

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

**APPLICATIONS OF PERMIAN RESOURCES  
OPERATING, LLC FOR STANDARD HORIZONTAL  
SPACING UNIT AND COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO**

**CASE NOS. 25283-25284  
ORDER NO. R-23869**

**ORDER**

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on May 27, 2025, and after considering the testimony, evidence, and recommendation of the Hearing and Technical Examiners, issues the following Order.

**FINDINGS OF FACT**

1. These cases involve compulsorily pooling applications filed by Permian Resources Operating, LLC (“PR”). MRC Permian Company and MRC Delaware Resources (collectively referred to as “MRC”) object to PR’s applications on the ground that the proposed development partially overlaps with acreage that MRC controls under a Joint Operating Agreement (“JOA”). These cases were consolidated for hearing and a single order is being issued for the consolidated cases.
2. PR has the right to drill within the proposed spacing units, and seeks to be named operator of its proposed wells and spacing units.
3. PR submitted two (2) applications under case numbers 25283 and 25284, each of which is to compulsorily pool the uncommitted oil and gas interests in the Bone Spring formation. Together these cases are comprised of approximately 640 acres, described as (“Subject Lands”):

Township 20 South, Range 27 East, N.M.P.M.

Section 7: South half equivalent of irregular Section 7

Section 8: South half

4. PR’s applications were for the Avalon; Bone Spring, North [3712] oil pool under statewide rules.
5. In case No. 25283, PR proposed a 320-acre, more or less, horizontal spacing unit in the north half south half equivalent of irregular Section 7 and the north half south half of Section 8 within the Subject Lands for the following well: Fiero 7 Fed Com No. 133H to target the Third Bone Spring sand.
6. In case No. 25284, PR proposed a 320-acre, more or less, horizontal spacing unit in the south half south half equivalent of irregular Section 7 and the south half

south half of Section 8 within the Subject Lands for the following well: Fiero 7 Fed Com No. 134H to target the Third Bone Spring sand.

7. MRC did not file competing applications for compulsorily pooling stating that 100% of the working interest for MRC's proposed Becky project was committed to MRC via a Joint Operating Agreement ("JOA") dated February 7, 1964. MRC's proposed Becky project area is comprised of approximately 360 acres, described as ("Becky"):

Township 20 South, Range 27 East, N.M.P.M.

Section 8: Southeast quarter

Section 9: Southwest quarter, Northwest quarter of the Southeast quarter

8. The Subject Lands proposed in PR's applications overlap MRC's proposed Becky project in the southeast quarter of Section 8, equivalent to twenty five percent of PR's proposed Fiero 7 Fed Com ("Fiero") development acreage.
9. Other acreage considered are an unleased federal tract in the southwest quarter of the southeast quarter of Section 9 and the east half of the southeast quarter of Section 9 with unidentified interest owners. These 120 acres are east of and adjacent to MRC's proposed Becky project area and were contemplated as being potentially stranded.
10. PR presented three witnesses in support of its applications:
  - a. Ryan Curry, Landman
  - b. Chris Cantin, Geologist
  - c. Sam Hamilton, Reservoir Engineer
11. MRC presented three witnesses in support of its objection to PR's applications:
  - a. Clay Wooten, Landman
  - b. Andrew Parker, Geologist
  - c. Tanner Schulz, Reservoir Engineer
12. The Oil Conservation Commission ("Commission") and OCD have developed several factors they "may consider" in evaluating competing compulsory pooling applications which are listed as follows:
  - 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").

#### Geological Evidence:

- 13. PR proposed two 2-mile laterals in the third Bone Spring drilled from east to west. PR is an active operator of Bone Spring wells in the immediate area. *See* PR Exhibits C-3 and C-4. PR made efforts to accommodate MRC's request to surface on the west rather than the east but were unable to find a suitable location for multiple reasons including the occurrence of karst. *See* Transcript ("Tr.") (May 27, 2025), 69:2-21
- 14. MRC proposed two hypothetical development plans for their Becky project, but has not taken any action to pursue either plan. *See* Transcript Tr. (May 27, 2025), 236:17 - 239:5. MRC became the operator of a contract area under a 1964 legacy JOA through a merger and the lands encompassed by the JOA are of an irregular shape (*See* MRC Exhibit A-5) leading to the 120 acres of land in the southeast quarter of Section 9 that are not covered by the JOA and the possibility of that acreage being stranded to the east of MRC's proposed Becky project. However, since MRC became operator of the JOA in 2015, MRC has not taken any steps to avoid this outcome. *See* PR Rebuttal Exhibit A-11. *See also* MRC Exhibit A, ¶ 15.
- 15. OCD finds that PR's applications support a viable development plan in the Subject Lands.

#### Risk and Development:

- 16. PR has been actively progressing its proposed Fiero development plan since May of 2024. *See* PR Exhibit A-7.
- 17. MRC's exhibits contain hypothetical rather than competing proposals (*See* MRC Exhibits A-3 and A-4) and MRC has not taken any action as operator of the 1964 legacy JOA to develop those lands.
- 18. OCD finds that PR presented an executable development plan while MRC did not.

#### Negotiations:

- 19. MRC requested that PR surface on the west side of their proposed spacing unit and either drill 1.5 mile laterals or, alternatively, continue drilling through the lands in MRC's proposed Becky project. *See* Tr. (May 27, 2025), 114: 15-22. PR was unable to find a suitable area for a surface location to the west and, additionally, drilling through the lands in MRC's proposed Becky project would lead to the certain stranding of the 120 acres of land in the southeast quarter of Section 9

adjacent to MRC's proposed Becky project as Mewbourne has a Bone Spring development in Sections 10, 11, and 12 in the same Township.

20. OCD finds that PR made efforts to negotiate in the Subject Lands, but was unable to fulfill MRC's requests.

Prudent Operatorship:

21. PR's applications align with prudent development in the Subject Lands and address aspects of safety, minimization of waste, and avoidance of the loss of a fee lease.
22. MRC's Reservoir Engineer testified that it would be prudent to pursue inclusion of the 120 acres east of and adjacent to MRC's proposed Becky project area that were contemplated as being potentially stranded in a future, non-hypothetical development proposal. *See* Tr. (May 27, 2025), 291: 10-17.
23. OCD finds that PR is acting as a prudent operator in association with these cases.

Comparison of Cost:

24. PR proposes a supervision cost of \$10,000 per month while drilling and \$1,000 per month while producing, and a risk charge of 200%. PR's cost estimation for an individual well is approximately \$9 million.
25. MRC did not provide cost estimates for any proposed development.
26. OCD finds PR's costs to be representative of the proposed development.

Working Interest:

27. PR has 56.2 percent interest in the proposed unit within the Subject Lands where the second highest interest is 18.7 percent. PR has obtained voluntary joinder from parties in the proposed unit to the extent that PR is seeking to compulsory pool approximately 13.9 percent of the interest.
28. MRC has approximately 7.2 percent interest in the proposed spacing unit and does not own any interest in Tract One of the proposed unit which is three quarters of the proposed unit. MRC was unable to reach an agreement with PR during negotiations and subsequently objected to PR's proposed development based solely on the 1964 legacy JOA which MRC states provides them with 100 percent controlling interest of the overlapping acreage in the southeast quarter of Section 8, or one quarter of PR's proposed spacing unit. However, other interest owners in the overlapping acreage have signed superceding JOA's with PR thus agreeing to voluntary joinder for PR's Fiero development. Further, the Division has authority to approve PR's applications for compulsory pooling in these cases as evidenced by Order No. R-14140 issued in Case No. 15433 in which Matador Production

Company's application for compulsory pooling was approved in a scenario that mirrors PR's applications as they relate to a legacy JOA and pooling.

29. OCD finds that PR has the majority working interest in the proposed Fiero spacing unit and is seeking to pool approximately 13.9 percent of the interest in the Subject Lands.

Surface Factor:

30. PR's proposed Fiero spacing units are within close proximity to other existing PR developments placing hydrocarbon and produced water take-away points as to reduce surface disturbance and waste. *See* PR Exhibit C-9.
31. MRC has not taken any action as operator of the 1964 legacy JOA to develop those lands since it assumed operatorship in 2015 with this JOA being the basis for MRC's objection to these cases. *See* PR Rebuttal Exhibit A-11.
32. OCD finds that PR is an active operator in the area of the Subject Lands and has been working to further its proposed Fiero development for over a year. *See* PR Exhibit A-7.

Conclusion:

33. OCD finds PR's proposal will result in effective recovery of hydrocarbons while preventing waste and protecting the correlative rights of the interest owners in the Subject Lands.
34. PR will dedicate the well(s) described in Exhibit A ("Well(s)") to the Unit.
35. PR proposes the supervision and risk charges for the Well(s) described in Exhibit A.
36. PR identified the owners of uncommitted interests in oil and gas minerals in the Unit and provided evidence that notice was given.

**CONCLUSIONS OF LAW**

37. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.
38. PR is the owner of an oil and gas working interest within the Subject Lands.
39. PR satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.
40. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.

41. PR has the right to drill the Well(s) to a common source of supply at the depth(s) and location(s) in the Subject Lands described in Exhibit A.
42. The Subject Lands contain separately owned uncommitted interests in oil and gas minerals.
43. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Subject Lands.
44. The pooling of uncommitted interests in the Subject Lands will prevent waste and protect correlative rights, including the drilling of unnecessary wells.
45. This Order affords to the owner of an uncommitted interest the opportunity to produce his just and equitable share of the oil or gas in the pool.

### **ORDER**

46. The uncommitted interests in each Unit within the Subject Lands are pooled as set forth in Exhibit A.
47. The Units within the Subject Lands shall be dedicated to the Well(s) set forth in Exhibit A.
48. PR is designated as operator of each Unit within the Subject Lands and the Well(s).
49. If the location of a well will be unorthodox under the spacing rules in effect at the time of completion, PR shall obtain the OCD's approval for a non-standard location in accordance with 19.15.16.15(C) NMAC.
50. If a Unit is a non-standard horizontal spacing unit which has not been approved under this Order, PR shall obtain the OCD's approval for a non-standard horizontal spacing unit in accordance with 19.15.16.15(B)(5) NMAC.
51. PR shall commence drilling the Well(s) within one year after the date of this Order, and complete each Well no later than one (1) year after the commencement of drilling the Well.
52. This Order shall terminate automatically if PR fails to comply with the preceding paragraph unless PR requests an extension by notifying the OCD and all parties that required notice of the original compulsory pooling application in accordance with 19.15.4.12.B and 19.15.4.12.C NMAC. Upon no objection after twenty (20) days the extension is automatically granted up to one year. If a protest is received the extension is not granted and PR must set the case for a hearing.
53. PR may propose reasonable deviations from the development plan via notice to the OCD and all parties that required notice of the original compulsory pooling application in accordance with 19.15.4.12.B and 19.15.4.12.C NMAC. Upon no

objection after twenty (20) days the deviation is automatically granted. If a protest is received the deviation is not granted and the Operator must set the case for a hearing.

54. The infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC shall be applicable.
55. PR shall submit each owner of an uncommitted working interest in the pool ("Pooled Working Interest") an itemized schedule of estimated costs to drill, complete, and equip the well ("Estimated Well Costs").
56. No later than thirty (30) days after PR submits the Estimated Well Costs, the owner of a Pooled Working Interest shall elect whether to pay its share of the Estimated Well Costs or its share of the actual costs to drill, complete and equip the well ("Actual Well Costs") out of production from the well. An owner of a Pooled Working Interest who elects to pay its share of the Estimated Well Costs shall render payment to PR no later than thirty (30) days after the expiration of the election period, and shall be liable for operating costs, but not risk charges, for the well. An owner of a Pooled Working Interest who fails to pay its share of the Estimated Well Costs or who elects to pay its share of the Actual Well Costs out of production from the well shall be considered to be a "Non-Consenting Pooled Working Interest."
57. No later than one hundred eighty (180) days after PR submits a Form C-105 for a well, PR shall submit to each owner of a Pooled Working Interest an itemized schedule of the Actual Well Costs. The Actual Well Costs shall be considered to be the Reasonable Well Costs unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Reasonable Well Costs after public notice and hearing.
58. No later than sixty (60) days after the expiration of the period to file a written objection to the Actual Well Costs or OCD's order determining the Reasonable Well Costs, whichever is later, each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs shall pay to PR its share of the Reasonable Well Costs that exceed the Estimated Well Costs, or PR shall pay to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs its share of the Estimated Well Costs that exceed the Reasonable Well Costs.
59. The reasonable charges for supervision to drill and produce a well ("Supervision Charges") shall not exceed the rates specified in Exhibit A, provided however that the rates shall be adjusted annually pursuant to the COPAS form entitled "Accounting Procedure-Joint Operations."
60. No later than within ninety (90) days after PR submits a Form C-105 for a well, PR shall submit to each owner of a Pooled Working Interest an itemized schedule of the reasonable charges for operating and maintaining the well ("Operating

Charges"), provided however that Operating Charges shall not include the Reasonable Well Costs or Supervision Charges. The Operating Charges shall be considered final unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Operating Charges after public notice and hearing.

61. PR may withhold the following costs and charges from the share of production due to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs: (a) the proportionate share of the Supervision Charges; and (b) the proportionate share of the Operating Charges.
62. PR may withhold the following costs and charges from the share of production due to each owner of a Non-Consenting Pooled Working Interest: (a) the proportionate share of the Reasonable Well Costs; (b) the proportionate share of the Supervision and Operating Charges; and (c) the percentage of the Reasonable Well Costs specified as the charge for risk described in Exhibit A.
63. PR shall distribute a proportionate share of the costs and charges withheld pursuant to the preceding paragraph to each Pooled Working Interest that paid its share of the Estimated Well Costs.
64. Each year on the anniversary of this Order, and no later than ninety (90) days after each payout, PR shall provide to each owner of a Non-Consenting Pooled Working Interest a schedule of the revenue attributable to a well and the Supervision and Operating Costs charged against that revenue.
65. Any cost or charge that is paid out of production shall be withheld only from the share due to an owner of a Pooled Working Interest. No cost or charge shall be withheld from the share due to an owner of a royalty interests. For the purpose of this Order, an unleased mineral interest shall consist of a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest.
66. Except as provided above, PR shall hold the revenue attributable to a well that is not disbursed for any reason for the account of the person(s) entitled to the revenue as provided in the Oil and Gas Proceeds Payment Act, NMSA 1978, Sections 70-10-1 *et seq.*, and relinquish such revenue as provided in the Uniform Unclaimed Property Act, NMSA 1978, Sections 7-8A-1 *et seq.*
67. A Unit in the Subject Lands shall terminate if (a) the owners of all Pooled Working Interests in that Unit reach a voluntary agreement; or (b) the well(s) drilled on the Unit are plugged and abandoned in accordance with the applicable rules. PR shall inform OCD no later than thirty (30) days after such an occurrence.
68. OCD retains jurisdiction of this matter for the entry of such orders as may be deemed necessary.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Albert Chang*

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ALBERT C.S. CHANG  
DIRECTOR  
AC/asf

Date: 7/3/2025

## Exhibit A

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COMPULSORY POOLING APPLICATION CHECKLIST	
<b>ALL INFORMATION IN THE APPLICATION MUST BE SUPPORTED BY SIGNED AFFIDAVITS</b>	
<b>Case: 25283</b>	<b>APPLICANT'S RESPONSE</b>
<b>Date: May 27, 2025</b>	
Applicant	Permian Resources Operating, LLC
Designated Operator & OGRID (affiliation if applicable)	Permian Resources Operating, LLC (OGRID No. 372165)
Applicant's Counsel:	Hardy McLean LLC
Case Title:	Application of Permian Resources Operating, LLC for Compulsory Pooling, Eddy County, New Mexico.
Entries of Appearance/Intervenors:	MRC Permian Company; COG Operating LLC; Concho Oil & Gas LLC; EOG Resources, Inc.; Powderhorn Operating, LLC
Well Family	Fiero
<b>Formation/Pool</b>	
Formation Name(s) or Vertical Extent:	Bone Spring
Primary Product (Oil or Gas):	Oil
Pooling this vertical extent:	Bone Spring
Pool Name and Pool Code:	Avalon, Bone Spring, North Pool (Code 3712)
Well Location Setback Rules:	Statewide
<b>Spacing Unit</b>	
Type (Horizontal/Vertical)	Horizontal
Size (Acres)	320.00
Building Blocks:	quarter-quarter
Orientation:	East to West
Description: TRS/County	Lot 3, NE/4 SW/4, N/2 SE/4 (N/2 S/2 equivalent) of irregular Section 7, and the N/2 S/2 of Section 8, Township 20 South, Range 27 East, Eddy County.
Standard Horizontal Well Spacing Unit (Y/N), If No, describe and is approval of non-standard unit requested in this application?	Yes.
<b>Other Situations</b>	
Depth Severance: Y/N. If yes, description	N/A
Proximity Tracts: If yes, description	N/A
Proximity Defining Well: if yes, description	N/A
Applicant's Ownership in Each Tract	Exhibit A-5
<b>Well(s)</b>	
Name & API (if assigned), surface and bottom hole location, footages, completion target, orientation, completion status (standard or non-standard) <i>*In lieu of the bottom hole location, Earthstone is providing the State Line Crossing</i>	Add wells as needed
Well #1	Fiero 7 State 133H SHL: 846' FSL & 358' FWL (Unit M), Section 9, T20S-R27E BHL: 1930' FSL & 100' FWL (Lot 3), Section 7, T20S-R27E Completion Target: Third Bone Spring (Approx. 7,880' TVD)
<b>AFE Capex and Operating Costs</b>	
Drilling Supervision/Month \$	\$10,000
Production Supervision/Month \$	\$1,000
Justification for Supervision Costs	Exhibit A-8
Requested Risk Charge	200%
<b>Notice of Hearing</b>	
Proposed Notice of Hearing	Exhibit A-2
Proof of Mailed Notice of Hearing (20 days before hearing)	Exhibits D-1, D-2, D-3
Proof of Published Notice of Hearing (10 days before hearing)	Exhibit D-4
<b>Ownership Determination</b>	
Land Ownership Schematic of the Spacing Unit	Exhibit A-5
Tract List (including lease numbers and owners)	Exhibit A-5
If approval of Non-Standard Spacing Unit is requested, Tract List (including lease numbers and owners) of Tracts subject to notice requirements.	N/A

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Pooled Parties (including ownership type)	Exhibit A-5
Unlocatable Parties to be Pooled	N/A
Ownership Depth Severance (including percentage above & below)	N/A
<b>Joinder</b>	
Sample Copy of Proposal Letter	Exhibit A-8
List of Interest Owners (ie Exhibit A of JOA)	Exhibit A-5
Chronology of Contact with Non-Joined Working Interests	Exhibit A-9
Overhead Rates In Proposal Letter	Exhibit A-8
Cost Estimate to Drill and Complete	Exhibit A-8
Cost Estimate to Equip Well	Exhibit A-8
Cost Estimate for Production Facilities	Exhibit A-8
<b>Geology</b>	
Summary (including special considerations)	Exhibit B
Spacing Unit Schematic	Exhibit B-2
Gunbarrel/Lateral Trajectory Schematic	Exhibit B-6
Well Orientation (with rationale)	Exhibit B
Target Formation	Exhibit B
HSU Cross Section	Exhibit B-3
Depth Severance Discussion	N/A
<b>Forms, Figures and Tables</b>	
C-102	Exhibit A-4
Tracts	Exhibit A-5
Summary of Interests, Unit Recapitulation (Tracts)	Exhibit A-5
General Location Map (including basin)	Exhibit B-2
Well Bore Location Map	Exhibit B-3
Structure Contour Map - Subsea Depth	Exhibit B-4
Cross Section Location Map (including wells)	Exhibit B-3
Cross Section (including Landing Zone)	Exhibit B-5
<b>Additional Information</b>	
Special Provisions/Stipulations	N/A
<b>CERTIFICATION: I hereby certify that the information provided in this checklist is complete and accurate.</b>	
Printed Name (Attorney or Party Representative):	Dana S. Hardy
Signed Name (Attorney or Party Representative):	/s/ Dana S. Hardy
Date:	5/19/2025

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Standard Horizontal Well Spacing Unit (Y/N). If No, describe and is approval of non-standard unit requested in this application?	Yes.
<b>Other Situations</b>	
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<b>Additional Information</b>	
Special Provisions/Stipulations	N/A
<b>CERTIFICATION: I hereby certify that the information provided in this checklist is complete and accurate.</b>	
Printed Name (Attorney or Party Representative):	Dana S. Hardy
Signed Name (Attorney or Party Representative):	/s/ Dana S. Hardy
Date:	5/19/2025