a Notice
17 of Publication in the newspaper within the county where
18 the well is located.

19 So Exhibit B2 is a copy of that Affidavit
20 of Publication reflecting that we've identified each of
21 those parties by name, including, in some cases, the
22 heirs and devisees.

23 Exhibit C is a copy of the engineer's
24 affidavit. In this case it is Mr. Alex Liang, who has
25 previously testified before the Division and had his

1 credentials as a reservoir engineer accepted as a matter
2 of record.

3 As with the prior cases that we have
4 presented before the Division, Hilcorp has undertaken a
5 study, a volumetric analysis, comparing calculated
6 original gas in place against what has been produced
7 from the Blanco-Mesaverde Pool and identified areas
8 where there is remaining gas in place. And Mr. Liang
9 reviews that process by volumetric analysis, as well as
10 the calculations that have been conducted in
11 coordination with their geologist to identify
12 prospective recompletes.

13 Exhibits 1 through 6 -- C1 through 6 review
14 his analysis and identification of each of the wells in
15 the spacing unit.

16 And then the volumetric analysis is
17 depicted in Exhibits 2, 3 and 4 graphically.

18 Exhibit 5 is the calculated analysis
19 reflecting Hilcorp's calculations for remaining -- what
20 they have calculated as the recovery factors for gas at
21 different levels of -- at section -- section level --
22 quarter-section level, section level and nine-section
23 level as sort of a cross comparison, as Mr. Liang
24 testifies, to confirm that indeed there is remaining gas
25 in place that has not been and otherwise would not be

1 recovered based on the existing well density.

2 Mr. Liang testifies that, in general,
3 Hilcorp expects gas recovery factors in a reservoir of
4 this type to be on the order of 70 to 80 percent. In
5 this case, as you can see, depending on the scale, the
6 recoveries are much lower.

7 I will point out that in some cases,
8 depending on the scale you're looking at, the
9 calculations vary. And you may see in some instances,
10 the quarter-section calculation may be higher.
11 Hilcorp -- that's why they do the double-check with the
12 different scales. So you'll see that while in some
13 cases the calculated recovery factors may be higher,
14 closer to that 70 to 80 percent, they nonetheless are
15 below what is expected on a broader scale. So they
16 believe that it's economic to go ahead and make that
17 recompletion.

18 The last exhibit in Exhibit C -- the last
19 attachment to Exhibit C is a wellbore diagram that
20 reflects Hilcorp's current knowledge and understanding
21 of the existing condition of the well that they're
22 proposing for recompletion. Recently, the Division has
23 requested that we provide with our exhibits wellbore
24 diagrams reflecting the current condition status of the
25 well. Hilcorp -- so based on this, this reflects the

1 current knowledge on the existing cement, the location
2 of cement, top of cement, as Hilcorp understands it.
3 But the practice has been, at the time they are seeking
4 to recomple, to work with the district office, to file
5 a sundry, at which time they confirm the location and
6 the top of cement, if they have good data that they can
7 rely on; if not, if the Division requires them to do a
8 cement bond log to confirm the location.

9 So based on the Division's request, we have
10 provided this additional exhibit reflecting the current
11 status of the well and the cement, with the
12 understanding that as and when Hilcorp is prepared to
13 actually do the recompletion, that they work with the
14 Division district office to confirm the location of the
15 cement and the condition of the well.

16 EXAMINER DAWSON: Okay.

17 MR. RANKIN: So as -- that completes the
18 exhibit packet for that one case. Each of the cases has
19 a -- has a corresponding exhibit reflecting the same
20 analysis. The landman has prepared the same study of
21 the lands and identified through the same process the
22 affected parties and all offsetting spacing units. The
23 reservoir engineer has conducted the same volumetric
24 analysis and has identified in each case if there are
25 remaining reserves in place that would otherwise not be

1 recovered without increasing the well density as they
2 have requested in these cases.

3 And just as a summary, kind of a reminder,
4 the Blanco-Mesaverde Pool rule limits well density in
5 each of the 320-acre spacing units to four wells, two in
6 each half section. And so in each case, Hilcorp is
7 seeking to exceed that well density either because it
8 has proposing three wells in a quarter section or, in
9 some cases, they are proposing two wells in a
10 quarter-quarter section, which also requires an
11 exception to the well density rule. In every case where
12 there is an exception required, we have to come to
13 hearing. So we're here for those exceptions in all 15
14 of these cases.

15 With that, Mr. Examiner, I ask that the
16 affidavits for all 15 of these cases be entered into the
17 record with their attachments and that each of these
18 cases be taken under advisement. Unless there are any
19 other questions -- and if the Division identifies any
20 questions or concerns, I'll be happy to supplement as
21 needed.

22 EXAMINER DAWSON: Okay. I have one
23 question. I see they provided current schematics on all
24 of the wells in this package.

25 MR. RANKIN: Uh-huh.

1 EXAMINER DAWSON: Did they talk about their
2 plans for the wells on the perforations? Did they ask
3 for like a recompletion schematic from Hilcorp?

4 MR. RANKIN: They have not yet gotten to
5 that point, stage of planning those cases. However, if
6 you look at Exhibit C1 in the first case, for example,
7 which is sort of an overview exhibit that reflects sort
8 of the location of the well within the section, the
9 existing Dakota wells are circled in blue. And on the
10 right-hand side of that are some indications of what
11 Hilcorp's plans are and the current status of that well.
12 This would be the third Mesa- -- for example, it would
13 be the third Mesaverde completion in the quarter
14 section, and they've identified the distance from the
15 nearest Mesaverde producer. And they anticipate that
16 this well completed in the Mesaverde will help drain the
17 area to the south, as you can see in the map of that
18 area. Based on this cartoon, it is not fully -- not
19 fully developed.

20 EXAMINER DAWSON: Okay.

21 MR. RANKIN: And then in the last bullet,
22 they indicate what they recompleted -- within the
23 Blanco-Mesaverde. So exactly where, I think, they're
24 going to recomplete, they would identify that through
25 their sundry notice with the Division, is my

1 understanding.

2 EXAMINER DAWSON: With the district office?

3 MR. RANKIN: Yeah.

4 EXAMINER DAWSON: Okay. Great. Thank you.

5 Do you have any questions?

6 EXAMINER BROOKS: None.

7 EXAMINER DAWSON: Okay. With that, then
8 we'll take Cases 20426 through 20440 -- we'll take them
9 under advisement. That's 15 cases.

10 And that concludes our hearings for today.

11 MR. RANKIN: Mr. Examiner, I would ask at
12 this time that Exhibits A, B and C and their attachments
13 in each of these cases, starting with 20426 sequentially
14 through 20440, be accepted and made a matter of record.

15 EXAMINER DAWSON: Okay. At this moment
16 Exhibits A through C for all cases, 20426 through 20440
17 and all attached exhibits, will be admitted to the
18 record.

19 (Hilcorp Energy Company Exhibits A, B and C
20 and all attachments for each case are
21 offered and admitted into evidence.)

22 (Case Numbers 20426 through 20440 conclude,
23 5:08 p.m.)

24

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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 21st day of May 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