

**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:**

**CASE NO. 20659
ORDER NO. R-21254**

**APPLICATION OF COG OPERATING LLC FOR APPROVAL OF THE TOMAHAWK
UNIT, ELIMINATION OF INTERNAL SETBACKS WITHIN UNIT AREA, AND
APPROVAL FOR SURFACE COMMINGLING, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case come for hearing at 8:15 a.m. on August 23, 2019, at Santa Fe, New Mexico, before Examiners Michael McMillan and Kathleen Murphy.

NOW, on this 9th day of April 2020, the Division Director, having considered the testimony, the record and recommendations of the Examiner,

FINDS THAT

(1) Due public notice has been given, and the Oil Conservation Division (“OCD”) has jurisdiction of this case and of the subject matter.

(2) COG Operating LLC (“Concho” or “Applicant”) seeks approval of the Tomahawk WC Federal Exploratory Unit (“Unit”), a federal exploratory unit; elimination of internal setbacks within the Unit Area; and approval for surface commingling within the Unit.

(3) The Unit comprises the following lands (“Unit Area”), comprising 4,803.16 acres (more or less) of federal, state, and fee lands, in Eddy County, New Mexico

Township 24 South, Range 28 East, NMPM

Section 17:	All
Section 18:	All
Section 19:	E/2
Section 20:	All
Section 29:	All

Section 30: All
Section 31: All
Section 32: All

(4) In addition to specifying the Unit Area, the Unit Agreement defines the Unitized Interval and limits the unit to horizontal wells completed within that Unitized Interval. The specifics are as follows:

- (a) The “Unitized Interval” is the Wolfcamp formation with the stratigraphic equivalent of the top of the Wolfcamp formation at a measured depth of 9,285 feet beneath the surface to the base of the Wolfcamp formation at a measured depth of 10,853 feet beneath the surface as seen on the gamma ray log for the High Brass Fee Well No. 1 (API No. 30-015-33952), located in Section 20, Township 24 South, Range 28 East, Eddy County, New Mexico.
- (b) The Unit currently encompasses a portion of the Purple Sage;Wolfcamp Gas Pool (Pool Code 98220). Rule 2 of the Special Rules for the Pool requires horizontal wells to be located no closer than 330 feet to the exterior boundary of the applicable spacing unit, with 10-foot setbacks for the surface location and bottom hole location from any quarter-quarter section line. However, the statewide rules for horizontal oil wells eliminate any internal setbacks within a unit boundary.

(5) Applicant appeared at the hearing through counsel and presented the following testimony:

- (a) The Unit is comprised of four (4) federal tracts, or 41.67% of the Unit acreage; three (3) state tracts, or 20.83% of the Unit Acreage; and forty-two (42) patented (fee) tracts comprising 37.50% of the Unit acreage. All federal, state and fee leases are past their primary terms.
- (b) Previously, there were five nonparticipating fee mineral owners, making up about 0.25% of the Unit acreage. These owners were given offers and notified of this hearing but have not responded to offers to voluntarily participate in the Unit. At the time of the hearing, three of the five mineral owners, making up about 0.13% of the Unit acreage, have signed the Unit Agreement to participate as working interest owners.
- (c) The federal exploratory unit agreement was used with modifications as specified in preceding findings as well as insertion of language identifying participating area boundaries and provision that the Unit may be contracted.
- (d) The Unit Agreement has been given written preliminary approval by the Bureau of Land Management (“BLM”) [Concho Exhibit No. 3] as well as

by the Commissioner of Public Lands, New Mexico State Land Office (“NMSLO”). Concho anticipates over 85% working interest participating in the Unit. The BLM will not give final approval of the Unit without at least 85% participation.

- (e) The Unit is located geographically within the Purple Sage;Wolfcamp Gas Pool and all wells are expected to produce primarily oil. The main target intervals consist of shale and sands within the Wolfcamp formation.
- (f) Subject to final instruction from the BLM, the acreage in the Unit is divided two areas: the northern portion of the Unit designated the “Northern BLM Option 1 Initial Participation Area” and the southern portion of the Unit which does not overlap. Obligation wells are to be drilled in the two areas with the intent of merging the two areas into a single Unit (identified as a Preferred Rapid Development Participation Area) based on the geological evidence from the wells and demonstrations of the production.
- (g) The initial well will be the Tomahawk 18 17 Well No. 701H to be drilled at a location in the N/2 of Sections 17 and 18 of Township 24 South, Range 28 East, NMPM or a different well and at a location approved by the BLM, with multiple wells planned in each participating area.
- (h) The setbacks from the Unit boundaries set forth in the statewide rules for horizontal oil well completions should be adequate to protect offsetting mineral owners located outside the Unit.
- (i) Elimination of internal setbacks within the Unit Area is consistent with the statewide rules for horizontal wells and supports efficient development of the Unit Area.
- (j) Approval in this Order for surface commingling within the Unit allows for administrative efficiencies at the OCD, fewer tank batteries, reduced surface disturbance, and reduction of costs for each wellbore.
- (k) The Plan of Developments submitted each year by the operator of this Unit will be of public record that can be accessed by interested parties.
- (l) Applicant has provided notice of this application and hearing to all owners within the Unit and to offset operators and working interest owners in any wells dedicated to the Wolfcamp;Purple Sage Gas Pool in producing adjacent spacing units surrounding the Unit.
- (m) Applicant has caused notice of this application to be published in the Carlsbad Argus newspaper published in the city of Carlsbad, Eddy County, New Mexico.

(6) EOG Resources, Inc. (“EOG”), an interest owner in the Unit, entered an appearance and was represented at the hearing by counsel and opposed the application. EOG subsequently dismissed its protest and opposition of the application on January 3, 2020, and has ratified the Unit Agreement.

(7) MRC Permian Company, an interest owner in the Unit, entered an appearance and was represented at the hearing by counsel but did not oppose the application. No other party entered an appearance or otherwise opposed this application.

The OCD concludes:

(8) Applicant has provided proper and adequate notice of this application and hearing.

(9) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval. Within the Unit, the OCD’s statewide rules for horizontal oil well setbacks from the outer Unit Area boundaries as well as elimination of internal setbacks should apply. Unit Wells should be defined as those wells allowed for in the Unit Agreement.

(10) The provisions contained in the Unit Agreement are in the best interest of conservation and the prevention of waste.

(11) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit to maximize recovery of oil and gas from the Unitized Interval, thereby preventing waste, and will provide the Applicant latitude to conduct operations in an effective and efficient manner within the Unit.

(12) Approval of the authority for surface commingling within the Unit will decrease impacts to surface resources, increase efficiency of operation and reduce the potential for waste.

(13) The Tomahawk WC Federal Exploratory Unit should be approved.

(14) COG Operating LLC should be designated the Unit operator.

(15) Applicant should provide to the OCD a written copy of the final approval of the Tomahawk WC Federal Exploratory Unit by the BLM. Applicant should submit a copy of the annual Tomahawk WC Federal Unit Plan of Development to the OCD for review.

(16) In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator should file with the OCD, within sixty (60) days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

IT IS THEREFORE ORDERED THAT

(1) As per the application of COG Operating LLC, the Tomahawk WC Federal Exploratory Unit [NMNM140216X] (“Unit”) of federal, state, and fee lands in Eddy County, New Mexico, is hereby approved.

(2) The Unit shall comprise the following 4,803.16 acres (more or less) in Eddy County, New Mexico:

Township 24 South, Range 28 East, NMPM

Section 17: All
Section 18: All
Section 19: E/2
Section 20: All
Section 29: All
Section 30: All
Section 31: All
Section 32: All

(3) The portion of this application asking for elimination of internal setbacks is hereby approved.

(4) The portion of this application asking for approval of surface commingling for wells completed within the Unit is hereby approved with the following conditions:

- (a) The oil and gas production from each well shall be separated and metered prior to commingling.
- (b) Applicant shall measure the commingled oil at the central tank battery in accordance with 19.15.18.15 NMAC or 19.15.23.8 NMAC.
- (c) Applicant shall measure the commingled gas at the central delivery point in accordance with 19.15.19.9 NMAC, provided however that if the gas is flared, regardless whether OCD has granted an exception pursuant to 19.15.18.12(B) NMAC, Applicant shall report the gas in accordance with 19.15.18.12(F) NMAC.
- (d) Applicant shall calibrate the meters used to measure or allocate oil and gas production in accordance with 19.15.12.10(C)(2) NMAC.
- (e) Prior to commingling, the Applicant shall notify the OCD by filing Form C-103 with the Engineering Bureau of the Santa Fe office with the information requirements described in 19.15.12.10(B)(2) NMAC.

- (f) The Applicant may commence commingling upon the OCD's approval of Form C-103, subject to compliance with any conditions of the approval, and the written approval by the BLM or NMSLO, as applicable. *See* 19.15.12.10(B)(3) and (C)(4)(h) NMAC.

(5) This order shall be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Tomahawk WC Federal Exploratory Unit is obtained by Applicant from the BLM. The final approval letter by the BLM shall be provided by the Unit operator to the OCD and included in this case file.

- (6) COG Operating LLC (OGRID No. 229137) is hereby designated the Unit operator.

(7) Pursuant to the Unit Agreement, the Unitized Interval shall include all oil and gas in the Wolfcamp formation of the unitized lands, defined as the stratigraphic equivalent of the top of the Wolfcamp formation at a measured depth of 9,285 feet beneath the surface to the base of the Wolfcamp formation at a measured depth of 10,853 feet beneath the surface as seen on the gamma ray log in the High Brass Fee Well No. 1 (API No. 30-015-33952), located in Section 20, Township 24 South, Range 28 East, Eddy County, New Mexico.

(8) All future wells within the horizontal limits of this Unit but not designated per the Unit Agreement as Unit wells shall be dedicated and subject to the requirements of existing pools or statewide rules.

(9) Any Unit well may be drilled anywhere within any Participating Area provided that no portion of the completed interval is closer than the setbacks set forth in the OCD statewide rules for horizontal oil wells to the outer boundary of the Unit unless otherwise approved by the OCD pursuant to Rule 19.15.15.13 NMAC.

(10) The plan contained within the Tomahawk WC Federal Exploratory Unit Agreement for the development and operation of the Unit is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(11) All future annual Plans of Development submitted and approved by the BLM for the Unit shall be submitted annually to the OCD for review.

(12) The Unit operator shall file with the OCD an executed original or executed counterpart of the Unit Agreement within sixty (60) days of the date of final approval of the Unit by the BLM. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit, the Unit operator shall file with the OCD, within sixty (60) days thereafter, counterparts of the Unit Agreement reflecting subscription of those interests having joined or ratified.

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(13) Jurisdiction of this case is retained for entry of such further orders as the OCD may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'AS', is written over the printed name.

ADRIENNE SANDOVAL
Director

AS/KAM

Cc: NM State Lands Office