

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 FOR AN EXCEPTION TO THE WELL DENSITY REQUIREMENTS OF THE SPECIAL RULES AND REGULATIONS FOR THE BLANCO-MESAVERDE GAS POOL, SAN JUAN AND RIO ARriba COUNTIES, NEW MEXICO. CASE NOs. 20638 through 20653

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 11, 2019

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 11, 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.

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

FOR APPLICANT HILCORP ENERGY COMPANY:

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1 (4:13 p.m.)

2 EXAMINER JONES: Call Cases 20638 through  
3 20653. Is that adequate? They are numbers 57 through  
4 72 on the docket. They're all styled application of  
5 Hilcorp Energy Company for exception to the well density  
6 requirements for the Blanco-Mesaverde Gas Pool in Rio  
7 Arriba and -- and some are in San Juan County,  
8 New Mexico.

9 MR. RANKIN: That's correct.

10 EXAMINER JONES: Call for appearances.

11 MR. RANKIN: Mr. Examiner, Adam Rankin,  
12 with the law firm of Holland & Hart, on behalf of the  
13 Applicant in these cases.

14 I'm presenting each of these cases by  
15 affidavit, Mr. Examiner. With your permission, I will  
16 summarize what the Applicant is seeking in each of these  
17 cases. And by way of example, I will review for you one  
18 case in more detail and then ask that each of the  
19 affidavits supporting the other cases be accepted into  
20 the record and be incorporated based on my one sample of  
21 the case.

22 EXAMINER JONES: Okay.

23 MR. RANKIN: Starting with the first case  
24 in your exhibit notebook before you, Case Number 20638,  
25 this is the application that involves the wells, the

1 Grenier 11 well and the Grenier 11F well.

2 Just stepping back, in each of these cases,  
3 Hilcorp is seeking a well density exception under the  
4 Blanco-Mesaverde special pool rules. Those pool rules  
5 limit the number of wells in a standard spacing unit to  
6 four total or two in a quarter sec- -- in a quarter  
7 section and no more than one well in a quarter-quarter  
8 section. So in each of these cases, Hilcorp is seeking  
9 some variation to exceed those well density limitations,  
10 and we know that in the special pool rules, any well  
11 density exception must go to hearing.

12 In this first case -- each of these cases  
13 is organized by case number in numerical order. Each  
14 case has -- Exhibit A is the affidavit of a landman who  
15 is responsible for the well and the acreage in that  
16 area, along with Exhibits 1 and 2, which is -- Exhibit 1  
17 is a map that shows the subject spacing unit, and then  
18 in hatch marks around the spacing unit is the area that  
19 is the notice area. And I'll review those in more  
20 detail.

21 Exhibit B in each of these cases -- sorry.  
22 A2 in each of these cases is a list of all the parties  
23 that were required to receive notice within that notice  
24 area surrounding the subject spacing unit.

25 Exhibit B in each of these cases is the

1 affidavit prepared by me and my office providing that we  
2 have provided notice for each of the parties who were  
3 required to receive notice of this hearing provided to  
4 us by the Applicant, Hilcorp.

5 Exhibit B1 is a notice letter that was sent  
6 to each of those parties, followed by a copy of the  
7 United States Postal Service tracking information  
8 showing the status of the certified mailing.

9 Exhibit B2 is a copy of the Affidavit of  
10 Publication reflecting that notice was published in the  
11 newspaper in the county where the well is located  
12 identifying each of the notice parties by name.

13 Exhibit C is an affidavit of the engineer  
14 responsible for the wells in each of these cases, along  
15 with his or her analysis of the remaining reserves in  
16 place and justification for the exceptions to the well  
17 density.

18 Each of these cases is organized in the  
19 same way, with the same exhibits. The analyses are all  
20 the same, and the conclusions are all the same. Only  
21 the facts and the wells and the specific density  
22 exceptions change.

23 So this first case, Case Number 20638,  
24 Exhibit A is the affidavit of the landman, Mr. Rob  
25 Carlson. Mr. Carlson testifies that -- has previously

1 testified before the Division and has had his  
2 credentials accepted as an expert in land matters. He  
3 has testified that none of the parties in this case  
4 indicated opposition to presenting the case by affidavit  
5 or to their application.

6           In this case Hilcorp seeks an exception to  
7 the well density requirements of the special pool rules,  
8 the Blanco-Mesaverde special pool rules, to allow them  
9 to simultaneously produce and dedicate four Mesaverde  
10 gas wells in the same quarter section, for a total of  
11 six Mesaverde gas wells within same standard spacing and  
12 proration unit.

13           The two wells that they're seeking to add  
14 and simultaneously dedicate here are the Grenier 11 and  
15 the Grenier 11F wells. The API and specifics about  
16 those wells are detailed in the affidavit. These will  
17 be the fifth and sixth wells within the spacing unit,  
18 with four wells in the same quarter section, thereby  
19 exceeding the well density limits imposed by the special  
20 pool rules.

21           Therefore, Hilcorp requests in this case  
22 that the Division enter an order granting an exception  
23 and permitting them to recomplete these two wells within  
24 the Blanco-Mesaverde Pool and dedicating them to the  
25 spacing unit.

1                   In this case Exhibit A1 is a map reflecting  
2 the subject spacing unit outlined in green. Within the  
3 spacing unit are the existing wells indicated by the  
4 dark blue circles. The triangles are the proposed  
5 recompletions that would be within the same spacing  
6 unit. Each of the wells is identified by name and API  
7 number.

8                   Surrounding each spacing unit are the  
9 offsetting spacing units which are required to receive  
10 notice. Mr. Pearson testifies that Hilcorp has provided  
11 notice to the operators of those spacing units. If  
12 Hilcorp is the operator, then they provided notice to  
13 the working interest owners in each of those spacing  
14 units. In some cases, Hilcorp is 100 percent a working  
15 interest.

16                   Exhibit A2 is a copy of the list of parties  
17 that Hilcorp identified in this case requiring notice in  
18 each of the offsetting spacing units. It's a little bit  
19 small.

20                   Exhibit B is the affidavit that was  
21 prepared by me and my office showing that we had  
22 provided notice to each of those parties indicated to us  
23 by Hilcorp.

24                   Exhibit B1 is the letter that was sent to  
25 each of those parties indicating that the hearing was

1 set for today. The next page behind that letter is a  
2 copy of the tracking sheet showing the status of the --  
3 of the notice to each of those parties.

4 And Exhibit B2 is a copy of the Notice of  
5 Publication identifying each of the parties by name and  
6 the Affidavit of Publication in the county where the  
7 well is located.

8 Exhibit C is a copy of the affidavit  
9 prepared by Mr. Alex Liang, the engineer responsible for  
10 this case. Mr. Liang followed the same analysis and  
11 procedures that were previously presented by engineers  
12 for Hilcorp whereby he has identified the well within  
13 the Blanco-Mesaverde Pool and conducted, essentially, a  
14 volumetric analysis to determine how much gas is  
15 remaining in place. And his analysis reflects that the  
16 current existing well density is inadequate to drain the  
17 reserves, and additional wells will be required in order  
18 to fully drain the spacing unit.

19 Exhibit 1 to his affidavit is sort of an  
20 overview map of the proposed recompleted wells. There  
21 are two pages for each of the exhibits, one for each of  
22 the wells at issue in this case. The subject wells are  
23 identified by a blue circle. And in this case, the  
24 Grenier 11 well, Mr. Liang anticipates, will, upon  
25 recompletion, help drain the area to the south within

1 the spacing unit. The next page shows the Grenier 11F.  
2 Mr. Liang testifies that he anticipates its recompletion  
3 will help drain the area to the north within the spacing  
4 unit.

5 Exhibits 2, 3 and 4 are essentially a  
6 graphical representation of the volumetric analysis  
7 showing the original gas in place, the EUR, the  
8 estimated ultimate recovery and drainage radius for each  
9 of the wells within the entire Blanco-Mesaverde Pool.

10 And then the last of those exhibits is the  
11 remaining recoverable gas in place. In each of the  
12 exhibits, a red star reflects the approximate location  
13 of the subject wells and spacing unit and reflects that  
14 the wells in the area where there is substantial --  
15 relatively substantial remaining recoverable gas in  
16 place.

17 Exhibit 5 to Mr. Liang's affidavit is a  
18 tabulation of the -- they are calculations of the  
19 recovery factors for gas within the spacing unit at  
20 different scales, a quarter section, a section and a  
21 nine-section scale. Mr. Liang testifies that for a  
22 reservoir of this nature, the expected recovery factor  
23 should be on the order of approximately 70 percent, and  
24 they're seeing a recovery factors far below that. His  
25 testimony is based on their analysis, well densities

1 that are currently in place are not sufficient to  
2 adequately drain the spacing unit. Therefore, two  
3 additional wells are required to recover and fully drain  
4 the -- his testimony is that the additional wells are  
5 necessary to avoid waste, and they are protective of  
6 correlative rights.

7           Exhibit 6 to Mr. Liang's affidavit is a  
8 copy of the most-recent wellbore diagram for the two  
9 wells that are at issue here in this case. The diagram  
10 reflects Hilcorp's current understanding of the status  
11 of the well according to cement. This diagram has been  
12 added and requests of the Division to provide  
13 information on the current status of each of the wells  
14 in these cases.

15           Hilcorp will proceed upon -- when it goes  
16 to recomplete these wells, will provide additional  
17 information upon the Division's request, including the  
18 cement bond logs or other information, to confirm the  
19 location and status of the well upon recompletion.

20           Mr. Examiner, each of these subsequent  
21 cases that are currently before you have similar  
22 exhibits. In each of these cases, the notice parties  
23 were identified using the same standards. And in each  
24 case, the engineer has gone through the same analysis  
25 and come to the same conclusion about the necessity of

1 increasing the well density in each case.

2 With that, Mr. Examiner, I would move the  
3 admission of Exhibits A, B and C in each of these 16  
4 cases, 20638 through 20653.

5 EXAMINER JONES: Exhibits A, B and C in all  
6 of these cases are admitted.

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

9 MR. RANKIN: With that, Mr. Examiner, if  
10 you don't have any questions now, I ask that these cases  
11 be taken under advisement. If you have any questions  
12 for me or if you have any questions later, please feel  
13 free to let me know and I will try to address them for  
14 you.

15 EXAMINER JONES: Mr. Brooks, do you have  
16 anything?

17 EXAMINER BROOKS: I have nothing.

18 EXAMINER JONES: They're starting to throw  
19 in a few -- two wells -- two extra wells.

20 MR. RANKIN: Uh-huh. Yes.

21 EXAMINER JONES: So they seem to be -- it  
22 must be profitable. And I remember gas recoveries. It  
23 should be, actually, a lot higher than 70 percent in a  
24 normal -- a good gas reservoir. It should be like 90  
25 percent results sometimes --

1 MR. RANKIN: Right.

2 EXAMINER JONES: -- but it depends on the  
3 first and last pressure. But they're being  
4 conservative, I think, here.

5 I don't have any more questions.

6 We'll take Cases 20638 through 20653 under  
7 advisement.

8 Thank you very much.

9 MR. RANKIN: Thank you.

10 (Case Numbers 20638 through 20653 conclude,  
11 4:26 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 26th day of July 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

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