

**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 TO
CONSIDER:**

**CASE NO. 16054
ORDER NO. R-14700**

**APPLICATION OF HILCORP ENERGY COMPANY FOR AN EXCEPTION TO
THE WELL DENSITY REQUIREMENTS OF THE SPECIAL RULES AND
REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS POOL BLANCO-
MESAVERDE GAS POOL, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 05, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 7th day of June 2018, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Hilcorp Energy Company ("Applicant"), seeks approval for an additional vertical well completion within an existing, standard 320-acre (more or less) Fruitland Coal formation gas spacing within the Basin Fruitland Coal (Gas) Pool (71629) consisting of the S/2 of Section 36, Township 29 North, Range 9 West, NMPM, San Juan County, New Mexico.

(3) The following wells currently produce within this gas spacing unit:

- Standard Oil Com Well No. 100S (API No. 30-045-33581) Unit O
- Standard Oil Com Well No. 100 (API No. 30-045-31049) Unit K

(4) Well density, well locations, and gas spacing unit size within the Basin Fruitland Coal (Gas) Pool, are all governed by Division Order R-8768, as amended. Said

order created Special Rules defining and governing the Low Productivity Area of the Basin Fruitland Coal Gas Pool within the San Juan Basin. This gas spacing unit is in the "Low Productivity Area" of the Basin Fruitland Coal Gas Pool.

(5) Division Order R-8768-C allows two wells in a 320-acre Fruitland Coal Gas Pool spacing unit, each to be located in separate quarter sections and stated that well density exceptions be handled through hearing. The portion of the Special Rules governing spacing unit size and well density are as follows:

RULE 4: Each standard gas spacing unit will consist of 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

RULE 7 (d): WELL DENSITY

(1) *Well density within the "Low Productivity Area":*

No more than two (2) wells per standard 320-acre gas spacing unit may be located in the "Low Productivity Area" of the pool as follows:

- (i) *the OPTIONAL INFILL WELL drilled on an existing spacing unit shall be located in the quarter section not containing the INITIAL Fruitland coal gas well;*
- (ii) *the plat (Form C-102) accompanying the "Application for Permit to Drill ("APD")" (Form C101 or federal equivalent) for the optional infill well within an existing spacing unit shall have outlined the boundaries of the unit and shall show the location (well name, footage location, API number) of the initial Fruitland coal gas well plus the proposed infill well; and*
- (iii) *any deviation from the above-described well density requirements shall be authorized only after hearing.*

(6) The Commission in Order R-8768-F modified these Special Rules [relating to the Low Productivity Area] taking out the specific requirement to have a hearing prior to allowing more than two wells in a gas spacing unit but not specifying exactly how this exception would be granted.

(7) The following well is proposed as an additional well and would be the third Fruitland Coal Gas well completion to be produced and dedicated to this gas spacing unit and the second completion within the SE/4 quarter section:

- Koch State Com Well No. 1A (API No. 30-045-21787) Unit I

(8) The Applicant appeared at the hearing through counsel and presented testimony and facts as follows:

- (a) Applicant has done a reservoir study of its properties in the Basin Fruitland Coal (Gas) Pool and identified areas of underperformance.

Applicant used decline analysis and log derived coal gas volumetric parameters to calculate ultimate recovery and original gas in place values and to map these points for its wells in the pool.

- (b) The estimated ultimate gas recovery from the subject gas spacing unit is low relative to the average gas spacing unit despite the presence of existing well completions.
- (c) The subject gas spacing unit has a wellbore currently producing from a deeper formation that is available for completion up-hole in the Fruitland Coal formation.
- (d) The proposed well could be downhole commingled without harm to the existing deeper completion. Both the deeper completion and the prospective Fruitland Coal completion are expected to produce little water.
- (e) The proposed well is expected to recover additional gas in place within this gas spacing unit that would not otherwise be recovered.
- (f) The additional well-completion in this gas reservoir is not expected to cause harm to offsetting interests.
- (g) The offset spacing units are operated by BP America Production Company, Hilcorp Energy Company, and West Largo Corporation. This is in San Juan County and the spacing unit is not contained in an exploratory unit. The rule exception is being sought to place two wells in SE/4 and three wells in the gas spacing unit. The proposed additional well is at a non-standard gas well location which has, of the date of this order, been approved administratively.
- (h) Notice of the intended well density exception was provided as per Paragraph 2 of Subsection A of 19.15.4.12 NMAC to all affected parties and no objections have been received.

The Division finds as follows

(9) Applicant has shown this gas spacing unit is underdeveloped and the existing wells will not recover the percentage of gas in place that would be expected.

(10) The proposed additional well completion is needed to recover additional gas and is not expected to harm offsetting gas spacing units.

(11) Notice was provided to affected parties and no other party opposed this application.

(12) This application should be approved to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT

(1) The application of Hilcorp Energy Company is hereby approved. An exception is granted as follows to the well density provisions of the Special Rules of the Basin Fruitland Coal (Gas) Pool (71629).

(2) The following wells may be simultaneously dedicated to and may produce from within an existing standard 320-acre (more or less) Fruitland Coal gas spacing unit comprised of the S/2 of Section 36, Township 29 North, Range 9 West, NMPM, San Juan County, New Mexico:

- Standard Oil Com Well No. 100S (API No. 30-045-33581) Unit O
- Standard Oil Com Well No. 100 (API No. 30-045-31049) Unit K

Approved Additional Well:

- Koch State Com Well No. 1A (API No. 30-045-21787) Unit I

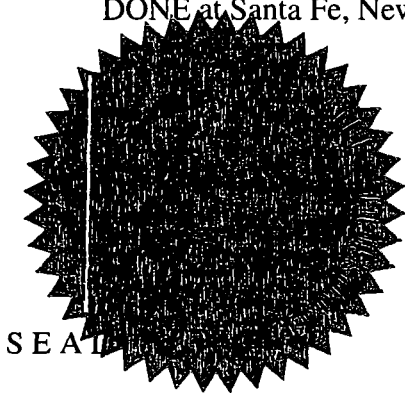
(3) Substitutions of other wells within this GPU for any of the wells detailed herein may be granted administratively after providing notice to affected parties as required in Paragraph 2 of Subsection A of 19.15.4.12 NMAC.

(4) Except as granted above, all spacing and location provisions of the Special Rules of the Basin Fruitland Coal (Gas) Pool remain in effect.

(5) The location of the approved additional well is governed by Division rules or by Special Pool Rules and the well may only be produced if the location is orthodox or if Hilcorp Energy Company applies for and obtains a location exception from the Division.

(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


HEATHER RILEY
Director