

Approved by
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STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

December 20, 1978

Testimony and proceedings before the State Oil and Gas Board of Alabama, in the Board Room of the State Oil and Gas Board Building, University Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this the 20th day of December, 1978.

BEFORE:

BOARD MEMBERS

Dr. Ralph Adams.....Chairman

Mr. Gaines C. McCorquodale.....Associate Member

Dr. David Mathews.....Associate Member

BOARD STAFF

Mr. Thomas J. Joiner.....Secretary & Supervisor

Mr. Ken Hanby.....Assistant Supervisor

Mr. Charles Freeman.....Attorney

Mr. Jay Masingill (Absent).....Geologist

Mr. Phil Meadows.....Geologist

Mr. Mark Wyatt.....Geologist

Mr. James D. Turner.....District Geologist

(Reported by Jean W. Smith)

APPEARANCES

	<u>NAME</u>	<u>REPRESENTING</u>
1.	C. Zuppann Houston, Texas	Southland Royalty
2.	Joe C. Steely 6501 N. Broadway Oklahoma City, Oklahoma	Grace Petroleum
3.	J. E. Henry Box 1635 Houston, Texas 77001	Gulf Oil
4.	C. D. Haynes 512 First Federal Bldg. Tuscaloosa, Alabama	Belden & Blake
5.	Gary P. Ross P. O. Box 50879 New Orleans, La. 70150	Amoco Production
6.	J. Nelson Warner New Orleans, Louisiana	Exchange Oil & Gas
7.	C. Phil Fleming New Orleans, Louisiana	Exchange Oil & Gas
8.	John D. Mills Oklahoma City, Oklahoma	Terra Resources, Inc.
9.	Conrad P. Armbrrecht II Mobile, Alabama	Union Oil, Exchange Oil & Gas
10.	Jim Sledge Tuscaloosa, Alabama	Warrior Drilling
11.	Nick Kramer Fayette, Alabama	Terra Resources
12.	William Hooper Tuscaloosa, Alabama	Warrior Drilling
13.	Mike Baldwin Fayette, Alabama	Charles L. Cherry & Associates
14.	Steven F. Harrison Tuscaloosa, Alabama	Belden & Blake, Southland

PROCEEDINGS

(The hearing was convened at 10:23 A.M.
on Wednesday, December 20, 1978, at
Tuscaloosa, Alabama)

CHMN. ADAMS: Let the record reflect that the Oil and Gas Board is now in session. Mr. Supervisor, has this meeting been properly advertised?

MR. JOINER: Mr. Chairman, the meeting has been properly advertised and I transmit a copy of the notice to the recording secretary.

NOTICE OF MEETING

"The State Oil and Gas Board will hold its regular monthly meeting on Wednesday, December 20, 1978, at 10 A.M. in the Board Room of the State Oil and Gas Board Building, University Campus, Tuscaloosa, Alabama, to consider, among other items of business, the following petitions:

"1. DOCKET NO. 7-7-789

Continued petition by Union Oil Company of California, a foreign corporation authorized to do and doing business in the State of Alabama, requesting the Board to enter an order establishing and force integrating Section 31, Township 1 South, Range 1 West, Mobile County, Alabama, into a drilling unit

comprising 640 acres, more or less, requiring all owners or claimants of royalty, overriding royalty, mineral, leasehold, and all other oil and gas interests within said drilling unit to integrate their interests and to develop their lands as a gas drilling and producing unit; and designating Petitioner as the operator of said unit and allowing Petitioner to recover its costs.

"2. DOCKET NO. 2-3-787

Continued petition by Skelton Operating Company, Inc., a foreign corporation authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board to revise and amend the Special Field Rules concerning allowables for gas wells in all gas producing zones in the Fairview Field, Lamar County, Alabama, so as to provide for a fieldwide allowable based on existing contracts for the amount of gas equal to the minimum daily contract quantity multiplied by the number of calendar days in the month, or in the alternative, such amount as shall be nominated by the gas purchaser to the State Oil and Gas Board for any given month. In either event, the monthly

allowable shall be ratably allocated between all wells producing from said Fairview Field; provided, however, that any well becoming unable to produce its allocated monthly allowable shall be termed deficient, and that part of the allowable for such well not produced during such month shall be allocated equally among all wells producing their respective allowables over the next ensuing monthly period.

"3. DOCKET NO. 9-8-7833

Continued petition by W. E. Sistrunk, an individual, requesting the Board to enter an order amending the Special Field Rules for the Carter Sand Gas Pool in the East Detroit Field, Lamar County, Alabama, concerning the daily allowable gas production from all gas wells in said field, and to establish a system of purchaser nominations for all gas produced from said field.

"4. DOCKET NO. 9-8-7834

Continued petition by W. E. Sistrunk, an individual, requesting the Board to enter an order amending the Special Field Rules for the

Carter and Lewis Sand Gas Pools in the Beaverton Field, Lamar County, Alabama, concerning the daily allowable gas production from all gas wells in said field, and to establish a system of purchaser nominations for all gas produced from said field.

"5. DOCKET NO. 11-10-7813

Continued petition by Petroleum Corporation of Texas, a foreign corporation authorized to do and doing business in the State of Alabama, requesting the Board to enter an order approving an exceptional location for a well to be drilled 660 feet FWL and 660 feet FNL of SW/4 of SW/4, Section 3, Township 13 South, Range 15 West, Lamar County, Alabama, in the Carter Sand Gas Pool of the Beaverton Field. Said well will be a replacement well for the Loggins Unit A No. 2, Permit No. 2558, and will be located closer than 2,000 feet to another well completed in the Carter Sand Gas Pool.

"6. DOCKET NO. 12-20-781

Petition by Gulf Oil Corporation, a foreign corporation authorized to do and doing business in the

State of Alabama, requesting the Board to enter an order amending the Special Field Rules for the Pollard Field, Escambia County, Alabama. Petitioner requests that the current eighteen (18) rules as adopted March 20, 1953, (Order No. 9) and as amended December 14, 1956, (Order No. 60) be revised, and in some cases eliminated, resulting in ten (10) Special Field Rules for the Pollard Field. The petition includes a request, among others, that the method of calculating the allowables for each well completed in the Miller, Moye, and Massive Sand Oil Pools be based on the capacity of the wells to produce rather than on an acreage basis.

"7. DOCKET NO. 12-20-782

Motion by the Board to amend Statewide Rule C-12 so as to allow an operator to use other appropriate methods to control encountered pressures in rotary drilling operations, without the use of drilling fluids, upon approval of the Supervisor.

The above motion was granted on an emergency basis on November 7, 1978, by Emergency Order No. E-78-184 under Docket No. 11-10-7816.

"8. DOCKET NO. 12-20-783

Petition by Union Oil Company of California, a foreign corporation authorized to do and doing business in the State of Alabama, requesting an order of the Board (a) approving an exceptional location for a gas well to be drilled in a drilling unit in the Chunchula Field, Mobile County, Alabama, consisting of Section 7, T1S, R2W, Mobile County, Alabama, and (b) approving and issuing a permit for the drilling of said well.

"9. DOCKET NO. 12-20-784

Petition by Exchange Oil & Gas Corporation, a foreign corporation authorized to do and doing business in the State of Alabama, seeking an order of the Board: force integrating lands and interests in Section 3, T1S, R2W, Mobile County, Alabama, into and establishing them as a gas drilling and producing unit in the Chunchula Field (as a productive extension thereof); approving the location of a gas well thereon and issuing and approving a permit for the drilling of a well thereon; requiring all of the other owners or claimants of royalty, mineral, leasehold,

and all other oil and gas interests within said gas drilling unit to integrate their interests and to develop their lands as a gas drilling unit; designating and approving Petitioner as the operator of the gas and gas condensate well to be drilled within said drilling unit; and allowing Petitioner, as operator, to recover its costs of developing said unit.

The effect of the granting of this petition would be to amend the Field Limits set forth in the Special Field Rules of the Chunchula Field so as to include the aforesaid Section 3 within the said Field Limits.

"10. DOCKET NO. 12-20-786

Petition by Warrior Drilling & Engineering Co., Inc., for an order force integrating certain interests in the South Half of Section 16, T14S, R13W, Fayette County, Alabama, in the Bluff Field, into a gas drilling unit.

Prior to the filing of the petition, Petitioner requested that the Board enter an emergency order granting the relief sought by this petition by petition bearing Docket No. 12-20-785, which

has not been granted at the time of this notice.

"11. DOCKET NO. 12-20-788

Petition by Terra Resources, Inc., a foreign corporation authorized to do and doing business in the State of Alabama with its principal place of business in Tulsa, Oklahoma, requesting the State Oil and Gas Board to enter an order amending Rule 2 of the Special Field Rules for the Blooming Grove Field, Fayette and Lamar Counties, Alabama, as previously adopted and amended, so as to establish and redefine the Carter Sand Gas Pool in the Blooming Grove Field, Fayette and Lamar Counties, Alabama, as to mean those strata of the Carter Sand Gas Pool productive of hydrocarbons in the interval between 2,599 feet and 2,704 feet in the Terra Resources, Inc., No. 3 M. O. Ritchey Well, located in the SW/4 of the SW/4 of Section 4, Township 15 South, Range 13 West, Fayette County, Alabama, and those strata productive of hydrocarbons which can be correlated therewith.

"12. DOCKET NO. 12-20-789

Petition by Belden & Blake Corporation, a foreign corporation authorized to do and doing business

in the State of Alabama, requesting the State Oil and Gas Board to enter an order force pooling tracts and interests in a drilling unit consisting of Tract 2-6, Section 2, Township 3 North, Range 2 East, Clarke County, Alabama.

"13. DOCKET NO. 12-20-7810

Petition by Belden & Blake Corporation, a foreign corporation authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board to enter an order force pooling tracts and interests in a drilling unit consisting of Tract 2-10, Section 2, Township 3 North, Range 2 East, Baldwin County, Alabama.

"14. DOCKET NO. 12-20-7811

Petition by Southland Royalty Company, a foreign corporation authorized to do and doing business in the State of Alabama, requesting the Board to enter an order approving an exceptional location for a well to be drilled 1100 feet FEL and 2310 feet FSL, Section 12, Township 13 South, Range 15 West, Lamar County, Alabama, in the Carter Sand Gas Pool of the Beaverton Field. Said well will be a replacement well for the Frank Gibson 12-10

No. 1 Well, Permit No. 2432, and will be closer than 660 feet to a unit line.

"15. DOCKET NO. 12-20-787

Motion by the Board to consider the adoption of statewide rules for the implementation of the Natural Gas Policy Act of 1978, said Act having been enacted in the Second Session of the 95th Congress of the United States on November 9, 1978. A working draft of the proposed rules prepared by the staff of the Board for consideration is expected to be available December 14, 1978. Any other proposals shall also be considered. The aforesaid Act, among many other things, provides for natural gas price ceiling category determinations which may be made by state agencies having natural gas production regulatory authority. A careful study of the aforesaid Act, along with proposed or adopted rules by the Federal Energy Regulatory Commission implementing the said Act, is suggested prior to this hearing.

"Petitions before the State Oil and Gas Board of Alabama must be represented in person by the Petitioner or his duly authorized agent or attorney. In the absence

of such representation, the petition before the Board shall be subject to dismissal. Petitioners are advised to closely review the rules of practice and procedure of the Board.

"The public is advised that the Board may promulgate an order regarding a petition which may differ from that requested by the Petitioner concerning the land described in this notice, so long as this notice shall constitute due and proper notice of the action ultimately taken by the Board. Further, the Board invites the submission of legal briefs regarding any petition on behalf of any interested person.

"No meeting of the Board is scheduled for January, 1979. The next regular meeting is scheduled for February 2, 1979. It is expected that meetings beginning on that date will resume the monthly meeting schedule of the first Friday after the first Thursday of each month thereafter.

"In order to have a petition advertised and heard for the February meeting, the proposed notice and petition must be received by January 11, 1979.

"The Board was originally established by Act No. 1 of

the Legislature of Alabama in the Regular Session of 1945. The applicable law pertaining to the establishment of the Board now appears in Sec. 9-17-1 et seq., Code of Ala. 1975, as last amended.

"The public is invited to attend this meeting.

"Thomas J. Joiner

Secretary to the Board

State Oil and Gas Supervisor"

MR. JOINER: In accordance with the practice of the Board, we will sound the docket. All items taking 15 minutes or less should be identified, all items taking 15 minutes or more should also be identified. They will be taken up second and then the opposed items will be taken up last. Item 1 is Docket No. 7-7-789, continued petition by Union Oil Company of California.

MR. ARMBRECHT: We would like to continue that.

CHMN. ADAMS: Unless there is objection by any member of the Board, your request is granted.

MR. JOINER: Item 2, Docket No. 2-3-787, continued petition by Skelton Operating Company, Inc.

MR. HARRISON: Mr. Supervisor, we request that Items 2, 3, 4, and 5 be continued.

CHMN. ADAMS: Unless there is an objection from a member of the Board or a member of the audience, your request is granted.

MR. JOINER: Item 6, Docket No. 12-20-781, petition by Gulf Oil Corporation.

MR. HENRY: The Petitioner is ready. Fifteen minutes or less.

MR. JOINER: Thank you. Item 7, Docket No. 12-20-782. It's a motion by the Board and that's to amend Statewide Rule C-12, and that will be 15 minutes or less. We'll take that in sequence. Item 8, Docket No. 12-20-783, petition by Union Oil Company of California.

MR. ARMBRECHT: We would like to continue that matter also.

CHMN. ADAMS: Unless there is an objection, your request is granted. Hearing none, it is granted.

MR. JOINER: Item 9, Docket No. 12-20-784, petition by Exchange Oil and Gas Corporation.

MR. ARMBRECHT: 15 minutes or less.

MR. JOINER: Item 10, Docket No. 12-20-786, petition by Warrior Drilling and Engineering Company.

MR. SLEDGE: We request that this be dismissed.

CHMN. ADAMS: Unless there is an objection by a member of the Board or a member of the audience, your request is granted.

MR. JOINER: Item 11, petition by Terra Resources, Inc., Docket No. 12-20-788.

MR. ARMBRECHT: 15 minutes or less.

MR. JOINER: Item 12, Docket No. 12-20-789, petition by Belden & Blake Corp.

MR. HARRISON: Mr. Supervisor, we would like to consolidate Items 12 and 13 for hearing purposes, and together they will take less than 15 minutes.

MR. JOINER: Thank you.

CHMN. ADAMS: Your request is granted.

MR. JOINER: Item 14, Docket No. 12-20-7811, petition by Southland Royalty Company.

MR. HARRISON: 15 minutes or less.

MR. JOINER: Item 15 is a motion by the Board. That will be taken in sequence. Mr. Chairman, that brings us to Item 6, Docket No. 12-20-781, petition by Gulf Oil Corporation. Petitioners please come forward.

MR. HENRY: Mr. Chairman, our petition by Gulf Oil is to enter an order amending the Special Field Rules for the Pollard Field in Escambia County, Alabama.

MR. FREEMAN: Excuse me, sir, for the record, would you identify yourself?

MR. HENRY: Yes, I'm Joe Henry with Gulf Oil Corporation.

CHMN. ADAMS: Where is your office?

MR. HENRY: I'm employed by Gulf Oil Corporation in Houston, Texas, and I'd like to present the testimony concerning

our petition and will be the only witness. I have appeared here but not as an expert witness before, and would be glad to review my qualifications.

MR. JOINER: Mr. Henry, let's swear you in and then we will review your qualifications. State your name clearly for the record please.

MR. HENRY: Joseph E. Henry.

(Witness was sworn by Mr. Joiner)

JOSEPH E. HENRY

MR. HENRY: I have some copies of my qualifications if it would be in order to present them or turn some of them in or just...

MR. JOINER: If you would please.

CHMN. ADAMS: Are you an attorney or an engineer?

MR. HENRY: An engineer. Mr. Chairman, I--I hope this won't be held against me--I graduated from Penn State, Pennsylvania State University...

(Laughter from audience)

CHMN. ADAMS: I'm afraid it will.

MR. MCCORQUODALE: It won't be yet.

MR. HENRY: This is a bad start.

MR. MCCORQUODALE: Maybe later.

MR. HENRY: I graduated from Penn State University in

1956 with a B.S. degree in Petroleum and Natural Gas Engineering and have been employed by Gulf Oil Corporation for the past 22 years, working all my time in Texas. Currently working as a senior staff petroleum engineer in Gulf's Houston District which has the responsibility of several of the southern states including Alabama, responsibility concerning regulatory matters. I have qualified and appeared before the Railroad Commission of Texas and the Mississippi State Oil and Gas Board several times. I'm a member of the Society of Petroleum Engineers of AIME and I'm registered as a professional engineer in the State of Texas. I request that my qualifications be accepted.

CHMN. ADAMS: They are accepted.

MR. HENRY: I would like at this time to introduce four exhibits in support of our petition and request that they be made a part of the record.

(Exhibits were distributed)

MR. HENRY: I also have several copies of our proposed order which I guess...

MR. JOINER: Just deliver it to the attorney.

MR. HENRY: Our petition is basically requesting that the current 18 field rules as adopted March 20, 1953, which was Order No. 9, as amended December 14, 1956, Order No. 60, be revised and in some cases eliminated where covered by statewide

rules. This will result in 10 Special Field Rules for the Pollard Field. Our petition requests among other things that the method of calculating the allowable for each well be based on the capacity of the well to produce rather than on an acreage basis. We believe the resulting rules will result in prevention of waste and the protection of coequal and correlative rights of all the parties having an interest in Pollard Field. Some of our people have met with members of the State Oil and Gas Board of Alabama staff and have incorporated their recommendations in our proposal. I would like at this time to briefly go over the exhibits supporting our petition. Our Exhibit No. 1 is just simply a plat showing the wells located in the Pollard Field. The active wells are circled, colored, in red and the inactive wells are also circled but only have half the surface colored. As you can see, there are currently 8 active wells and 6 inactive wells at this time, and Gulf operates 4 of the active wells, all located on the T. R. Miller Mill Company lease. There are two other operators in the field, Energy Reserves Group and Tidewater Equipment Company. Our Exhibit No. 2 lists our 4 T. R. Miller Mill Company wells and gives the latest 24-hour test information and as you can see, we're currently producing a total of 140-150 barrels of oil a

day. I figured out that water percent. We're making about 3800 barrels of water a day so the oil cut, it is only about 3.7 percent oil of that fluid produced. I guess that's all I need to talk about on that one. The Exhibit No. 3 is a tabulation through September of this year listing all the wells in the field and their cumulative production, and this can be seen, the field has produced a total of about 11,700,000 barrels of oil with a September monthly production rate of about 6200 barrels. My Exhibit No. 4 is probably, I guess the most significant exhibit we have. This exhibit depicts the production history of the field over the past 11 years and we've shown the barrels of oil produced, barrels of oil produced per year versus the year, and this can be seen, the graph goes from a high of around 285,000 barrels per year back in 1968 to last year's low of about 65,000 barrels. This year's total production is estimated to be even a little bit less than that, and obviously from this exhibit it is apparent, readily apparent, that the productivity has been steadily declining and the field is in the latter stages of depletion. In summary, Gulf believes that at this point in the life of the Pollard Field several of the original field rules enacted in 1953 are no longer necessary to insure orderly production of the field, and we feel our proposal will still serve to protect correlative rights, prevent waste, and

maximize the recovery of the remaining hydrocarbons. The amended field rules will have virtually no effect on the royalty owners and simply result in a more efficient up-to-date set of rules to govern the operation of the Pollard Field. We've talked with the other two operators in the field and have the written concurrence from Energy Reserve Group and a verbal agreement from Tidewater Equipment Company. I have copies of this Energy Reserve Group concurrence if that would be, if it would be in order to put that as part of our...

MR. JOINER: I think you should introduce it. You can pass it to the attorney please. That will be fine.

MR. HENRY: Mr. Bennie Bender is the owner of Tidewater Equipment Company, who purchased the wells from Exxon earlier in this year, and I've talked with him several times, and as I say, we have his verbal agreement that the proposed set of field rules would be in his best interest too.

MR. JOINER: Who signed the approval from Energy Reserves Group?

MR. HENRY: Robert St. Germain.

MR. JOINER: Where is he headquartered?

MR. HENRY: LaFayette, Louisiana. Mr. Bender is also, I believe he's in LaFayette also. I have talked with him on the phone several times. I don't have anything in writing

from him. That concludes the testimony I had to present in support of our petition, Mr. Chairman.

MR. FREEMAN: Mr. Henry, do you offer the Exhibits 1 through 4 into evidence at this time?

MR. HENRY: Yes, sir, I would like to do that. Thank you.

MR. FREEMAN: Are those accepted, Mr. Chairman?

CHMN. ADAMS: Yes, Exhibits 1 through 4 are accepted into evidence.

(Whereupon, Exhibits 1 through 4 were received in evidence to the testimony of Mr. Henry)

MR. JOINER: Mr. Chairman, the staff has had an opportunity to review the proposed rule changes and we find them certainly in order and have no problem with them.

DR. MATHEWS: Mr. Chairman, I move that the petition be granted in this case.

MR. MCCORQUODALE: I second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it and so ordered.

MR. HENRY: Thank you.

MR. JOINER: The next item on the docket is No. 12-20-782, motion by the Oil and Gas Board to amend Statewide Rule C-12 to allow an operator to use other appropriate methods to control

encountered pressures in rotary drilling operations without the use of drilling fluids upon approval by the Supervisor. The Board's attorney will read the proposed rule change.

MR. FREEMAN: Mr. Chairman, the staff has developed a proposed rule which we would like to have submitted for comments which would read as follows:

"RULE C-12. Drilling Fluid.

In rotary drilling operations, the operator shall continuously maintain drilling fluid in the hole, top to bottom, of sufficient weight to control any pressure which may be encountered, provided however, an operator may use other appropriate methods to control any pressure which may be encountered without the use of drilling fluids upon approval of the Supervisor."

Mr. Chairman, the change--that ends the quote--the change would be the last sentence, that is the sentence that begins "provided however" and would allow such other methods as air drilling methods, I believe that's what it's called.

DR. MATHEWS: I understand that this is specifically to accommodate certain shallow wells in the Warrior Basin.

MR. FREEMAN: That's my understanding, yes, sir.

MR. JOINER: That's correct.

DR. MATHEWS: Not a general exception but specific to

certain situations?

MR. JOINER: That's correct, sir.

CHMN. ADAMS: Any comments? (no response)

MR. FREEMAN: If there is no opposition, I would suggest that the motion then be perhaps made to adopt the rule as I read it just a moment ago.

DR. MATHEWS: Do you have any comment?

MR. JOINER: No comments from the staff.

DR. MATHEWS: Mr. Chairman, I move then that we adopt the rule as read by the attorney.

MR. MCCORQUODALE: I second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it.

MR. JOINER: Mr. Chairman, the next item is Docket No. 12-20-784, petition by Exchange Oil and Gas Corporation. Will the Petitioners please come forward?

CHMN. ADAMS: What item did you call?

MR. JOINER: That's Item 9, Docket No. 12-20-784.

MR. ARMBRECHT: Mr. Chairman, I'm Conrad Armbricht from Mobile representing Exchange and I have two witnesses in this matter.

MR. JOINER: All right. Will the witnesses please state

their names for the record please?

FIRST WITNESS: Nelson Warner.

SECOND WITNESS: Phil Fleming.

(Witnesses were sworn by Mr. Joiner)

MR. ARMBRECHT: Mr. Chairman, this is a petition for forced integration of a section abutting the Chunchula Field and to declare it a part of the field, being a productive extension of the field. An emergency order has already been granted in this matter, and operations for drilling are currently in progress on this section. O.K. I will first ask Phil Fleming to testify. He is a landman and has been accepted as an expert witness before the Board previously and I would request that he be accepted on this occasion as an expert petroleum landman.

CHMN. ADAMS: We'll take judicial notice that he's an expert witness.

MR. ARMBRECHT: Thank you, Mr. Chairman.

PHIL FLEMING

Appearing as a witness on behalf of Petitioner, Exchange Oil and Gas Corporation, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

Questions by Mr. Armbricht:

Q Phil, are you personally responsible for operations

insofar as the lands are concerned in the Chunchula Field for Exchange Oil and Gas Corporation?

A Yes, sir.

Q Is there presently pending before the Board petition to force integrate certain tracts and interests in Section 3, Township 1 South, Range 2 West, Mobile County, Alabama?

A Yes, sir, there is.

Q All right, are you familiar with that petition and its contents?

A Yes, sir.

Q Are the allegations made in that petition true?

A Yes, sir, they are.

Q All right, does Exchange Oil and Gas Corporation own or have control of a majority of the minerals and drilling and production rights in Section 3?

A Yes, sir, we do.

Q Are there any persons who claim to own the drilling and production rights or a portion thereof with respect to a separate tract in Section 3 who have not agreed to join with Exchange in the drilling of a deep test gas well on a unit comprised of Section 3?

A Yes, sir, that's true. Right now Exchange owns a lease

covering 56 1/4 percent of the section. There are approximately 100 other people that control leasehold interests within the section. We've been in contact with everyone about participating with us. We've sent out joint operating agreements to all of the parties. These were mailed out last Thursday, so we are in the process of getting some of them back at this time, but it appears that we will probably end up controlling 78 percent, maybe up to a maximum of about 83 percent of the section. Just contingent upon how many AFE's and operating agreements are returned. If some of these lessees do not want to participate in drilling a well by paying their share of the well cost, only request of them to farm out their interests as support for the drilling of a well. There are some unleased mineral interests located within the section. We have contacted all of those people and made them the same, proposed to acquire a lease from them on the same terms as our other lease in Section 3.

MR. JOINER: At the present time, you actually own what percentage? Own or control what percentage?

A Our lease is 56 1/4 percent. We have talked with other people that have indicated they will participate and...

Q Don't we have one signed JOA in already that brings you up to about 58 percent?

A Right. We have two signed already. Like I said, these just went out last Thursday. They have either been mailed or hand delivered to all the other working interest owners.

MR. JOINER: You are asking for approval today. Assuming you've got no more than the 58 percent, would you still proceed with the drilling of the well?

A Yes, sir. But we are assuming that, you know, probably another 20 percent will participate in drilling the well with us.

Q O.K. And you are currently conducting operations for drilling a well on this section right now? You're building location....

A Right now we're building the road and the location for this well.

Q O.K. And the Board has already issued an emergency order force integrating this section?

A Yes, sir.

Q All right. Does the well that you are working on right now comply with the field rules for the Churchula Field?

A Yes, sir.

Q Are you familiar with the Alabama statutory definition of waste?

A Yes, sir.

Q In your opinion, would the granting of Exchange's petition in this matter and the force integration of Section 3 prevent waste within the meaning of the statute and protect the coequal and correlative rights of all parties in this section?

A Yes, sir, it would.

MR. ARMBRECHT: All right. I don't have anymore questions of Phil if you...

MR. JOINER: We have no questions--Oh, one.

MR. WYATT: Mr. Armbrecht, I would like to point out that two sections, Section 36, in both instances Township 1 North, 2 West, and Township 1 South, 2 West, were left off your exhibits.

MR. ARMBRECHT: The exhibits. I'm aware of that. That was just an error in drafting the exhibits but should not be material to the relief requested in this petition. I offer these exhibits and ask that they be marked for identification now. They are a little large, so if we can open one. Phil, would you open that one up please? Nelson Warner is a geologist with Exchange and he has previously testified before the Board and I would ask that his qualifications as an expert petroleum

geologist be accepted.

CHMN. ADAMS: They are accepted.

MR. ARMBRECHT: All right, sir. As Mark pointed out on this map the northeast part of the field, Section 36, 1 North, 2 West, has been included in the field by order of the Board, and the southeast portion of the field, Section 36, 1 South, 2 West, has also been included and they are erroneously omitted in this map.

NELSON WARNER

Appearing as a witness on behalf of Petitioner, Exchange Oil and Gas Corporation, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

Questions by Mr. Armbricht:

Q Nelson, was this exhibit prepared by you or under your direct supervision and control?

A Yes.

Q All right, does this exhibit accurately show what it is intended to show?

A Yes.

Q All right, would you please explain to the Board why you are contending that Section 3, 1 South, 2 West, is a part of the Churchula Field and how the data upon

which you base your opinion is reflected on this structure map?

A Well, we have this, it's the dip. We have no anomalous dip separating this structure that we're drilling on from Chunchula Field. It's all the same.

Q All right. Sections on three sides of this section are currently in the field?

A Right.

MR. ARMBRECHT: O.K. I don't have any further questions.

MR. JOINER: Mr. Armbrrecht, we think you're right. We don't think the omission of the sections from the shown field limits are germane to your case at all and since you've itemized those omissions for us, why that's no problem for us. Chairman Do we have any other questions? Mr. Joiner No questions, Mr. Chairman.

DR. MATHEWS: Mr. Chairman, if there are no further questions or comments on this matter, I move that the petition be granted.

MR. FREEMAN: Were these submitted into evidence?

MR. ARMBRECHT: Oh, yes, I would like to request that those be admitted into evidence.

MR. FREEMAN: Exhibit No. 1?

MR. ARMBRECHT: Exhibit No. 1.

CHMN. ADAMS: Petitioner's Exhibit No. 1 is admitted

into evidence.

(Whereupon, Exhibit No. 1 was
received in evidence to the
testimony of Nelson Warner)

DR. MATHEWS: I repeat my motion, Mr. Chairman.

MR. MCCORQUODALE: I second.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it.

MR. ARMBRECHT: Thank you.

MR. JOINER: The next item, Mr. Chairman, is Item 11,
Docket No. 12-20-788, petition by Terra Resources, Inc.
Petitioner please come forward.

MR. ARMBRECHT: Conrad Armbrecht from Mobile, representing
Terra Resources, and I have one witness in this matter.

MR. JOINER: Would your witness please state his name
clearly for the record please?

MR. MILLS: John D. Mills.

(Witness was sworn by Mr. Joiner)

MR. ARMBRECHT: Mr. Mills has also previously testified
before the Board as an expert geologist and I would request
that his qualifications as an expert for this hearing be accepted.

CHMN. ADAMS: Mr. Mills' qualifications are accepted.

MR. ARMBRECHT: All right, we have this as a petition to

amend Rule 2 of the Special Field Rules of Blooming Grove Field to redefine the Carter Gas Sand--Carter Sand Gas Pool--and we have four exhibits in this matter. These are the signed exhibits, and I would ask that they be marked for identification.

JOHN D. MILLS

Appearing as a witness on behalf of Petitioner, Terra Resources, Inc., having first been duly sworn, testified as follows:

DIRECT EXAMINATION

Questions by Mr. Armbricht:

Q Mr. Mills, what is your position with Terra?

A Geologist, production department.

Q All right, sir. These exhibits, Exhibit 1 is a type log of the M. O. Ritchey No. 3 well, Exhibit 2 is a structure map showing the structural contours on the top of the Carter Sand Gas Pool, Exhibit 3 is an isopach gross interval, and Exhibit 4 is an isopach net pay, and I would ask Mr. Mills please explain--let me ask you first--these exhibits were prepared by you or under your direct supervision and control?

A That's right.

Q Do they accurately show what they are intended to show?

A I think so, yes.

Q And I would ask that Mr. Mills now explain each of these exhibits to the Board.

A Exhibit 1 represents the interval that we would like to have designated as the Carter Sand Gas Pool. The top of it was selected at the base of the Millerella Limestone, which is the point at which you have a lithologic change from limestone in this case to shale, or sandy shale. And the base is the top of the Bangor Limestone which goes from limestone--goes from shale to limestone--and we would like to have any sand within this interval be designated as the Carter Sand Gas Pool. Exhibit No. 2 is a structure map on top of the Carter Sand Gas Pool. Indicates the structural configuration. It's on a 25-foot interval. Exhibit No. 3 is an isopach of the Carter Sand Gas Pool as indicated on Exhibit 1 from the base of the Millerella to the top of the Bangor Limestone. Exhibit No. 4 is the net pay within the interval in question. This interval varies from 0 to a maximum of 31 feet in different sand lenses.

MR. ARMBRECHT: I have no further questions. Does any of the Board or the staff have questions? (No response)

DR. MATHEWS: Mr. Chairman, I move that the petition be granted in this case.

MR. ARMBRECHT: Let me offer these exhibits into evidence if we may. I'm sorry to interrupt you again.

DR. MATHEWS: I'm pleased that you did. I repeat my motion.

MR. JOINER: Could I make one statement before you act. Mr. Mills, we have no problem with the proposal and would recommend favorable action by the Board. I think though we need to state that it's clear understanding by you and all parties that in the event within this Carter Sand interval the Board identifies separate units, it should be treated separately, that they may in the future require dual completion for production. You did understand that on the way in with this, didn't you?

MR. MILLS: Yes, sir.

CHMN. ADAMS: Petitioner's Exhibits 1, 2, 3, and 4 are admitted into evidence.

(Whereupon, Exhibits 1, 2, 3, and
4 were received in evidence to
the testimony of John D. Mills)

DR. MATHEWS: Now I repeat my motion.

MR. MCCORQUODALE: I second it.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it and so ordered.

MR. ARMBRECHT: Thank you.

MR. JOINER: The next item on the docket, Mr. Chairman, Items 12 and 13, Docket Nos. 12-20-789 and Docket No. 12-20-7810, petitions by Belden & Blake Corporation.

MR. HARRISON: Mr. Supervisor, I will have one witness and ask that he be sworn.

MR. JOINER: State your name clearly for the record please.

MR. HAYNES: Charles D. Haynes.

(Witness was sworn by Mr. Joiner)

CHARLES D. HAYNES

Appearing as a witness on behalf of Petitioner, Belden & Blake Corporation, testified as follows:

DIRECT EXAMINATION

Questions by Mr. Harrison:

Q Mr. Haynes, would you again state your name and your employer and your position with the company?

A Charles Haynes, Belden & Blake Corporation, Vice President.

MR. HARRISON: Mr. Supervisor, I will advise you that Mr. Haynes will not be testifying as an expert landman or engineer, which he is qualified as. He will merely be testifying as an officer of the company familiar with the matter at hand. I do have these plats which are identical copies of the plat attached to our original petition that we would submit to the

Board at this time simply for your use in visualizing the acreage we're talking about. Mr. Chairman, Belden & Blake Corporation proposes to drill two new oil wells in this portion of the South Carlton area and shown on the plat that you have before you there are the two tracts. First of all, tract 2-6 in Clarke County and tract 2-10 in Baldwin County. Both of these are in Section 2 of Township 3 North, Range 2 East. Mr. Haynes will testify as to the negotiations that have taken place as to the ownership of all this acreage. First of all, I will tell you that what we have outstanding is, first of all, a .45 acre parcel in tract 2-10. This constitutes--yeah, 2-6, I'm sorry--which constitutes 1.125 percent of the proposed unit, and in tract 2-10 we have a .67 acre parcel which we do not have under lease or control. This constitutes 1.675 percent of the proposed unit.

Q Mr. Haynes, would you now explain the negotiations that have taken place concerning these parcels and tell us the current status of the land situation here?

A These two particular tracts both have some river acreage involved in them. This river acreage is under lease to Exxon Company, and we have received a letter from Exxon indicating that they will farm out this particular portion of these tracts to us. We have under lease with appropriate

title the remaining acreage in those sections other than the acreage or the small parcels that he has explained to you. We request to force pool for the purpose of the timely drilling of these wells during our 1979 program, and we are attempting, however, as we go on with this to obtain the leases and have negotiations underway to do so. We suspect that we may be able to get as much as 81½ percent of these particular small parcels, this .45 and .67 acres. So it's virtually leased up in that respect. However, at this time we're asking for the force pooling.

MR. HARRISON: Mr. Chairman, I would point out that in tract 2-10 the majority of that acreage lies in Clarke County. However, the small tract that we are force pooling here does lie in Baldwin County. It's on the other side of the river there. The center of the river channel is the dividing line between the two counties.

Q Mr. Haynes, are you familiar with the term "waste" as defined by the statutes of Alabama?

A Yes.

Q And will the drilling of a well on each of these tracts prevent waste and protect the coequal and correlative rights of all owners in these tracts?

A It will.

Q Are you familiar with the allegations contained in the

petition that we have submitted for these tracts and are those allegations true?

A That is correct. They're true.

MR. HARRISON: Mr. Chairman, we have no further presentation.

MR. JOINER: No questions, Mr. Chairman.

MR. FREEMAN: I have one question if I may, Mr. Chairman. In the two petitions, one I believe you say that the land is in Clarke County and the other, Item 12, for example, the land that is to be force pooled lies in Clarke County, is that correct?

MR. HARRISON: Item 12?

MR. FREEMAN: That is the land that you do not own or have control of?

MR. HARRISON: Yes, sir, that is correct.

MR. FREEMAN: Is that correct, Mr. Haynes?

MR. HAYNES: I'm sorry. On Item 12? The land lies in Clarke County, in our opinion.

MR. FREEMAN: All right, sir, and in Item 13, the land that you do not own or have control of lies in Baldwin County?

MR. HAYNES: That's correct, in our opinion.

MR. FREEMAN: I have no further questions, Mr. Chairman.

DR. MATHEWS: Mr. Chairman, if there are no further

questions or comments, I move that the petitions be granted in Items 12 and Items 13.

MR. MCCORQUODALE: Second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it.

MR. HARRISON: Thank you, Mr. Chairman.

MR. JOINER: Mr. Chairman, the next item is Item 14, Docket No. 12-20-7811, petition by Southland Royalty Company. Will the Petitioner please come forward?

MR. HARRISON: Mr. Supervisor, I'll have one witness.

MR. JOINER: State your name please.

MR. ZUPPANN: Charles W. Zuppann.

(Witness was sworn by Mr. Joiner)

CHARLES W. ZUPPANN

Appearing as a witness on behalf of Petitioner, Southland Royalty Company, testified as follows:

DIRECT EXAMINATION

Questions by Mr. Harrison:

Q Mr. Zuppann, would you again state your name for the record and your employer and present position?

A Charlie Zuppann, with Southland Royalty Company, and I'm a geologist.

Q Have you testified before this Board before? And do you

have a current affidavit of your qualifications on file with this Board?

A Yes, I do. Yes, I have and yes, I do.

MR. HARRISON: Mr. Chairman, we move that Mr. Zuppann be accepted as an expert geologist.

CHMN. ADAMS: His qualifications are accepted.

(Exhibits were distributed)

Q Mr. Zuppann, were these exhibits that we have just presented prepared by you or under your direct supervision?

A Yes, they were.

CHMN. ADAMS: Excuse me, Counselor, but will you tell us your name and where you're from?

MR. HARRISON: I'm sorry, Mr. Chairman. I'm Steve Harrison from Tuscaloosa. Mr. Chairman, in this item Southland Royalty Company is the operator of the Frank Gibson 12-10 well, Permit No. 2432, located on a unit comprised of the South Half of Section 12, Township 13 South, Range 15 West, Lamar County, Alabama. This well was drilled to the Carter Sand Gas Pool of the Beaverton Field. However, we had completion problems there, and the well simply will not flow. Southland, therefore, proposed to abandon the Frank Gibson well and drill another well to the Carter Sand Gas Pool which will be located 1100 feet from the East line and 2310 feet from the South line in

this same Section 12. This location will be approximately 330 feet from the North line of the unit and the Special Field Rules for the Carter Sand Gas Pool of the Beaverton Field requires 660 feet from the units lines. We are therefore requesting an exceptional location for this well.

Q Mr. Zuppann, will you explain to the Board what your exhibits are intended to portray?

A Yes, Exhibit No. 1 is a structure map at the base of Millerella marker, which is just above the Carter Sand, and it shows that the proposed replacement well will be approximately 15 feet updip of the existing unit well.

Q And your Exhibit No. 2?

A Exhibit No. 2 is a net porous Carter Sand map, and it simply indicates the amount of porous sand anticipated in the well.

MR. HARRISON: Mr. Chairman, we would move that these exhibits be accepted into evidence.

CHMN. ADAMS: Petitioner's Exhibits 1 and 2 are accepted.

(Whereupon, Exhibits 1 and 2
were received in evidence to the
testimony of Charles W. Zuppann)

Q Mr. Zuppann, are you familiar with the term "waste" as defined by the statutes of the State of Alabama?

A Yes, I am.

Q And will the drilling of a well at this location prevent waste, protect coequal and correlative rights, and promote the conservation of natural resources?

A Yes.

MR. HARRISON: Mr. Chairman, we have no further questions and submit Mr. Zuppann for any questions from the Board or staff.

MR. JOINER: We have no questions, Mr. Chairman.

DR. MATHEWS: Mr. Chairman, if there are no further questions or comments on this petition, I move that we grant the petition with the stipulation that the well in question is subject to proration.

MR. MCCORQUODALE: I second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it and so ordered.

MR. HARRISON: Thank you, Mr. Chairman.

MR. JOINER: The next item is Item 15, Docket No. 12-20-787.

This is a Board's motion to make permanent an emergency order passed November 30, 1978, promulgating rules relative to the Federal Energy Regulatory Commission implementation of the Natural Gas Pricing Act. The Board's attorney has available

for review, I believe he has distributed a copy of the proposed order relative to these rules and he has some comments at this time, and then, Mr. Chairman, we would request specifically in this instance that if there are any comments from the audience, that they be solicited also.

MR. FREEMAN: Mr. Chairman, I would like at this time to offer into evidence an exhibit marked for identification as Exhibit No. 1, which is the same as the handout that's available to the audience, and would suggest that comments be invited at this time regarding that exhibit.

MR. SLEDGE: Mr. Chairman, I'm James Sledge, and I'm an attorney for Warrior Drilling & Engineering, Tuscaloosa. I've got a written statement for the Board which I would like to submit to Mr. Freeman. The statement is self-explanatory and sworn. I think it would comply with the Board's rule regarding affidavits before the Board. The statement supports the granting of this relief, granting of these new rules.

MR. FREEMAN: May we mark the statement for identification as Exhibit No. 2, Mr. Sledge?

MR. SLEDGE: That's fine. I think that the Board taking this burden, duty, upon itself is something that's necessary to the continued orderly development of natural gas in the State of Alabama. I am sure that you are aware that in order

for the producers in this state to receive the maximum lawful prices under the Act, under the Natural Gas Policy Act of 1978, it's necessary that gas produced be classified into one of the categories under the Act and that this determination of which category gas falls into has to be made by either the state agency that has authority over gas production or by the Federal Energy Regulatory Commission, and it's almost universal opinion, it's certainly my opinion, that if we were required to conduct this business through the FERC in Washington that the likelihood that producers would receive the maximum price that they can receive would be greatly reduced. Dealing with a long distance agency, it's going to cost more money to do that. The FERC currently lacks the staff to do that although I'm sure if any of the states refuse to do it they will get the staff. But I think these rules do meet the requirements that the FERC regulations and the statute impose and I also feel like they fit within your current rule-making authority and the procedures that you currently follow. I feel that they should be adopted.

MR. FREEMAN: Mr. Sledge, would you move that Exhibits 1 and 2 be received into evidence?

MR. SLEDGE: Yes.

MR. FREEMAN: All right, sir. Are they so admitted,

Mr. Chairman?

CHMN. ADAMS: Mr. Sledge's Exhibits 1 and 2 are admitted into evidence.

(Whereupon, Exhibits 1 and 2
were received in evidence)

MR. SLEDGE: Thank you.

MR. FREEMAN: Mr. Sledge, I don't recall, this might should be considered sworn testimony, was he sworn?

MR. JOINER: He was not sworn.

MR. FREEMAN: I would suggest that he be sworn at this time retroactive to cover the testimony just given.

MR. JOINER: Mr. Sledge may object to the retroactivity.

MR. SLEDGE: No, I don't.

(Mr. Sledge was sworn by Mr. Joiner)

CHMN. ADAMS: Are there any other comments from the audience? (No response)

MR. FREEMAN: There being no other comments, Mr. Chairman, if it pleases the Board, I would suggest that perhaps a motion might be in order to adopt Exhibit No. 1 as it constitutes your order.

DR. MATHEWS: Mr. Chairman, if there are no other comments or objections, I would move that this Board adopt Exhibit No. 1 as just presented as an order of the Board.

MR. MCCORQUODALE: I second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it and so ordered.

MR. JOINER: The next item of business, Mr. Chairman,
Item 16, approval of minutes of meeting of November 10, 1978.

CHMN. ADAMS: Do I hear a motion for approval of the
minutes?

DR. MATHEWS: Mr. Chairman, I move that the minutes of
the last meeting be approved by this Board.

MR. MCCORQUODALE: I second the motion.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: The minutes are approved.

MR. JOINER: That concludes the agenda items, Mr. Chairman.

CHMN. ADAMS: Are we ready to adjourn?

MR. JOINER: If you so desire.

CHMN. ADAMS: All in favor say "aye".

(All Board members voted "aye")

CHMN. ADAMS: "Ayes" have it and we're adjourned.

(Whereupon, at 11:12 A.M. the hearing was adjourned)

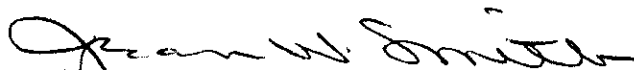
REPORTER'S CERTIFICATE

STATE OF ALABAMA ()

COUNTY OF TUSCALOOSA ()

I, Jean W. Smith, Hearings Reporter in and for the State of Alabama, do hereby certify that on Wednesday, December 20, 1978, in the Board Room of the State Oil and Gas Board Building, University Campus, Tuscaloosa, Alabama, I reported the proceedings before the State Oil and Gas Board of Alabama in Regular Session; that the foregoing 47 typewritten pages contain a true and accurate verbatim transcription of said proceedings to the best of my ability, skill, knowledge, and belief.

I further certify that I am neither of kin or counsel to the parties to said cause, nor in any manner interested in the results thereof.


Jean W. Smith
Hearings Reporter
State of Alabama