

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF PARALLEL PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)

CASE NO. 13,600

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 5th, 2006

Santa Fe, New Mexico

2006 JAN 19 PM 4 24

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 5th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

January 5th, 2006
 Examiner Hearing
 CASE NO. 13,600

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<u>MICHAEL M. GRAY</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 8:31 a.m.:

3 EXAMINER CATANACH: Call Case 13,600, the
4 Application of Parallel Petroleum Corporation for
5 compulsory pooling, Chaves County, New Mexico.

6 Call for appearances.

7 MS. MUNDS-DRY: Good morning, Mr. Hearing
8 Examiner. My name is Ocean Munds-Dry with the law firm of
9 Holland and Hart, here representing Parallel Petroleum
10 Corporation this morning. I have one witness.

11 EXAMINER CATANACH: Any additional appearances in
12 this case?

13 Can I get the witness to stand and be sworn in at
14 this time?

15 (Thereupon, the witness was sworn.)

16 MICHAEL M. GRAY,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MS. MUNDS-DRY:

21 Q. Mr. Gray, would you please state your full name
22 for the record?

23 A. Michael M. Gray.

24 Q. Where do you reside?

25 A. Midland, Texas.

1 Q. By whom are you employed?

2 A. I'm a consultant for Parallel Petroleum
3 Corporation.

4 Q. Have you previously testified before this
5 Division?

6 A. Yes.

7 Q. At that time of the testimony, were your
8 credentials as an expert in petroleum land matters accepted
9 and made a matter of record?

10 A. Yes.

11 Q. Are you familiar with the Application filed in
12 this case?

13 A. Yes.

14 Q. Are you familiar with the status of the lands in
15 the subject area?

16 A. Yes.

17 MS. MUNDS-DRY: Mr. Examiner, we would tender Mr.
18 Gray as an expert witness in petroleum land matters.

19 EXAMINER CATANACH: Mr. Gray is so qualified.

20 Q. (by Ms. Munds-Dry) Mr. Gray, would you briefly
21 state what Parallel seeks with this Application?

22 A. Parallel seeks an order pooling all mineral
23 interests from the surface to the base of the Wolfcamp
24 formation underlying the east half of Section 27, Township
25 14 South, Range 26 East, NMPM, Chaves County, New Mexico,

1 in the east half for all formations or pools developed on
2 320-acre spacing, and in the northeast quarter for all
3 formations and/or pools developed on 160-acre spacing.

4 The units are to be dedicated to Parallel's Bold
5 Venture Number 1 well, to be drilled as a horizontal test
6 from the surface location 400 feet from the north line and
7 1880 feet from the east line, penetrating the Wolfcamp at
8 700 feet from the north line and 1880 feet from the east
9 line, and terminating 660 feet from the south line and 1880
10 feet from the east line.

11 Q. Mr. Gray, would you identify and review Parallel
12 Exhibit Number 1?

13 A. Parallel Exhibit Number 1 is a land plat
14 depicting the unit for our proposed well, the location and
15 the lateral extending from the surface location of the
16 well.

17 Q. Mr. Gray, would you identify and review Parallel
18 Exhibit Number 2?

19 A. Exhibit Number 2 is a copy of the first page of
20 the C-102, depicting the well location in the project area
21 for the horizontal well.

22 Q. This also shows the producing area?

23 A. Yes, it also shows the 320 acres to be dedicated
24 to the well.

25 Q. And do you know the length of the lateral?

1 A. The lateral length will be 3920 feet.

2 Q. What is the primary objective of this proposed
3 well?

4 A. The Wolfcamp formation.

5 Q. Would you identify for Mr. Catanach Parallel
6 Exhibit Number 3?

7 A. Exhibit Number 3 is a schedule of the ownership
8 in the east half of Section 27, 14 South, 26 East, showing
9 the ownership and the percentage interest by tract and by
10 unit as it relates to the 320-acre unit.

11 Q. Now, Mr. Gray, we had originally asked that three
12 parties be pooled under this Application. Would you review
13 for Mr. Catanach if you've reached any agreements with some
14 of those interest owners?

15 A. We had named Devon Energy as a party, Parallel --
16 excuse me, Panhandle Royalty Company and Sally Ellis.
17 Devon Energy leased to us, Panhandle Royalty has elected to
18 participate in the well, and Sally Ellis is the only
19 remaining party left to be pooled.

20 Q. So Sally Ellis is the only party that we seek to
21 be pooled at this time?

22 A. That's correct.

23 Q. And all other interests are voluntarily committed
24 to the well?

25 A. Yes.

1 Q. What is Ms. Ellis's interest on the 320-acre
2 spacing unit?

3 A. 1.25 percent.

4 Q. And what is he interest on the 160-acre proposed
5 unit?

6 A. 0.833 percent.

7 Q. Okay. If you would please identify for Mr.
8 Catanach Exhibit Number 4.

9 A. Exhibit Number 4 is a copy of a letter dated
10 September 22, 2005, proposing the drilling of the Bold
11 Venture Number 1 well in the east half of Section 14 South
12 [sic], Range 26 East, to Sally A. Ellis.

13 Q. Was this your first contact with Ms. Ellis?

14 A. Yes.

15 Q. And did you have any subsequent contact with her?

16 A. Subsequently I spoke by telephone, actually to
17 Mr. Ellis, to her husband. We had sent them two AFEs, one
18 in the east half of Section 27, one in the west half. They
19 elected to participate in a well proposed in the west half
20 of the section and elected to be force pooled or not to
21 participate in the east half of the section.

22 Q. So they were not willing to lease their interest
23 in the east half?

24 A. We have not made a deal with them yet to lease
25 this interest.

1 Q. In your opinion, Mr. Gray, have you made a good-
2 faith effort to obtain their voluntary participation in
3 this well?

4 A. Yes.

5 Q. Would you review for the Hearing Examiner
6 Parallel Exhibit Number 5?

7 A. Parallel Exhibit Number 5 is an authority for
8 expenditure which was prepared in December and executed by
9 Parallel management in January, to update the drilling cost
10 for our proposed well, because costs had increased
11 considerably since the AFE was sent and prepared in
12 September.

13 Q. So just to be clear, Ms. Ellis has not seen this
14 AFE?

15 A. Ms. Ellis has not seen this AFE.

16 Q. You will send this AFE to her for her
17 consideration?

18 A. Yes.

19 Q. What are the totals you have set forth on this
20 exhibit? What are the dryhole costs?

21 A. Dryhole cost is \$1,210,600.

22 Q. And what is the completed well cost?

23 A. Completed well cost is \$2,209,300.

24 Q. Do you know approximately, from the time you sent
25 out the original AFE to Ms. Ellis till now, how much costs

1 have gone up?

2 A. It's about 14 percent, I believe.

3 Q. Are these costs in line with what has been
4 charged by other operators in the area for similar wells?
5 I know that this is a somewhat unique situation.

6 A. There have not been any wells drilled in this
7 particular -- in Chaves County, actually. This will be the
8 first one, at least in this vicinity of Chaves County.
9 There have been wells drilled in Eddy County south of here,
10 and these costs are about the same.

11 Q. All right, if you would turn to Exhibit Number 6
12 and identify that for Mr. Catanach?

13 A. Exhibit Number 6 is a COPAS 2005 accounting
14 procedure which Parallel proposes to use for calculating
15 expenditures on the well.

16 Q. Do these COPAS accounting procedures for joint
17 operations provide for the periodic adjustment of overhead
18 and accounting charges?

19 A. Yes, they do.

20 Q. Does Parallel request that the overhead and
21 administrative costs set by the order which results from
22 this hearing be adjusted in accordance with these COPAS
23 procedures?

24 A. Yes.

25 Q. Have you made an estimate of overhead and

1 administrative costs while drilling this well and also
2 while producing this well if it is a successful well?

3 A. The -- What Parallel proposes with regard to
4 overhead and administrative costs is to charge pursuant to
5 the accounting procedure, the COPAS accounting procedure,
6 \$6500 a month of fixed overhead for drilling and \$650 a
7 month for fixed overhead for operating the well.

8 Q. Do you recommend that these figures be
9 incorporated into any order that results from this hearing?

10 A. Yes.

11 Q. Does Parallel request that in accordance with
12 Division Rules the maximum charge for risk of 200 percent
13 be imposed on each working interest owner that is not
14 voluntarily committed to this well?

15 A. Yes.

16 Q. Does Parallel seek to be designated operator of
17 the proposed well?

18 A. Yes.

19 Q. In your opinion, will granting this Application
20 be in the best interests of conservation, the prevention of
21 waste and the protection of correlative rights?

22 A. Yes.

23 Q. Mr. Gray, would you identify and review Parallel
24 Exhibit Number 7? Is this an affidavit --

25 A. Parallel Exhibit Number 7 is an affidavit with

1 the notices attached, noticing the pooled party in -- of
2 the hearing, and the advertisement of the hearing.

3 Q. And it shows that proper notice was given in this
4 case?

5 A. Yes.

6 Q. Were Exhibits 1 through 7 prepared by you or
7 compiled under your direction and supervision?

8 A. Yes.

9 MS. MUNDS-DRY: Mr. Catanach, we would move the
10 admission into evidence of Parallel Petroleum Exhibits 1
11 through 7.

12 EXAMINER CATANACH: Exhibits 1 through 7 will be
13 admitted.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Gray, this is a gas well test; is that
17 correct?

18 A. Yes.

19 Q. I ask that because I didn't see any references to
20 any pools in your advertisement. Do you know if there's
21 any --

22 A. This is a --

23 Q. -- Wolfcamp?

24 A. This is a wildcat.

25 Q. It is wildcat?

1 A. Yes, sir.

2 Q. And you also referenced a well in the west half
3 of this section?

4 A. We have -- Parallel has staked and permitted a
5 number of wells, seven or eight wells in this general area,
6 in this township and the township just south of it.

7 Q. But that has not been drilled?

8 A. No, no.

9 Q. So is this going to be the first well drilled in
10 this section --

11 A. There's currently a well drilling -- our first
12 well in this area is currently drilling in the west half of
13 Section 33.

14 Q. Can I ask you, why is it necessary to drill a
15 horizontal well as opposed to a vertical well?

16 A. The historic production from the Wolfcamp in this
17 -- well, in this general area of Eddy and Chaves County,
18 from vertical wells, has been fairly marginal. There have
19 been a handful of vertical wells completed in the Wolfcamp.

20 There's also -- there's a -- there was -- in the
21 early days of development there was a nomenclature
22 confusion. Some of the wells were called Abo, some were
23 called Wolfcamp. The OCD office in Artesia has confirmed
24 that it is Wolfcamp.

25 But there's been a significant amount of drilling

1 activity a few miles south of here in Eddy County, and the
2 horizontal wells that have been drilled are significantly
3 better than -- I mean, in huge multiples, better than the
4 vertical wells that were completed in the past.

5 Q. Has Parallel drilled any horizontal wells?

6 A. Parallel has drilled one horizontal well in Eddy
7 County, in Township 19 South, Range 21 East.

8 EXAMINER CATANACH: Okay, anything further?

9 MS. MUNDS-DRY: I have nothing further.

10 EXAMINER CATANACH: All right, there being
11 nothing further in this case, Case 13,600 will be taken
12 under advisement.

13 MS. MUNDS-DRY: Thank you, Mr. Hearing Examiner.

14 (Thereupon, these proceedings were concluded at
15 8:44 a.m.)

16 * * *

17
18
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 13600,
23 heard by me on January 5, 2006
24 David R. Hunt, Examiner
25 Oil Conservation Division

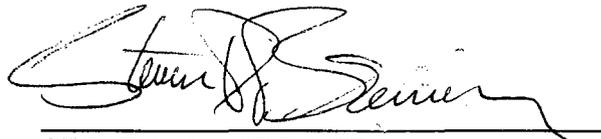
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL January 5th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006