**STATE OF NEW MEXICO**
**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**
**OIL CONSERVATION DIVISION**

**APPLICATIONS OF PERMIAN RESOURCES OPERATING, LLC FOR COMPULSORY POOLING, AND APPROVAL OF OVERLAPPING SPACING UNIT LEA COUNTY, NEW MEXICO** **CASE NO. 25833-25834**

**APPLICATIONS OF PERMIAN RESOURCES OPERATING, LLC FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.** **CASE NO. 25836-25845**

**APPLICATIONS OF AVANT OPERATING II, LLC FOR APPROVAL OF A NON-STANDARD UNIT, COMPULSORY POOLING, AND, TO THE EXTENT NECESSARY, APPROVALOF AN OVERLAPPING SPACING UNIT LEA COUNTY, NEW MEXICO.** **CASE NO. 25827, 25829, 25831**

**APPLICATION OF AVANT OPERATING II, LLC FOR APPROVAL OF A NON-STANDARD UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.** **CASE NO. 25832**

**AVANT OPERATING II, LLC'S CLOSING BRIEF**

Avant Operating II, LLC's ("AO II") applications should be granted and Permian Resources Operating, LLC's ("PR") denied. AO II has significant majority working interest ownership and control (between 64% and nearly 95%), is proposing a full suite of wells targeting the Avalon, First Bone Spring, Second Bone Spring Sand, the Third Bone Spring, and the Upper and Lower Wolfcamp. Thus, AO II's applications recover more reserves, thereby preventing waste and protecting correlative rights, which is the Division's primary mandate. Order R-21800, ¶15 (Division's "first task is to determine which development plan will most efficiently develop the subject acreage, prevent waste, and protect correlative rights.").

PR's cases, to the contrary, will result in waste and negatively impact correlative rights because PR does not intend to target the Avalon for at least 12 to 16 months and was unwilling to commit to developing the Lower Wolfcamp. And PR's purported concerns regarding AO II's development plan are either unfounded or, at best, amount to no more than potentially "conflicting evidence over well and overall development proposals" which cannot overcome AO II's substantial working interest control. Order R-21826, ¶ 21.

**I. PR'S APPLICATION IN CASE NO. 25835 MUST BE DISMISSED.**

As an initial matter, PR's Case 25835 must be dismissed because PR has failed to file an amended application. On April 22, 2026, at the end of the contested hearing, the Division clearly articulated that PR's application in Case 25835 was legally deficient because it did not accurately describe the horizontal spacing unit—the application identified the spacing unit as a 400-acre spacing unit, while PR's exhibits identified the spacing unit as 480 acres. *See* Tr.V.2 p.178-179.[1] At that time, the Division directed PR to file "an amended application, renoticed properly and published by the Division" and PR's counsel confirmed: "Yeah, I think we can apply for the June docket. You know, do the new application in a timely manner for the June docket notice." *Id.*

Despite the Division's clear direction, PR failed to file an amended application for the June 4 docket. Consequently, at that docket,[2] the Division correctly reasoned that Case 25835 must be dismissed. June 4 Tr. p. 99; p. 100:3428-3435. The Division, after reviewing the April 22 verbatim transcript reiterated: "The hearing examiner instructed you to re-notice, *file an amended application and re-notice the case in writing. The instruction was not tentative. It wasn't conditional. It wasn't ambiguous*." June 4 Tr. p. 98:3365-68 (emphasis added). The Division also reminded PR about the opportunity PR had been given to file an amended application, and having failed to do so, fairness required dismissal. *Id.* lines 3384-89; p. 100:3433-35.

[1] The April 21, 2026 Transcript is cited as Tr.V.1 to designate Volume 1, and the April 22, 2026 Transcript is Tr.V.2.
[2] At the June 4 status conference, PR contended it simply file an untimely amended application or could file a new application. At the June 30 docket, PR's counsel stated on the record that PR did not intend to do so.

Despite the clarity of the Division's requirements, PR has raised three unavailing arguments. First, at the June 4 docket, PR contended that the Division's direction at the close of the contested hearing was somehow unclear. *Id.* p. 99. As the Division noted, however, the Division's direction was unambiguous and mandatory. At the June 30 docket, PR contended that it believes "the confusion was in the notice." June 30 Tr. p. 59:2013-2015. Again, the Division's direction on April 22 was clear—PR was to file an amended application and comply with the Division's notice requirements, and PR agreed to do just that—file an amended application for June 4. There simply was and is no ambiguity about what PR was required to do.

At the June 30 docket, in a last ditch attempt to avoid dismissal, PR indicated that it is going to request that PR be allowed to proceed with its original application, which seeks to pool interests in only a 400-acre spacing unit, and not a 480-acre unit. *See* June 30 Tr. p. 59:2009-10. Significantly and fatal, however, PR provided ***no*** evidentiary support for a 400-acre Wolfcamp spacing unit because all of PR's exhibits and testimony discuss a 480-acre spacing unit. *See, e.g.*, PR CPAC Case No. 25835; PR Ex. A, ¶ 20; PR Ex. A-4 (C-102). In addition, all PR exhibits purporting to do an economic analysis that include the Wolfcamp wells would be rendered irrelevant because they are presumably all based on a 1.5 mile Wolfcamp well and not a 1.25 mile well. *See, e.g.,* PR Ex. C-5; C-7; C-10; C-16. Finally, PR's 400-acre Wolfcamp application fails on its merits because it would undisputedly strand the S/2NW/4 of Section 26. *See* AO II Ex. B.4 (showing that the PR 201H as proposed does not penetrate the S/2NW/4 of Section 26). Thus, PR's attempt to move forward with a 400-acre spacing unit application is unavailing. Because PR failed to comply with the Division's direction to file an amended application in Case 25835, and failed to re-notice the amended application as required by the Division, there can be no justification that would support any course of action other than dismissal.

## II. THE DIVISION'S FACTORS STRONGLY WEIGH IN AO II'S FAVOR.

AO II and PR propose competing development of Section 23 and the N/2 of Section 26, Township 20 South, Range 32 East, Lea County, New Mexico (the "Spicy Chicken acreage"). AO II's and PR's plans each include both 1.5-mile laterals, extending from Section 23 into the N/2 of Section 26 (the "1.5 Mile Units"), as well as laterals only in Section 23 (the "Section 23 Units" being AO II Case No. 25831 and PR Case Nos. 25836/25837). The Commission and Division have identified the following factors to evaluate competing applications, which weigh in AO II's favor:

a. A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property.
b. A comparison of the risk associated with the parties' respective proposal for the exploration and development of the property.
c. A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort.
d. A comparison of the ability of each party to prudently operate the property and, thereby, prevent waste.
e. A comparison of the differences in well cost estimates (AFEs) and other operational costs presented by each party for their respective proposals.
f. An evaluation of the mineral interest ownership held by each party at the time the application was heard.
g. A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").

*See* Order R-21826, ¶ 12.

### A. Working Interest Control Strongly Favors AO II.

AO II should be awarded operatorship because it is undisputed that AO II has significant majority working interest and working interest control in both the Section 23 Units and the 1.5 Mile Units. *See* Tr.V.1 p. 208; *see also* AO II Ex. A-4. The Division has repeatedly held that "[i]n the absence of compelling factors…working interest control…should be the controlling factor in awarding operations." Order R-21826, ¶ 21 (quoted authority omitted). In the Section 23 Units, AO II has 94.81% working interest control and 82.02% working interest ownership. PR has only

1.74% working interest ownership and, at most, PR only has 5.19% working interest control.[3] *See* AO II Ex. A-4. This overwhelming imbalance in working interest control means that AO II must be awarded operatorship of Section 23 under Division precedent. *See* Order R-21826, ¶ 19 (evidence of 96.09% working interest control, as compared to 3.91%, "strongly favor[ed]" awarding operatorship to the majority working interest owner/operator). If PR's applications are granted, AO II would lose operatorship of 606.78 net mineral acres in Section 23, *see* AO II Ex. A.13, where PR only owns or controls 30.13 net mineral acres. In addition, AO II operates a well is Section 23. PR has not and cannot establish that AO II should be ousted from operating acreage where it controls 606.78 mineral acres and operates a well.

AO II also has nearly double majority working interest and working interest control in the 1.5 Mile Units. AO II has 64.04% working interest control and 54.68% majority working interest ownership.[4] *See* AO II Ex. A-4. In contrast, PR only has 32.99% working interest ownership and only 35.29% working interest control even with Diaga's 0.32%. Given the "clear difference" between AO II's 64.04% working interest control and PR's 35.29% working interest control, AO II must be awarded operatorship of the 1.5 Mile Units. *See* Order R-21800, ¶¶ 20, 22 (62.5% versus 37.5% was a "clear difference" between competing parties). In addition, because operatorship of Section 23 so strongly favors AO II, it only makes sense to award operatorship of Section 23 and the 1.5 Mile Units to the same operator—AO II.

Unable to dispute AO II's majority working interest and control, PR advanced a hypothetical working interest ownership calculation based on an Assignment of Overriding

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[3] This assumes PR is credited with Diaga Mineral Group's ("Diaga") 0.048% interest. Diaga has signed both AO II's and PR's JOA. Tr.V.1 p.45:7-20.

[4] AO II credits Petrolux, Inc. as having an interest in the N/2 of Section 26 committed AO II. Tr.V.1 p. 46:10-23. While PR disputed that fact, PR did not introduce any documentary evidence in support of PR's belief that Petrolux's interest should be credited to PR, which PR could have done as rebuttal evidence, but did not.

Royalty and Options (the "Option Agreement"). *See, e.g.*, PR Ex. A-6 (PR table "assumes" conversion). As AO II established, the Option Agreement provides the option to an overriding royalty interest owner ("ORRI") to convert to a working interest, which option must be exercised in writing, and which must be recorded. *See* AO II Rebut. Ex. A.4. It is undisputed that only one ORRI has exercised the option—TD Minerals, which is committed to AO II. Tr.V.1 p.52:1-4. PR's exhibits confirm that at least one ORRI does not intend to convert its ORRI. PR Ex. A-10. Simply put, PR's working interest calculations are irrelevant[5]—they do not assist the Division in determining working interest ownership and control, which is to be assessed at the time the applications are filed[6]—not some future, hypothetical date. Even if the Division gives PR's assumptions any weight, AO II still has the clear majority under PR's hypothetical scenario and therefore AO II must be awarded operatorship. *See* AO II Rebut. Ex. A.4.

**B. The Geologic Evidence Strongly Favors AO II.**

The primary differences between the parties' applications are (1) AO II intends to initially develop the Avalon and Lower Wolfcamp, (2) PR intends to initially develop the Second Bone Spring Shale, and (3) AO II and PR propose different well densities in certain benches.

*1. AO II's Plans to Initially Target the Avalon and Lower Wolfcamp Are Viable.*

There is no dispute that the Avalon is prospective from a geologic perspective, which PR acknowledged. *See* Tr.V.2 p.12:2-3; p. 19:1-2. With respect to the Lower Wolfcamp, PR did not include any exhibits purporting to show that it is not prospective. Thus, AO II's evidence establishing that the Lower Wolfcamp is a prospective target is undisputed. AO II Ex. B, ¶¶ 18-

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[5] Division Rule 19.15.4.17 authorizes the Division to exclude immaterial or otherwise unreliable evidence and, although not strictly applicable, the Division may rely on the Rules of Evidence in Division proceedings.

[6] *See* Rule 19.15.14.12.A(1)(a) (notice must be given to those "whose interest is evidenced by a written conveyance document or know to the applicant *at the time the applicant filed the application*" (emphasis added)); Order R-21826, ¶ 12 (working interest factor evaluates "the mineral interest ownership held by each party at the *time the application was heard*) (emphasis added)).

21, 23; AO II. Ex B.13-B.15. Targeting these prospective benches is part and parcel of AO II's Spicy Chicken near-term development plans. AO II Ex. A.5. PR, to the contrary, admits that does not have these wells on its drill schedule, it wants to "sit and wait" at least 12-16 months before it develops the Avalon, Tr.V.2 p. 19, 163, and was not willing to commit to developing the Lower Wolfcamp at all. *See id.* p. 13-14, 21, 106-107.

AO II's expert testimony and exhibits make clear that the Avalon can and should be developed in the near term. *See* Tr.V.1 p. 87-88, 158-159 (discussing AO II's nearly 10 years' experience with Avalon, including drilling a Sandra Jean well that PR's exhibits demonstrate is an excellent well, *see* PR. Ex. C-9). In response, PR raised only a hypothetical issue regarding AO II's proposed Avalon spacing based on the decreased rock quality moving from east to west. PR Ex. B-20 and C-9. PR, however, provided no type curves or other data in support of its contention and thus the Division need not consider it. Beyond that, it is undisputed that other operators in the immediate vicinity are targeting the Avalon, including directly north of Spicy Chicken. *See* Tr.V.1 p. 87-88; p.123:17-23; AO II Reb. Ex. B.1.

PR's primary complaint is that, according to PR, the Avalon and Lower Wolfcamp are untested in this area. Tr.V.2 p. 37, p. 13, p. 106. However, the same is even more true of the Second Bone Spring Shale. In fact, the evidence contradicts PR's reluctance to develop the Avalon *and* its rush to develop the Second Bone Spring Shale. Operators other than AO II are developing the Avalon in the area around Spicy Chicken. Conversely, the only operator currently targeting the Second Bone Shale is PR,[7] and in acreage at least six miles away, with different rock quality. Tr.V.1 p. 142-143, 157. Significantly, PR did not develop the Second Bone Spring Shale at Pakse, immediately adjacent to Spicy Chicken. *Id.* p. 124. Given the lack of Second Bone Spring Shale

[7] PR Ex. C.3 identifies Matador as having only three Second Bone Spring Shale wells drilled in 2021 and 2022.

development in the Spicy Chicken area, AO II's decision not to include it as an initial target is amply justified and stands in stark contrast to PR's decision not to initially include the Avalon given offsetting development of the Avalon, including directly north.

2. *PR failed to establish that the Second Bone Spring Shale must be co-developed with the First Bone Spring or that it will be stranded.*

PR's contention that the Second Bone Spring Shale should be co-developed with the First Bone Spring Sand also fails. Significantly, however, PR's own exhibits do not include any PR or other development plans with the spacing that PR is proposing for Spicy Chicken. *See* PR Ex. C-5 (PR Spicy Chicken plan 4 First Bone Spring Sand/2 Second Bone Spring Shale); PR Ex. C-8 (PR other developments are either 4 First Bone Spring Sand/1 Second Bone Spring Shale or 3/3). AO II presented evidence of staggered developments where density like PR's proposal did not show incremental recovery over the five well per section First Bone Spring AO II is proposing. *See* AO II Rebut. Ex. C.3; Tr.V.1 p. 142. At best, there is conflicting evidence on this issue, which does not overcome AO II's significant working interest control. *See* Order R-21826, ¶ 19. In addition, PR's exhibits do not take into account the overall recovery that AO II will achieve from the First Bone Spring Sand as compared to the First Bone Spring Sand/Second Bone Spring Shale development PR is proposing. *See* AO II Rebut. Ex. C.3.

PR failed to present any credible, reliable evidence that the Second Bone Spring Shale will be stranded. Significantly, AO II testified that it could, and would, drill Second Bone Spring Shale wells under the right economic circumstances. *See* Tr.V.1 p. 124, 143, 157, 176. AO II testified, and PR agreed, that there are no geologic or engineering impediments to AO II drilling the Second Bone Spring Shale. Tr.V.1 p. 176 (describing vertical feet of separation); Tr.V.2 p. 133:2-6.

Significantly, the BLM email PR cited at the hearing for PR's contention that the Second Bone Spring Shale in the N/2 of Section 26 will be stranded appears to contradict PR's testimony.

PR testified that BLM "cancelled the drill islands" in the NE/4 of Section 26 and that when PR asked if it could "self-develop" the N/2 of Section 26, "BLM said 'no.'" Tr.V.1 p. 184. PR testified that BLM told PR that BLM cancelled both the Snoddy Drill Islands and the Twinkle Drill Islands. Tr.V.1 p. 236-238. BLM's actual email correspondence with PR, however, tells an entirely different story. *See* PR Ex. A-13.[8] PR only asked about one set of drill islands, those in the NE/4 of Section 26 (the Snoddy drill islands), not two, and, directly contrary to PR's testimony, BLM did not say "no" to PR's self-development concept but instead said that a modification to a development area could be approved with consent from the development operator. *See* PR Ex. A-13. In sum, there are no surface or geologic constraints to developing the Second Bone Spring Shale in the N/2 of Section 26 and PR's stranding argument lacks any merit.

3. *AO II's First and Second Bone Spring Sand Density Is Proven and Prevents Waste.*

Contrary to PR's assertion, AO II's plan for five First Bone Spring and five Second Bone Spring Sand wells is not too dense. AO II's First Bone Spring density is the same as Pakse, right next door to Spicy Chicken. Tr.V.1 p. 143; PR Ex. C-2. PR's Pakse Second Bone Spring sand had six wells per section, where AO II is planning five, which further undermines PR's argument that five wells is too dense.[9] *See* PR Ex. C-2. Additionally AO II demonstrated that five wells per section is supported by offset development because five-well per section spacing performs in-line or better than four-well per section offsets. *See* AO II Rebuttal Ex. C.1; Tr.V.1 p. 142-143, 152-153. Second, AO II refuted PR's overly inflated EUR degradation assumptions for these two targets by demonstrating that neither First nor Second Bone Spring performance in analogue wells

[8] PR did not include its rebuttal exhibits in its revised exhibit packet. Thus, there are two PR Ex. A-13, one that was filed as a rebuttal exhibit and one, which was filed with the revised exhibit packet.

[9] PR's concerns regarding purported degradation with respect to AO II's proposed Second Bone Spring Sand wells that lie entirely within Section 23 fall especially flat given PR's only 1.74% working interest ownership in Section 23. To the extent there is a risk of degradation, which was refuted by AO II, that risk falls principally on AO II, the owner of more than 80% of the working interest and more nearly 95% working interest control in Section 23.

showed any material degradation between the child and parent wells, even under a worst-case interference scenario not presented by AO II's development plans. *See* AO II Rebut. Ex. C.1, C.2 and supporting data; Tr.V.1 p. 139-141. AO II estimated a 13% to 17% degradation, which is more consistent with offsetting analogues. *See* AO II Ex. C-3, AO II Rebut. Ex. C-2; Tr.V.1 p. 172.

PR's reliance on purported degradation as a reason to deny AO II's applications fails because PR is proposing Spicy Chicken wells with the same or even closer proximity to the Pakse parent wells, which PR acknowledged. Tr.V.1 p. 141-142; Tr.V.2 p. 125: 8-25; p. 131. In fact, PR's third Wolfcamp well will also be impacted by degradation, meaning PR will have three wells impacted by degradation, as opposed to only two AO II wells. Tr.V.2 p. 124; Tr.V.1 p. 159. More to the point, AO II refuted PR's purported degradation concerns by demonstrating that AO II's additional First and Second Bone Spring wells will result in recovery of additional reserves that PR is leaving behind. Based on AO II Exhibit C.3, AO estimates it will recover an additional 450 MBO from the additional First Bone Spring well and an additional 300 MBO from the additional Second Bone Spring well.

**C. AO II's Development Plan Prevents Waste Whereas PR's Plan Results in Waste.**

AO II's near-term plan to include the Avalon and Lower Wolfcamp, along with drilling extra First and Second Bone Spring Sand wells means that AO II's development plan results in materially higher unit recovery, preventing waste. *See* Order R-21800, ¶ 22 (considering "evidence demonstrating greater recovery"). Specifically, AO II's development plan on a unit basis is estimated to recover 14.7 MMBO, while PR's is estimated to recover 8.7 MMBO (which it would actually now be lower given that this calculation includes the additional Wolfcamp well (201H) no longer before the Division). *See* AO II Ex. C.3. Put another way, granting PR's applications will result in 40% lower unit recovery, which results in waste and negatively impacts AO II's correlative rights, as well as the other working interest owners' correlative rights. PR, using AO II's Exhibit C-3, estimated that AO II will recover 2250 MBO from the Avalon and that AO II would recover 2440 MBO from the Lower Wolfcamp. PR Ex. C-16. PR, however, admits it does not intend to develop the Avalon for at least 12-16 months and may never develop the Lower Wolfcamp. *See* Tr.V.2 p. 163; *see id.* p. 13-14, 21, 106-107. As a result, AO II's development plan is more protective of PR's and the other working interest owners' correlative rights—PR will benefit from AO II's development of additional benches that PR is leaving behind. Because AO II intends to develop more reserves in the near term, AO II's plan is also more beneficial from a royalty and tax perspective.

PR's purported economic analysis comparing PR's plans to AO II's plans should be given little, if any weight, because they are unreliable.[10] PR's "Primary Target" Exhibit C-5 illustrates the flaws that permeate PR's economic analysis. *See* Tr.V.2 p.114-119. First, PR intentionally limited its analysis to only those benches PR is targeting, leaving out the Avalon and Lower Wolfcamp, which are relevant to the Division's overall evaluation of which plan will more fully develop all of the reserves underlying Spicy Chicken acreage. While PR faults AO II for not preparing an economic analysis,[11] PR did not initially prepare an apples-to-apples comparison of unit production, which AO II did in Exhibit C.3. If PR did a full comparison, even using the unsupported MBOE per well figure PR attributes to AO II, AO II's total resource recovery increases from 7,801 to 12,481,[12] which amounts to 2825 MBOE more than PR's MBOE. PR's

[10] PR Exhibits C-7, C-10, C-11 are unreliable because the AFEs upon which PR relies do not include costs associated with H2S treatment or do not reflect AO II's updated AFE costs. PR Exhibit C-11 is also unreliable because PR's development plan is no more optimal from a purported degradation risk, than AO IIs. PR Exhibit C-10 does not reflect that PR's third Wolfcamp well is subject to degradation and PR should have, but did not, include a base and degraded scenario, similar to that in its other exhibits. Also, given that Case 25835 must be dismissed, Exhibit C-10 no longer accurately depicts PR's ripe Wolfcamp applications (now only two Wolfcamp wells). *See, e.g.*, Tr.V.1 p. 160-161.

[11] PR's economic analysis is all based on differences in AFE costs, which the Division has stated "are not significant factors in awarding operations." Order R-10731-B, ¶ 23(j).

[12] Calculated by multiplying 520 MBOE times 9, the total number of Avalon and Lower Wolfcamp wells AO II is

rebuttal Exhibit C-16, which purports to do a total volume comparison, confirms AO II's plans result in more recovery, even without taking into account AO II's Penn wells.

PR's conclusion that its development plan will create greater value rests on PR's purported reduced CAPEX and optimal well design. The Gross CAPEX upon which PR relies does not reflect either parties' actual expenses. With respect to AO II's costs, AO II's estimated costs have decreased, as reflected on AO II Rebuttal Exhibit C.5. In addition, AO II's AFE costs include the costs attributable to H2S management, while PR's do not. Tr.V.1 p. 170:15-18; Tr.V.2 p.163-164. Thus, PR's gross CAPEX reflected in the Primary Target slide does not reflect PR's actual costs to fully develop the Spicy Chicken acreage, rendering the value creation and severance and ad valorem tax calculations inaccurate. In terms of well design, PR's point here, although not expressly stated, is likely based on PR's contention that AO II's extra First Bone Spring and Second Bone Spring wells will be allegedly subject degradation. As discussed above, however, and as admitted by PR, those same degradation factors would apply to three of PR's easternmost Spicy Chicken wells. Tr.V.2 p. 124:18-23. Because it does not appear that PR applied any degradation factor to its own wells, the Primary Target slide is necessary inaccurate and unreliable.

The Primary Targets exhibit is also unreliable because it does not include any back up data demonstrating how PR calculated the MBOE nor does PR include any back up data supporting how PR calculated that it would recover 9,595 BOE with 14 wells, yet AO II would only recover 7,801 with 15 wells. *See* Tr.V.1 p. 155-156. PR's MBOE calculations are also internally inconsistent: PR predicts on the Primary Recovery slide that PR will recover 690 MBOE per well. Yet, on the page, PR predicts it will recover 867 MBOE per Second Bone Spring well. PR provides no rationale to support nearly 200 more MBOE from the Second Bone Spring wells than from the

proposing. This figure would be even higher taking into account AO II's Penn wells.

other wells. Perhaps if PR had "shown its work," AO II and the Division could understand PR's justification for the discrepancies in MBOE but without any back up data, the only conclusion is PR's calculations are inaccurate and unreliable. *See* Tr.V.2 p. 127:8; p. 115-116, 118:11-15.[13]

**D. AO II's Development Plan Reduces Risk.**

PR's "sit and wait" approach with respect to the Avalon and Lower Wolfcamp creates risk. PR's delay in developing these benches will have negative economic impacts, which PR acknowledged, because of the losses attributable to no net present value of developing the reserves. *See* Tr.V.2 p. 65:11-15; p. 136-137; *see also* Tr.V.1 p. 163-164. Even more importantly, given PR's unwillingness to commit to developing these benches, there is a risk that PR will never develop them, leading to waste and negatively impacting correlative rights. *See* Tr.V.1 p. 89. This risk is especially apt with respect to the Section 23 Units, where PR is planning fewer wells and is proposing u-turn wells on acreage that AO II owns and controls nearly 95%. Tr.V.1 p. 156.

AO II's plans to develop the Avalon are not risky. AO II has extensive experience with the Avalon and managing for H2S. Tr.V.1 p. 88-89, 134-135. AO II has partnered with an experienced sour gas off-taker, and since the hearing concluded, has executed that contract. PR's concerns regarding P110 casing were refuted by AO II's testimony reflecting AO II's experience with H2S and the use of P110 casing. Tr.V.1 p. 170-171. PR was also unaware that other operators in the area are using P110 casing for Avalon wells. *See* Tr.V.2 p. 143. The XTO Big Eddy example PR cited was not necessarily tied to casing, as PR acknowledged. Tr.V.1 p. 172: 1-3, Tr.V.2 p. 144.

**E. AO II Demonstrated It Is Ready to Timely Locate and Operate Wells.**

AO II is better situated to timely locate wells on the surface and operate. AO II has Avalon, Bone Spring, Wolfcamp, and Upper Penn wells[14] on its near term drill schedule—in total AO II

[13] PR's SBSG Shale Adds Value exhibit is similarly flawed. *See* Tr.V.2 p. 121.
[14] Although not part of the contested cases, AO II has filed its application for four additional Penn wells (Case No.

has 28 wells that it is ready to drill. AO II Ex. A-5. AO II is also developing the same benches right next door in its Thai Curry and Triple Stamp developments. PR, to the contrary, is only targeting the Bone Spring and Upper Wolfcamp, with fewer wells. PR no longer has a ripe case for a W/2 Upper Wolfcamp unit nor does PR have an application for any Penn wells. AO II is also further along in its plan to operate on the surface. *See, e.g.*, Tr.V.1 p. 134-135; AO II Ex. C.4. AO II has contracts in place for oil takeaway, has now finalized the gas and sour gas takeaway contract, and has dedicated infrastructure to deal with water, including a fully permitted water recycling facility. *See id.* PR, however, is not ready to develop the Avalon—PR will have to build an additional central tank battery and will need sour gas gathering. Tr.V.2 p.162-164. Because PR's current plans do not include infrastructure necessary to handle H2S, PR's facilities testimony and exhibits do not present the whole picture of what will be required to fully develop this acreage. AO II and PR both have pending BLM APDs, which AO II understands will be issued upon resolution of this contested hearing. Tr.V.1 p.136.

**F. Good Faith Negotiations and AFE Costs Favor AO II or Are Neutral.**

PR testified that AO II negotiated in good faith with PR, and thus this factor either favors AO II or is neutral. Tr.V.1 p. 230. AO II negotiated with PR right up until the Friday before the contested hearing, when AO II sent PR a follow up proposal, to which AO II has never received a response. *See* AO II Ex. A.6. In addition, AO II negotiated with other working interest owners in good faith by acquiring their interests or reaching voluntary joinder. *See* AO II Ex. A.7.

The costs factor favors AO II, even though AO II's AFEs are slightly higher, because they already include the costs attributable to managing the H2S in the Avalon. Tr.V.1 p.170-171. If PR ever decides to drill the Avalon, it will incur additional costs not currently reflected in PR's AFEs.

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26190), bringing AO II's total Spicy Chicken well count to 28. PR testified that it may drill Penn wells "eventually," Tr. V.2 p. 14, but is not sure when, *id.* at 106-107.

*See* Tr.V.2 p. 70, 164; PR Ex. C-17. In any event, costs "are not significant factors in awarding operations." Order R-10731-B, ¶ 23(j).

## III. PR'S APPLICATIONS ARE FLAWED AND CANNOT BE GRANTED.

None of PR's cases are ripe because, while PR seeks to pool Chief Capital (O&G) LLC ("Chief"), *see* PR Ex. A-6, PR failed to send Chief notice of the pooling cases, *see* PR Ex. E-2. Therefore, PR will have to refile to pool Chief. PR cases 25834, 25837, 25838, 25843 are also not ripe due to lack of notice with respect to overlapping the Baetz 23 Federal #001 well, because there is no evidence that PR sent overlapping spacing unit notice with respect to this well. *See* PR Ex. A-6, 143-144; *see* Rule 19.15.16.15B(9)(b) and 19.15.15.12.B. Thus, PR must take further action on the overlapping spacing unit issue. *See* Tr.V.1 p. 215, 217.

AO II also renews its argument that all PR's Bone Spring applications should be dismissed because none of them accurately describe the actual interval that PR seeks to pool. *See* Tr.V.1 p. 73-75. The depth severance description in the applications is legally significant because where the depth severance occurs defines which interests should and should not be pooled within a particular spacing unit. PR's failure to accurately describe the spacing unit's legal description in its Bone Spring applications, which was then repeated in the Division's website and dockets and in PR's Legal Notice, is a material deficiency and those applications must be dismissed. *See* OCD Material Changes or Deficiencies Policy; *see* Jan. 8, 2026 Docket here; April 21, 2026 Docket here.

## IV. CONCLUSION

AO II's applications must be granted and PR's denied because AO II has far and away the majority working interest ownership and control, and AO II has a tested development plan with more wells, targeting more benches, and ultimately recovering more reserves. AO II's plans thus protect correlative rights and prevent waste, whereas PR's plans do not.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that on July 14, 2026, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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