

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 BEACH EXPLORATION, INC.
FOR STATUTORY UNITIZATION,
EDDY COUNTY, NEW MEXICO.

CASE NO. 13972

APPLICATION OF BEACH EXPLORATION, INC.
FOR APPROVAL OF A WATERFLOOD PROJECT
AND TO QUALIFY THE PROJECT FOR THE
RECOVERED OIL TAX RATE, EDDY COUNTY,
NEW MEXICO.

CASE NO. 13973

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PRE-HEARING STATEMENT

Holland & Hart LLP submits this Pre-Hearing Statement as required by the rules of the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Beach Exploration, Inc.

ATTORNEY

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2151 Facsimile

OPPOSITION

MYCO Industries, Inc.
Attn: Sherri Darr Hodges
Devon Energy Production Co. LP
Attn: Meg Muhlinghouse

ATTORNEY

William F. Carr, Esq.
Holland Hart, LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

STATEMENT OF CASE

APPLICANT:

In Case No. 13972, Beach Exploration, Inc. seeks an order unitizing all mineral interests in the Queen Sand member of the Turkey Track Seven Rivers-Queen-Grayburg-San Andres Pool underlying parts of Sections 1, 2 and 11, Township 19 South, Range 29 East, NMPM, comprising 1040.00 acres of state lands for the proposed Eastland Queen Unit. Among matters to be considered at hearing, pursuant to the New Mexico Swill be: The necessity of unit operations; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable and equitable allocation of production and costs of production, including capital investments, to each of the tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate.

In Case No. 13972, Beach Exploration, Inc. seeks approval to institute a waterflood project in the Queen Sand member of the Turkey Track Seven Rivers-Queen-Grayburg-San Andres Pool by the injection of water into eighteen wells located on state lands covering parts of Section 1, 2, and 11 of Township 19 South, Range 29 East, NMPM. Beach also seeks to qualify the project for the recovered oil tax rate pursuant to the New Mexico Enhanced Oil Recovery Act.

OPPOSITION:

MYCO Industries, Inc. and Devon Energy Production Co. LP ("Opponents") do not oppose appropriate efforts to develop the reserves in the Turkey Track Seven Rivers-Queen-Grayburg-San Andres Pool. However, MYCO and Devon believe that prior to the implementation of the proposed waterflood unit and project, a pilot project should be conducted to determine the most efficient and effective way to produce the remaining reserves in this portion of the reservoir. MYCO and Devon have agreed to participate in and pay their proportionate shares of the costs of such a pilot project.

Statutory Unitization:

MYCO and Devon object to the proposed statutory unitization on the following grounds:

- (1) There have been no working interest owner or technical meetings to discuss and amend the proposed Unit Boundary or the Unit Participation Formula.
- (2) The Unit Boundaries do not include all portions of the reservoir that have been defined by development. Offsetting lands are in communication with the unit area and contain reserves that may be lost by implementation of proposed waterflood operations.
- (3) The participation formula in the unit agreement does not allocate the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis but, instead, favors the interests of Beach at the expense of other owners in the unit area.

(4) The additional recovery to be obtained from this waterflood project has been substantially over estimated because these estimates are based data from other Queen Reservoirs that do not have equivalent reservoir characteristics. The cost of implementing this project have been underestimated.

(5) Unitized operations will require the squeezing off of the Seven Rivers formation in wells that are currently economic producing wells in this formation thereby causing waste of oil.

Waterflood Project:

MYCO and Devon object to the proposed waterflood project on the following grounds:

(1) To conduct waterflood operations in the proposed unit, the Seven Rivers formation will have to be squeezed off in certain unit wells. MYCO and Devon own interest in some of these wells and they are currently commercial Seven Rivers-Queen producing wells. The Seven Rivers production will therefore be wasted.

(2) If the reservoir accepts water in sufficient quantities and Beach is therefore able to conduct successful waterflood operations in the proposed unit area, the injection of water into two wells in the N/2 of Section 11, puts at risk the offsetting wells in Section 10 and the S/2 of Section 11 in which MYCO and Devon own interest.

(3) There appears to be an inadequate water supply available for this waterflood project. The only way the formation can be successfully flooded is with the use of substantial volumes of fresh water.

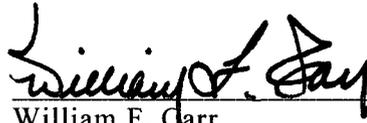
PROPOSED EVIDENCE

<u>WITNESSES:</u>	ESTIMATED TIME	EXHIBITS
Shari Darr Hodges (MYCO Landman)	15 Minutes	Approx. 3
Meg Muhlinghouse (Devon Landman)	15 Minutes	Approx. 2
Jim Schleuter (MYCO Geologist)	30 Minutes	Approx. 5
Nelson Muncy (MYCO Petroleum Engineer)	30 Minutes	Approx. 5
Art O'Neill (Devon Petroleum Engineer)	20 Minutes	Approx. 4

PROCEDURAL MATTERS

MYCO Industries, Inc. and Devon Energy Production Co., LP will request that Case Nos. 13972 and 13973 be consolidated for purposes of hearing with separate orders entered in each case.

MYCO Industries, Inc. and Devon Energy Production Co., LP will file a Motion to Dismiss these applications and, in the alternative a Motion for Continuance.

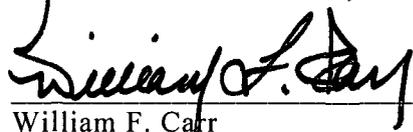


William F. Carr
Attorney for MYCO Industries, Inc.
and Devon Energy Production Co., LP

CERTIFICATE OF SERVICE

I certify that on September 13, 2007 I served a copy of the foregoing document to the following by Hand Delivery or by Facsimile:

James Bruce, Esq.
Post Office Box 1056
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(505) 982-2151 Facsimile
ATTORNEY FOR
BEACH EXPLORATION, INC.


William F. Carr