

**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. 25496
ORDER NO. R-23989**

ORDER

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on August 27, 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 (“Application”) to compulsory pool the uncommitted oil and gas interests within the spacing unit (“Unit”) described in Exhibit A. Applicant seeks to have Paloma Permian AssetCo, LLC (“Paloma”) designated as the operator of the Unit.
2. Applicant will dedicate the well(s) described in Exhibit A (“Well(s)”) to the Unit.
3. Applicant proposes the supervision and risk charges for the Well(s) described in Exhibit A.
4. Applicant identified the owners of uncommitted interests in oil and gas minerals in the Unit and provided evidence that notice was given.
5. 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.
6. Warren and Lillie Anderson (“Andersons”) objected to the hearing proceeding by affidavit on or about August 5, 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 April 25, 2025, well proposals were sent.
 - ii. On May 8, 2025, well proposals were received.
 - iii. On July 30, 2025, an email was received regarding lease terms.

- iv. Between August 1, 2025 and August 21, 2025, ongoing discussions to reach an agreement occurred.
 - b. Andersons own 0.275482 acres of unleased mineral interest in the Unit (“Andersons’ Acreage”).
 - c. Applicant offered to lease Andersons’ Acreage for \$5,000 (approximately \$18,100 per acre) and 25% royalty for a 3-year lease with an option to extend the lease for an additional two (2) years for \$5,000 (approximately \$18,100 per acre).
 - d. Applicant testified that its lease offer to Andersons was above fair market value.
 - e. Andersons offered to allow Applicant to lease Andersons’ Acreage for:
 - i. \$14,000 per year for the first three (3) years (total of \$42,000 or approximately \$152,400 per acre);
 - ii. \$900 per month for the first three (3) years (total of \$32,400 or approximately \$117,600 per acre);
 - iii. 25% royalty; and
 - iv. \$1.50 per barrel sold from each well (approximately 2,500% royalty when oil is sold at \$70 per barrel).
 - f. Applicant testified that it negotiated with Andersons in good faith.
7. Applicant provided notice of Case No. 25496 to Bobby Anderson rather than Andersons. Applicant submitted an affidavit and testimony regarding this topic as follows:
- a. A title search at the Eddy County courthouse was conducted on or around October of 2024. The results of that title search concluded that Andersons’ Acreage is recorded as being owned by Bobby Anderson.
 - b. Ongoing monitoring of title has indicated that a probate has not been submitted into record showing the transfer of ownership of Andersons’ Acreage to another person.

Andersons submitted testimony regarding this topic as follows:

- c. Bobby Anderson has been deceased for approximately twenty (20) years and Andersons’ Acreage is now owned by Bobby Anderson’s daughter, Lillie Anderson.
- d. A probate indicating the transfer of ownership of Andersons’ Acreage to Lillie Anderson was filed approximately twenty (20) years ago.

CONCLUSIONS OF LAW

8. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.
9. Applicant is the owner of an oil and gas working interest within the Unit.
10. Applicant satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.
11. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.
12. 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.

13. 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.
14. The Unit contains separately owned uncommitted interests in oil and gas minerals.
15. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Unit.
16. The pooling of uncommitted interests in the Unit will prevent waste and protect correlative rights, including the drilling of unnecessary wells.
17. 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

18. The uncommitted interests in the Unit are pooled as set forth in Exhibit A.

19. The Unit shall be dedicated to the Well(s) set forth in Exhibit A.
20. Paloma is designated as operator of the Unit and the Well(s).
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. The infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC shall be applicable.
27. 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").
28. 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."

29. 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.
30. 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.
31. 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."
32. 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.
33. 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.
34. 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.

35. 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.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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
DIRECTOR**

AC/dm

Date: 9/8/2025

R-23989 EXHIBIT A

ALPHA COMPULSORY POOLING APPLICATION CHECKLIST	
ALL INFORMATION IN THE APPLICATION MUST BE SUPPORTED BY SIGNED AFFIDAVITS	
Case: 25496	APPLICANT'S RESPONSE
Date: August 7, 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:	N/A
Well Family	Hollywood Star
Formation/Pool	
Formation Name(s) or Vertical Extent:	Bone Spring formation
Primary Product (Oil or Gas):	Oil
Pooling this vertical extent:	From the top of the Bone Spring formation to the base of the Bone Spring formation, including the Avalon
Pool Name and Pool Code:	Esperanza, Bone Spring; Pool Code: [97755]
Well Location Setback Rules:	Statewide Rules
Spacing Unit	
Type (Horizontal/Vertical)	Horizontal
Size (Acres)	316.92-acre, more or less
Building Blocks:	Quarter-quarter sections (40 Acre Blocks)
Orientation:	East to West
Description: TRS/County	S/2 N/2 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	No, N/A
Proximity Defining Well: if yes, description	N/A
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

R-23989 EXHIBIT A

Well #1	Hollywood Star 17-18 Fee 503H Well (API No. PENDING), SHL: Unit L, 2,383' FSL, 315' FWL, Section 16, T22S-R27E; BHL: Lot 2, 1,980' FNL, 50' FWL, Section 18, T22S-R27E, NMPPM; Eddy County, New Mexico Completion Target: 2nd Bone Spring formation Well Orientation: East to West / Laydown Completion Location: Standard
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 503H Well FTP: Unit H, 1,980' FNL, 100' FEL, Section 17, T22S-R27E LTP: Lot 2, 1,980' FNL, 100' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 503H Well TVD approx. 7,140', TMD approx. 17,800'; 2nd Bone Spring formation, See Exhibit A, A-1 & B-3
Well #2	Hollywood Star 17-18 Fee 553H Well (API No. PENDING), SHL: Unit L, 2,423' FSL, 315' FWL, Section 16, T22S-R27E; BHL: Lot 2, 1,980' FNL, 50' FWL, Section 18, T22S-R27E, NMPPM; Eddy County, New Mexico Completion Target: 3rd Bone Spring formation Well Orientation: East-West / Laydown Completion Location: Standard
Horizontal Well First and Last Take Points	Hollywood Star 17-18 Fee 553H Well FTP: Unit H, 1,980' FNL, 100' FEL, Section 17, T22S-R27E LTP: Lot 2, 1,980' FNL, 100' FWL, Section 18, T22S-R27E
Completion Target (Formation, TVD and MD)	Hollywood Star 17-18 Fee 553H Well TVD approx. 7,860', TMD approx. 18,550'; 3rd Bone Spring formation, See Exhibit A, A-1 & B-3
AFE Capex and Operating Costs	
Drilling Supervision/Month \$	\$10,000, Exhibit A
Production Supervision/Month \$	\$1,000, 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

R-23989 EXHIBIT A

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 owners; ORRI owners; and Record Title owners; including as shown on Exhibit A-2
Unlocatable Parties to be Pooled	Exhibit A, Para. 10, Exhibit C-2 (Returned Letters)
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-2
Gunbarrel/Lateral Trajectory Schematic	Exhibit B-6
Well Orientation (with rationale)	Exhibit B, B-1, B-2
Target Formation	Exhibit B-2, B-2, B-3, B-6, B-7, B-8
HSU Cross Section	Exhibit B-3, B-7, B-8
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, B-2
Cross Section Location Map (including wells)	Exhibit B-3, B-7, B-8
Cross Section (including Landing Zone)	Exhibit B-3, B-6, B-7, B-8
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:	30-Jul-25