

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

**IN THE MATTER OF APPLICATION FOR
COMPULSORY POOLING SUBMITTED BY
AEP II OPERATING, LLC**

**CASE NO. 25166
ORDER NO. R-23961**

ORDER

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on March 4, 2025, and after considering the testimony, evidence, and recommendation of the Hearing and Technical Examiners, issues the following Order.

FINDINGS OF FACT

1. AEP II Operating, LLC (“Applicant”) submitted an application to compulsory pool the uncommitted oil and gas interests within the spacing unit (“Unit”) described in Exhibit A on October 8, 2024, in Case No. 24944.
2. Applicant submitted an amended application (“Application”) to compulsory pool the uncommitted oil and gas interests within the Unit on January 14, 2025. The Application was amended to request that Paloma Permian AssetCo, LLC (“Paloma”) be designated as the operator of the Unit.
3. Case No. 24944 was dismissed under Order No. R-23668 issued on January 28, 2025.
4. Applicant will dedicate the well(s) described in Exhibit A (“Well(s)”) to the Unit.
5. Applicant proposes the supervision and risk charges for the Well(s) described in Exhibit A.
6. Applicant identified the owners of uncommitted interests in oil and gas minerals in the Unit and provided evidence that notice was given.
7. The Application was heard by the Hearing Examiner on the date specified above, during which Applicant presented evidence through affidavits in support of the Application.
8. Covenant Hercules, LLC, Christian Capstone, LLC, Crusader Royalties, LLC, Chief Capital II, LLC, and American Energy Resources, LLC (“AER”) filed motions to dismiss Case No. 25166. Each motion was denied during the hearing (TR pg. 19 and 39).

9. AER objected to the hearing proceeding by affidavit on January 29, 2025. AER did not present a case in chief or cross examine Applicant's witnesses. AER is the operator of record for the Saik No. 1 well (API No. 30-015-20971) which is in the Northwest quarter of the Northeast quarter of Section 17 in Township 22 South and Range 27 East and is reported to be completed in the Wolfcamp formation ("Saik Well"). At hearing, Applicant presented evidence in the form of affidavits and sworn expert testimony as to whether AER has an interest in the Unit.
 - a. Applicant provided a summary of ownership in the Unit that does not include an interest owned by AER.
 - b. Applicant asserts that AER believes it has interest in the Unit due to its involvement with the Saik Well. Applicant testified that AER does not own wellbore or leaseholder rights in the Unit (TR pg. 92-93).
 - c. Applicant testified that AER does not have an interest in the Unit (TR pg. 93).

10. Warren and Lillie Anderson ("Andersons") objected to the hearing proceeding by affidavit on or about February 11, 2025. In their objection, Andersons stated that Applicant negotiated in bad faith. At hearing, Applicant's expert submitted an affidavit that it negotiated in good faith as follows:
 - a. Applicant was in regular communication with Andersons:
 - i. On August 21, 2024, well proposals were sent.
 - ii. On September 30, 2024, discussions regarding interest and potentially leasing occurred.
 - iii. Between September 2024 and October 8, 2024, ongoing discussions to reach an agreement occurred.
 - b. Andersons own 0.275482 acres of unleased mineral interest in the Unit.
 - c. Applicant offered to lease Andersons' unleased mineral interest for \$3,000 per acre and 25% royalty for a 3-year lease with an option to extend the lease for an additional 2 years for \$3,000 per acre.
 - d. Applicant testified that its lease offer to Andersons was above and beyond fair market value.
 - e. Andersons offered to allow Applicant to lease Anderson's unleased mineral interest for \$12,000 per acre and 50% royalty with an additional payment. It is unclear whether the additional payment was in the amount of \$50,000 or \$100,000 (TR pg. 124-125).
 - f. Applicant testified that it negotiated with Andersons in good faith.

CONCLUSIONS OF LAW

11. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.
12. Applicant is the owner of an oil and gas working interest within the Unit.
13. Applicant satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.
14. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.
15. AER did not provide evidence that demonstrates AER has an interest in the Unit.
16. NMSA 1978, Section 70 does not define what constitutes as “good faith” effort, therefore good faith effort claims are reviewed by OCD on a case-by-case basis. The Oil Conservation Commission issued Order R-21679-D on July 14, 2022, which utilizes criteria established in Order R-13165 issued on September 15, 2009. The relevant part of Findings Paragraph 5 of Order R-13165 states:

*“(d) The issue of compliance with the more subjective requirement the Division has customarily recognized for good faith negotiation is better examined in these cases, and in most cases, at the compulsory pooling hearing, **based upon a full evidentiary record...[emphasis added]**”*

Thus, based upon evidence received at the hearing and in the administrative record, Applicant negotiated with Andersons in good faith.

17. Applicant has the right to drill the Well(s) to a common source of supply at the depth(s) and location(s) in the Unit described in Exhibit A.
18. The Unit contains separately owned uncommitted interests in oil and gas minerals.
19. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Unit.
20. The pooling of uncommitted interests in the Unit will prevent waste and protect correlative rights, including the drilling of unnecessary wells.
21. 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

22. The uncommitted interests in the Unit are pooled as set forth in Exhibit A.
23. The Unit shall be dedicated to the Well(s) set forth in Exhibit A.
24. Paloma is designated as operator of the Unit and the Well(s).
25. If the location of a well will be unorthodox under the spacing rules in effect at the time of completion, Applicant shall obtain the OCD's approval for a non-standard location in accordance with 19.15.16.15(C) NMAC.
26. If the Unit is a non-standard horizontal spacing unit which has not been approved under this Order, Applicant shall obtain the OCD's approval for a non-standard horizontal spacing unit in accordance with 19.15.16.15(B)(5) NMAC.
27. The Applicant 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.
28. This Order shall terminate automatically if the Applicant fails to comply with the preceding paragraph unless the Applicant 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 the Applicant must set the case for a hearing.
29. Applicant 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 Applicant must set the case for a hearing.
30. The infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC shall be applicable.
31. Applicant 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").
32. No later than thirty (30) days after Applicant 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 Applicant 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."

33. No later than one hundred eighty (180) days after Applicant submits a Form C-105 for a well, Applicant 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.
34. 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 Applicant its share of the Reasonable Well Costs that exceed the Estimated Well Costs, or Applicant 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.
35. 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."
36. No later than within ninety (90) days after Applicant submits a Form C-105 for a well, Applicant 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.
37. Applicant 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.

38. Applicant 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.
39. Applicant 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.
40. Each year on the anniversary of this Order, and no later than ninety (90) days after each payout, Applicant 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.
41. 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.
42. Except as provided above, Applicant 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.
43. The Unit shall terminate if (a) the owners of all Pooled Working Interests reach a voluntary agreement; or (b) the well(s) drilled on the Unit are plugged and abandoned in accordance with the applicable rules. Applicant shall inform OCD no later than thirty (30) days after such occurrence.
44. 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

**ALBERT CHANG
DIRECTOR**
AC/dm

Date: 9/8/2025

R-23961 EXHIBIT A

COMPULSORY POOLING APPLICATION CHECKLIST	
ALL INFORMATION IN THE APPLICATION MUST BE SUPPORTED BY SIGNED AFFIDAVITS	
Case: 25166	APPLICANT'S RESPONSE
Date: March 4, 2025 (Scheduled hearing)	
Applicant	Alpha Energy Partners II, LLC
Designated Operator & OGRID (affiliation if applicable)	Paloma Permian AssetCO, LLC, OGRID No. 332449
Applicant's Counsel:	Darin C. Savage, Abadie & Schill, P.C.
Case Title:	APPLICATION OF ALPHA ENERGY PARTNER II, LLC, FOR A COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO
Entries of Appearance/Intervenors:	Covenant Hercules, LLC Christian Capstone, LLC Crusader Royalties, LLC Chief Capital (O&G) II LLC Permian Resources Operating, LLC American Energy Resources LLC Jonathan Samaniego Warren and Lilli Anderson
Well Family	Hollywood Star Fee 17-18
Formation/Pool	
Formation Name(s) or Vertical Extent:	Wolfcamp formation
Primary Product (Oil or Gas):	Gas
Pooling this vertical extent:	Wolfcamp formation
Pool Name and Pool Code:	Purple Sage Wolfcamp; Pool Code: [98220]
Well Location Setback Rules:	Division's Special Rules for the Purple Sage Wolfcamp Pool as established in Order No. R-14262.
Spacing Unit	
Type (Horizontal/Vertical)	Horizontal
Size (Acres)	1267.84-acre, more or less
Building Blocks:	Quarter Sections (160 Acre Blocks)
Orientation:	West to East
Description: TRS/County	All of Section 17 and Section 18, in Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico
Standard Horizontal Well Spacing Unit (Y/N), If No, describe and is approval of non-standard unit requested in this application?	Yes, Standard Spacing Unit
Other Situations	
Depth Severance: Y/N. If yes, description	No, N/A
Proximity Tracts: If yes, description	Yes, S/2 of Sections 17 and 18, T22S-R27E
Proximity Defining Well: if yes, description	Yes, Hollywood Star 17-18 Fee 802H
Applicant's Ownership in Each Tract	See Exhibit A-2, breakdown of ownership
Well(s)	
Name & API (if assigned), surface and bottom hole location, footages, completion target, orientation, completion status (standard or non-standard)	Add wells as needed
Well #1	Hollywood Star 17-18 Fee 701H Well (API No. 30-015-Pending) SHL: Unit L, 1,651' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 4, 724 FSL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown, standard
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 701H Well: FTP: Unit P, 724' FSL, 330' FEL, Section 17, T22S-R27E LTP: Lot 4, 724' FSL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 701H Well: TVD approx. 8,809', TMD 19,150'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #2	Hollywood Star 17-18 Fee 702H Well (API No. 30-015-Pending) SHL: Unit L, 1,671' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 3, 2,024' FSL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown,

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Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee Com 702H Well: FTP: Unit I, 2,024' FSL, 330' FEL, Section 17, T22S-R27E LTP: Lot 3, 2,024' FSL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 702H Well: TVD approx. 8,809', TMD 19,150'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #3	Hollywood Star 17-18 Fee 703H Well (API No. 30-015-Pending) SHL: Unit L, 2,421' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 2, 1,960' FNL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown,
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 703H Well: FTP: Unit H, 1,960' FNL, 330' FEL, Section 17, T22S-R27E LTP: Lot 2, 1,960' FNL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 703H Well: TVD approx. 8,809', TMD 19,150'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #4	Hollywood Star 17-18 Fee 704H Well (API No. 30-015-Pending) SHL: Unit L, 2,441' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 1, 660' FNL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown, standard
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 704H Well: FTP: Unit A, 660' FNL, 330' FEL, Section 17, T22S-R27E LTP: Lot 1, 660' FNL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 704H Well: TVD approx. 8,809', TMD 19,150'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #5	Hollywood Star 17-18 Fee 801H Well (API No. 30-015-Pending) SHL: Unit L, 1,691' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 3, 1,374' FSL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown,
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 801H Well: FTP: Unit I, 1,374' FSL, 330' FEL, Section 17, T22S-R27E LTP: Lot 3, 1,374' FSL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 801H Well: TVD approx. 9,402', TMD 19,725'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #6	Hollywood Star 17-18 Fee 802H Well (API No. 30-015-Pending) SHL: Unit L, 1,711' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 2, 2,610' FNL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown,
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 802H Well: FTP: Unit H, 2,610' FNL, 330' FEL, Section 17, T22S-R27E LTP: Lot 2, 2,610' FNL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 802H Well: TVD approx. 9,402', TMD 19,725'; Wolfcamp formation, See Exhibit A, A-1 & B-2
Well #7	Hollywood Star 17-18 Fee 803H Well (API No. 30-015-Pending) SHL: Unit L, 2,401' FSL, 180' FWL, Section 16, T22S-R27E; BHL: Lot 1, 1,310' FNL, 200' FWL, Section 18, T22S-R27E, NMPM; Eddy County, New Mexico, laydown,
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 803H Well: FTP: Unit A, 1,310' FNL, 330' FEL, Section 17, T22S-R27E LTP: Unit 1, 1,310' FNL, 330' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 803H Well: TVD approx. 9,402', TMD 19,725'; Wolfcamp formation, See Exhibit A, A-1 & B-2

R-23961 EXHIBIT A

AFE Capex and Operating Costs	
Drilling Supervision/Month \$	\$8500, Exhibit A
Production Supervision/Month \$	\$850, Exhibit A
Justification for Supervision Costs	Exhibit A
Requested Risk Charge	200%, Exhibit A
Notice of Hearing	
Proposed Notice of Hearing	Exhibit C, C-1
Proof of Mailed Notice of Hearing (20 days before hearing)	Exhibit C-2
Proof of Published Notice of Hearing (10 days before hearing)	Exhibit C-3
Ownership Determination	
Land Ownership Schematic of the Spacing Unit	Exhibit A-2
Tract List (including lease numbers and owners)	Exhibit A-2
If approval of Non-Standard Spacing Unit is requested, Tract List (including lease numbers and owners) of Tracts subject to notice requirements.	N/A
Pooled Parties (including ownership type)	All uncommitted WI owner; including as shown on Exhibit A-2
Unlocatable Parties to be Pooled	Exhibit A, Para. 20
Ownership Depth Severance (including percentage above & below)	N/A
Joinder	
Sample Copy of Proposal Letter	Exhibit A-3
List of Interest Owners (ie Exhibit A of JOA)	Exhibit A-2
Chronology of Contact with Non-Joined Working Interests	Exhibit A-4
Overhead Rates In Proposal Letter	Exhibit A-3
Cost Estimate to Drill and Complete	Exhibit A-3
Cost Estimate to Equip Well	Exhibit A-3
Cost Estimate for Production Facilities	Exhibit A-3
Geology	
Summary (including special considerations)	Exhibit B
Spacing Unit Schematic	Exhibit B-1, B-3
Gunbarrel/Lateral Trajectory Schematic	Exhibit B-4, B-5
Well Orientation (with rationale)	Exhibit B, B-1, B-3
Target Formation	Exhibit B-2, B-4, B-5
HSU Cross Section	Exhibit B-2, B-4, B-5
Depth Severance Discussion	N/A
Forms, Figures and Tables	
C-102	Exhibit A-1
Tracts	Exhibit A-2
Summary of Interests, Unit Recapitulation (Tracts)	Exhibit A-2
General Location Map (including basin)	Exhibit A-2
Well Bore Location Map	Exhibit A-1, B-1, B-2, B-3
Structure Contour Map - Subsea Depth	Exhibit B-1
Cross Section Location Map (including wells)	Exhibit B-2, B-4, B-5, B-6
Cross Section (including Landing Zone)	Exhibit B-4, B-5, B-6
Additional Information	
Special Provisions/Stipulations	
CERTIFICATION: I hereby certify that the information provided in this checklist is complete and accurate.	
Printed Name (Attorney or Party Representative):	Darin C. Savage
Signed Name (Attorney or Party Representative):	/s/ <i>Darin Savage</i>
Date:	25-Feb-25