

AFFIDAVIT OF RALPH NELSON

STATE OF TEXAS)
) SS.
COUNTY OF DALLAS)

Ralph Nelson, being first duly sworn on oath, states as follows:

1. I am the age of majority and am otherwise competent to testify to the matters set forth herein.

2. I am a petroleum geologist employed by EEX Corporation, successor in interest to Enserch Exploration, Inc., and am familiar with the West Lovington Strawn Unit and its formation. I am also familiar with the customs and practices of the oil and gas industry and of geologists with respect to the collection, interpretation and dissemination of geophysical data. I have previously been qualified and testified as an expert geologist before the New Mexico Oil Conservation Division and my credentials have been accepted as a matter of record in this and other proceedings.

3. I have been involved in the geological evaluation of EEX acreage in the West Lovington Strawn play since 1994. In mid-1994, unitization of the area was first discussed and I was involved in determining the productive area of the reservoir suitable for unitization. After the oil/water contact was established, the analysis of logs from the Hamilton No. 3 and Wiley No. 1 wells drilled in Section 33, seismic data were used, in part, to determine the location of the likely oil/water contact within the Strawn Formation.

4. On June 16, 1995, I participated in the hearing on the Operator's original application seeking approval of the West Lovington Strawn unit. (NMOCD Case No. 11195). At the hearing, both GCI and EEX presented geologic testimony based in part on seismic data. In addition, Platt-Sparks and Associates, independent geologic and engineering consultants for



Snyder Ranches, Inc., presented geologic testimony which was not based on seismic data. In the original unitization case, the New Mexico Oil Conservation Division rejected the seismic-based evidence and instead adopted the Platt-Sparks hydrocarbon pore volume map as the basis for finding that the allocation of unit production was fair. (NMOCD Order No. R-10499, at paragraph 27.)

5. On May 15, 1997, I testified before the New Mexico Oil Conservation Division in conjunction with the Operator's Application for Expansion of the Unit to include the acreage dedicated to the GCI State S No. 1 and the Hanley Petroleum Chandler No. 1, respectively. In connection with my testimony, I utilized a new hydrocarbon pore volume map as the basis for determining the allocation of unit production and to assist the Division to determine the relative value of the original unit and the expansion tracts. The hydrocarbon pore volume map was based on the Platt-Sparks and Associates hydrocarbon pore volume map accepted and relied on by the NMOCD when it issued Order No. R-10499. The original pore volume map was modified to reflect new data obtained from well logs. Seismic information was not used in the creation of the new pore volume map. Similarly, no portion of my testimony at the May 15, 1997 hearing was based on seismic data, and none of the testimony or exhibits I expect to present in *de novo* Case No. 11724 will include seismic data.

6. I have been active in the oil and gas industry for twenty-three years and it has always been my experience that well control data is regarded as the most reliable for purposes of allocating production, establishing the appropriate boundaries of a unit and to determine the horizontal and vertical extent of a pool. Consistent with that experience, well control data were used to establish the boundaries for the unit expansion and allocation of production for the West

Lovington Strawn unit accordingly. Similarly, the Division's finding in Orders R-10499 and R-10864 establish that the seismic data owned by EEX and GCI here would have no value to the parties or the Commission for determining the relative value of the expansion tracts to the value of the original unit and accordingly, they should not be used for this purpose.

7. It is the custom and practice in the oil and gas industry, and among geologists and geophysicists in particular, to treat seismic data and the interpretations thereof as privileged proprietary trade secret information. In this case, the information derived by both GCI and EEX cannot be duplicated without considerable expenditure of time, effort and expense. Seismic data are confidential data that are not disclosed in the normal process of exploitation, unlike well log and well test data. EEX and GCI expect to be able to rely on the continued confidential treatment of their seismic data.

8. Hanley Petroleum, Inc. and Yates Petroleum Corporation are direct competitors to both EEX and GCI in the vicinity of the West Lovington Strawn play. GCI and EEX have developed a competitive advantage over Hanley and Yates through their acquisition and interpretation of the seismic data. The disclosure of the seismic data would destroy the competitive advantage and would adversely affect the ability of EEX and GCI to compete for the acquisition of new lease acreage. It is also likely that the disclosure of seismic information may adversely affect the value of other lease acreage. As a consequence, disclosure of the seismic information would destroy its value to both GCI and EEX.

Further Affiant sayeth naught.



RALPH NELSON

