

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 APPROVAL OF A UNIT)
AGREEMENT, EDDY COUNTY, NEW MEXICO)

CASE NO. 13,862

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Hearing Examiner

January 18th, 2007

Santa Fe, New Mexico

2007 FEB 1 AM 9

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, January 18th, 2007, 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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 Examiner Hearing
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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 2:41 p.m.:

3 EXAMINER BROOKS: Call Case Number 13,862,
4 Application of Parallel Petroleum Corporation for approval
5 of a unit agreement, Eddy County, New Mexico.

6 MS. MUNDS-DRY: Good afternoon, Mr. Examiner.
7 Ocean Munds-Dry with the law firm Holland and Hart here
8 representing Parallel Petroleum Corporation this morning,
9 and I am also presenting this by affidavit.

10 EXAMINER BROOKS: Okay, you may proceed -- Well,
11 any other appearances? Okay, you may proceed.

12 MS. MUNDS-DRY: Mr. Examiner, Parallel seeks
13 approval of the Walnut State Exploratory Unit this
14 afternoon. This unit is comprised of 1040 acres of all
15 State of New Mexico lands and is located approximately six
16 miles south of Hope.

17 The exhibits seem to be a little helter-skelter,
18 so if you'll follow along with me here, hopefully we can
19 stick together.

20 Exhibit A is the affidavit of Michael Gray, who's
21 the petroleum landman for this project. And in the
22 affidavit you'll see he identifies the unit Parallel
23 proposes to test all formations from the surface to the top
24 of the Wolfcamp shale formation.

25 The initial test well is to be located -- it's a

1 horizontal well, it's to be located at a surface location
2 660 feet from the north line and 230 feet from the east
3 line, and will have a bottomhole location of 760 from the
4 north line and 660 feet from the west line in Section 25,
5 Township 18 South, Range 21 East. And they plan to test
6 all formations from the surface to an approximate vertical
7 depth of 4550 feet.

8 Mr. Examiner, Exhibit Number 1 is the AFE showing
9 the estimated cost for the well to be \$2,411,400.

10 Attachment A to the affidavit is a copy of the
11 unit agreement. You will notice it's a State Land Office
12 conformed copy of the unit agreement.

13 Attachment B to the affidavit is a copy of the
14 map of the unit area, which shows the three identified
15 tracts and the unit boundaries.

16 Attachment B-1 is a copy of the C-102, which
17 shows you the proposed well path and again the surface and
18 bottomhole location.

19 Attachment C to the affidavit is the Schedule B
20 to the unit agreement, and it shows the interest ownership
21 in the unit. Mr. Brooks, you may be interested to know
22 that 100 percent of the working interest has committed to
23 the units, as well as all the overriding royalty ownership.
24 And of course, since it's all State of New Mexico lands,
25 it's 100-percent royalties owned by the State.

1 I also wish to point out to you that the leases
2 all expire May 1st, so at the end of my presentation I
3 won't be asking for an expedited approval but just ask you
4 to take note of those expiration dates so that they can
5 make plans to drill the well before the expiration of those
6 leases.

7 Attachment D to the affidavit --

8 EXAMINER BROOKS: Okay, what are expiration --
9 May of '07, right?

10 MS. MUNDS-DRY: Yes, Mr. Examiner, it's small
11 writing, I apologize.

12 EXAMINER BROOKS: Yeah.

13 MS. MUNDS-DRY: It's May 1, 2007, for --

14 EXAMINER BROOKS: I don't think that will create
15 that much of a problem. If it were March 1 of '07, we'd
16 have to get on the stick here.

17 MS. MUNDS-DRY: Might a little bit.

18 Attachment D is the preliminary approval letter
19 from the State Land Office, giving their approval for a
20 surface unit.

21 I'll go through the geologic exhibits quickly,
22 but you will note in the affidavit that it explains them
23 more thoroughly.

24 Attachment E is a gross isopach map. As Mr. Gray
25 explains, this shows the irregular nature of the target pay

1 interval across the proposed unit area. Parallel shows --
2 and you'll see this in the companion case that I'll be
3 presenting next -- shows the Wolfcamp as extending over a
4 large area and of course, as it's shown here, through the
5 unit area.

6 Attachment F is a structure map of the top of the
7 Wolfcamp. Again, this shows you the proposed unit area.
8 This shows you that the shale represents a regionally
9 deposited zone from which true structural depth is shown
10 across the proposed unit.

11 Attachment G is a northwest-southeast-oriented
12 stratigraphic cross-section. Parallel has also
13 incorporated porosity well logs in the cross-section, and
14 these well logs demonstrate a gradual thinning of the pay
15 to the northwest.

16 Attachment H is an additional cross-section which
17 goes north-south, and they incorporated core analysis,
18 microseismic monitoring and FMI logs to show a roughly
19 northeast-to-southwest general fracture orientation.

20 Finally, Parallel Exhibit Number 2 is the
21 affidavit of publication in accordance with Division Rules,
22 showing that notice was given of this Application.

23 And at this time we'd ask that Parallel Exhibit
24 Number 1, 2 and Exhibit A and all of its attachments be
25 admitted into the record.

1 EXAMINER BROOKS: Okay, Exhibits 1 and 2,
2 together with all attachments, will be admitted.

3 One thing I did not observe in here, that we
4 usually get in these cases, is a letter of tentative
5 approval from the Land Office. Where are you with that?

6 MS. MUNDS-DRY: Oh, Mr. Examiner, Attachment D is
7 that letter.

8 EXAMINER BROOKS: Attachment -- Oh, well, I just
9 -- I guess I slept through that.

10 MS. MUNDS-DRY: I went through that one quickly
11 in the interests of time this afternoon.

12 EXAMINER BROOKS: Attachment D as in David?

13 MS. MUNDS-DRY: Yes, sir.

14 EXAMINER BROOKS: Okay, yeah, I see it. Very
15 good, thank you.

16 Case Number 13,862 will be taken under
17 advisement.

18 (Thereupon, these proceedings were concluded at
19 2:48 p.m.)

20 * * *

21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 13862
24 heard by me on Jan 18 2007.
25 David K. Brooks Examiner
Oil Conservation Division

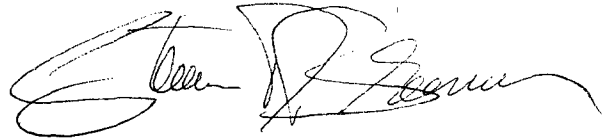
CERTIFICATE OF REPORTER

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 22nd, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010