

September 21, 2006

INDEX

	DIRECT RE-DIRECT	CROSS/ RE-CROSS	EXAM. BY BOARD/STAFF
1. David Higginbotham	16-19	---	19-20

11-3-06
Mc

September 21, 2006

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Board Exhibit	Hearing Officer Report	14	14
Exhibit A (Item 11)	Affidavit of notice (William T. Watson)	15	15
Exhibit 1 (Item 11)	Structure map, top of Fayette sand, Pickens County, AL (David Higginbotham)	18	19
Exhibit 2 (Item 11)	Cross section A-A', top of Fayette sand, Pickens County, AL (David Higginbotham)	18	19
Exhibit 1 (Item 18)	Affidavit of testimony (Cory J. Ezelle)	21 & 22	21 & 22
Exhibit 2 (Item 18)	Affidavit of personal notice (Conrad P. Armbrrecht)	21	21
Exhibit 3 (Item 18)	Copy of publication notice (The Evergreen Courant)	21	21
Exhibit 4 (Item 18)	9/1/06 letter to Board Conrad P. Armbrrecht)	21	21
Exhibit 5 (Item 18)	Petition protesting drilling of Craft-Mack 7-2 No. 1 Well, Sec. 7, T4N, R13E, Conecuh County, AL	22	22

September 21, 2006

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit 1 (Docket No. 4-25-06-34)	9/21/06 letter to Board (Judith L. McDowell)	24	24
Exhibit 2 (Docket No. 4-25-06-34)	Hearing Officer report from Rebecca Wright Pritchett dated September 5, 2006	24	24
Exhibit 1 (Item 22)	Copy of Order 2006-6	26	27

September 21, 2006

EXHIBITS
(Incorporated by Reference)

DESCRIPTION	OFFERED	RECEIVED
Materials related to Emergency Order E-2006-132	21	21
Board's files relating to Permit No. 14325	21	21
Board's files relating to Permit Nos. 14600-B & 14484	22	22

September 21, 2006

STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

September 21, 2006

Testimony and proceedings before the State Oil and Gas Board in Regular Session in the Board Room of the State Oil and Gas Board Building, University of Alabama Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this the 21st day of September, 2006.

BEFORE

Mr. Gaines C. McCorquodale.....Chairman
Mr. M. Stephen Dampier Member
Mrs. Rebecca Wright Pritchett..... Member

STAFF

Mr. Marvin Rogers..... Attorney
Mr. Berry H. (Nick) Tew, Jr. Secretary and Supervisor
Mr. Jay H. MasingillAssistant Supervisor
Dr. David E. BolinAssistant Supervisor
Mr. Douglas Hall Geologist
Mr. Butch Gregory..... Engineer
Mr. Kirk McQuillan Geologist

APPEARANCES

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38

NAME	REPRESENTING
1. Frances Evans 2236 Pelham Houston, TX 77019	Myself
2. Tom Watson Tuscaloosa, AL	---
3. Eric Hutchens McCalla, AL	Black Warrior Methane Corp.
4. Andy McGee Laurel, MS	Sklar Exploration Company
5. Cory J. Ezelle Shreveport, LA	Sklar Exploration Company
6. Ty A. James Shreveport, LA	Sklar Exploration Company
7. Wesley Pipes P.O. Box 2727 Mobile, AL 36652	Frances Evans
8. Foster Arnold Tuscaloosa, AL	CDX Gas, L.L.C.
9. David Higginbotham Tuscaloosa, AL	Land and Natural Resource Development, Inc.
10. C.P. Armbrecht Mobile, AL	Sklar Exploration Company
11. Bob Singleton Tuscaloosa, AL	Dominion Black Warrior

September 21, 2006

APPEARANCES

1
2
3
4
5
6
7
8
9
10
11
12
13
14

NAME	REPRESENTING
12. Tim Hutchinson Butler, AL	Lower 15 Oil Corporation
13. Fred Schlosser 2238 Morton Chapel Rd. Vernon, AL	Self
14. Maurice Delk 11821 County Road 9 Millport, AL 35576	Self

(The hearing was convened at 10:15 a.m. on
Thursday, September 21, 2006, at Tuscaloosa, Alabama.)

CHMN. MCCORQUODALE: Let the record reflect that the State Oil and Gas Board is
now in session.

DR. TEW: Members of the Board, the staff has prepared a docket for today's hearing.

AGENDA
STATE OIL AND GAS BOARD OF ALABAMA
SEPTEMBER 19 & 21, 2006

The State Oil and Gas Board of Alabama will hold its regular meeting at 10:00 a.m. on Tuesday, September 19, 2006, and Thursday, September 21, 2006 in the Board Room of the State Oil and Gas Board, Walter B. Jones Hall, University of Alabama Campus, 420 Hackberry Lane, Tuscaloosa, Alabama, to consider among other items the following petition(s):

1. DOCKET NO. 9-28-05-4A

Continued amended petition by S. LAVON EVANS, JR. 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 enter an order force pooling, without imposition of a risk compensation penalty, all tracts and interests in hydrocarbons produced in the Earnest 26-15 #1 Well, Permit No. 13133, located on a 320-acre drilling unit consisting of the South Half of Section 26, Township 17 South, Range 9 West, Tuscaloosa County, Alabama, in the Wiley Dome Field.

This Petition is in accordance with Section 9-17-13, Code of Alabama (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board of Alabama Administrative Code.

2. DOCKET NO. 9-28-05-5A

Continued amended petition by S. LAVON EVANS, JR. 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 enter an order force pooling, without imposition of a risk compensation penalty, all tracts and interests in hydrocarbons produced in the Earnest 26-

1 14 #1 Well, Permit No. 13905, located on a 320-acre unit consisting of the
2 South Half of Section 26, Township 17 South, Range 9 West, Tuscaloosa
3 County, Alabama, in the Wiley Dome Field.

4
5 This Petition is in accordance with Section 9-17-13, Code of Alabama
6 (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board of
7 Alabama Administrative Code.

8
9 3. DOCKET NO. 1-31-06-23

10 Continued petition by LOCAL, INC., a foreign corporation authorized to
11 do and doing business in the State of Alabama, requesting the State Oil
12 and Gas Board to enter an order reforming the unit for the Richards 23-5
13 #1 Well, Permit No. 12294-A, from a 320-acre gas unit consisting of the
14 North Half of Section 23, Township 16 South, Range 15 West, Lamar
15 County, Alabama, in the East Mt. Zion Gas Field to a 40-acre oil unit
16 consisting of the Southwest Quarter of the Northwest Quarter of said
17 Section 23.

18
19 The Board established the East Mt. Zion Gas Field by Order 2002-34,
20 dated April 19, 2002, and Petitioner alleges that the Richards 23-5 # 1
21 Well currently produces as an oil well and should not be classified as a gas
22 well. Although Petitioner requests the Board to eliminate certain lands
23 from the present 320-acre gas unit, Petitioner proposes to drill one or more
24 additional oil wells as warranted in the lands proposed to be eliminated.

25
26 This petition is a companion to petition bearing Docket No. 1-31-06-24
27 requesting establishment of a new oil field in Lamar County, Alabama.

28
29 4. DOCKET NO. 1-31-06-24

30 Continued petition by LOCAL, INC., a foreign corporation authorized to
31 do and doing business in the State of Alabama, requesting the State Oil
32 and Gas Board to enter an order establishing a new oil field to be known
33 as the East Mt. Zion Oil Field, or by such other name as the Board deems
34 appropriate and to adopt Special Field Rules therefor. The proposed field, as
35 underlain by the Lewis Sand Oil Pool, consists of the North Half of Section
36 23, Township 16 South, Range 15 West, Lamar County, Alabama.

37
38 The Lewis Sand Oil Pool should be defined as that interval of the Lewis
39 Sand Formation productive of hydrocarbons between 4,924 feet and 4,940
40 feet, as indicated on the Dual Induction Log of the Richards 23-5 #1 Well,
41 Permit No. 12294-A, located 360 feet FNL and 660 feet FWL of the

1 proposed 40-acre unit for said well consisting of the Southwest Quarter of
2 the Northwest Quarter of said Section 23 in Lamar County, Alabama.
3 Petitioner is requesting well spacing of a governmental quarter-quarter
4 section containing approximately 40 acres, and is also requesting the
5 establishment of allowables for said field.
6

7 This petition is a companion to petition bearing Docket No. 1-31-06-23
8 requesting reformation of the 320-acre gas unit for the Richards 23-5 #1
9 Well, Permit No. 12294-A, to a 40-acre oil unit.
10

11 5. DOCKET NO. 3-7-06-10A

12 Continued amended petition by BLACK WARRIOR METHANE CORP.,
13 an Alabama corporation, requesting the State Oil and Gas Board to enter
14 an order reforming the unit for the Champion 8-7-248 Well, Permit
15 No.11693-C, from an 80-acre unit consisting of the West Half of the
16 Northeast Quarter of Section 8, Township 20 South, Range 8 West,
17 Tuscaloosa County, Alabama, in the Brookwood Coal Degasification
18 Field to a 40-acre unit consisting of the Southwest Quarter of the
19 Northeast Quarter of said Section 8.
20

21 Although Petitioner requests the Board to eliminate certain lands from the
22 present spacing unit, Petitioner proposes to drill another coalbed methane
23 well in the lands proposed to be eliminated.
24

25 6. DOCKET NO. 4-25-06-5

26 Continued petition by ROBINSON'S BEND OPERATING II, LLC, a
27 foreign corporation, authorized to do and doing business in the State of
28 Alabama, requesting the State Oil and Gas Board to enter an order
29 reforming the unit for the Findley #21-2-89 Well, Permit No.7843-C, from
30 an 80-acre unit consisting of the Northwest Quarter of the Northeast
31 Quarter and the Northeast Quarter of the Northwest Quarter of Section 21,
32 Township 21 South, Range 11 West, Tuscaloosa County, Alabama, in the
33 Robinson's Bend Coal Degasification Field to a 40-acre unit consisting of
34 the Northwest Quarter of the Northeast Quarter of said Section 21.
35

36 Although Petitioner requests the Board to eliminate certain lands from the
37 present spacing unit, Petitioner proposes to drill another coalbed methane
38 well in the lands proposed to be eliminated.

1 7. DOCKET NO. 6-19-06-5

2 Continued petition by ROBINSON'S BEND OPERATING II, LLC, a
3 foreign corporation, authorized to do and doing business in the State of
4 Alabama, requesting the State Oil and Gas Board to enter an order
5 reforming the unit for the Maxwell Crossing B11 11-1 #631 Well, Permit
6 No. 8186-C, from an 80-acre unit consisting of the East Half of the
7 Northeast Quarter of Section 11, Township 22 South, Range 11 West,
8 Tuscaloosa County, Alabama, in the Robinson's Bend Coal Degasification
9 Field to a 40-acre unit consisting of the Northeast Quarter of the Northeast
10 Quarter of said Section 11.

11
12 Although Petitioner requests the Board to eliminate certain lands from the
13 present spacing unit, Petitioner proposes to drill another coalbed methane
14 well in the lands proposed to be eliminated.

15
16 8. DOCKET NO. 6-19-06-6

17 Continued petition by ROBINSON'S BEND OPERATING II, LLC, a
18 foreign corporation, authorized to do and doing business in the State of
19 Alabama, requesting the State Oil and Gas Board to enter an order
20 reforming the unit for the Maxwell Crossing A11 2-15 #679 Well, Permit
21 No. 8505-C, from an 80-acre unit consisting of the West Half of the
22 Southeast Quarter of Section 2, Township 22 South, Range 11 West,
23 Tuscaloosa County, Alabama, in the Robinson's Bend Coal Degasification
24 Field to a 40-acre unit consisting of the Southwest Quarter of the
25 Southeast Quarter of said Section 2.

26
27 Although Petitioner requests the Board to eliminate certain lands from the
28 present spacing unit, Petitioner proposes to drill another coalbed methane
29 well in the lands proposed to be eliminated.

30
31 9. DOCKET NO. 7-24-06-8

32 Continued petition by CDX GAS, L.L.C., a Texas limited liability company,
33 authorized to do and doing business in the State of Alabama, requesting the
34 State Oil and Gas Board to enter an order pursuant to Section 9-17-1 et seq.,
35 Code of Alabama (1975) and Rule 400-3-2-.01(5) of the State Oil and Gas
36 Board of Alabama Administrative Code and as an exception to the Special
37 Field Rules for the Gurnee Coal Degasification Field requesting approval
38 of the permit, construction method, completion technique, and casing
39 requirements for the drilling of a Z-PINNATE[®] coalbed methane well, the
40 240-acre unit for which well shall be the Northwest Quarter and the West
41 Half of the Northeast Quarter of Section 14, Township 22 South, Range 4

1 West, Shelby County, Alabama in the Gurnee Coal Degasification Field in
2 order to avoid the drilling of unnecessary wells, minimize surface
3 disturbance, increase the efficiency of operations, and avoid waste.
4

5 10. DOCKET NO. 7-24-06-9

6 Continued petition by CDX GAS, L.L.C., a Delaware limited liability
7 company, authorized to do and doing business in the State of Alabama,
8 requesting the State Oil and Gas Board to enter an order pursuant to Section
9 9-17-1 et seq., Code of Alabama (1975) and Rule 400-3-2-.01(5) of the State
10 Oil and Gas Board of Alabama Administrative Code and as an exception
11 to the Special Field Rules for the Gurnee Coal Degasification Field
12 requesting approval of the permit, construction method, completion
13 technique, and casing requirements for the drilling of a Z-PINNATE®
14 coalbed methane well, the 320 acre unit for which well shall be the East Half
15 of Section 2, Township 22 South, Range 4 West, Shelby County, Alabama in
16 the Gurnee Coal Degasification Field in order to avoid the drilling of
17 unnecessary wells, minimize surface disturbance, increase the efficiency of
18 operations, and avoid waste.
19

20 11. DOCKET NO. 8-22-06-1

21 Continued petition by LAND AND NATURAL RESOURCE
22 DEVELOPMENT, INC., an Alabama corporation, requesting the State Oil
23 and Gas Board to enter an order approving an exception to Rule 3(b) of
24 the Special Field Rules for the Coal Fire Creek Field, Pickens County,
25 Alabama, for the exceptional location of the proposed Brookshire 20-1
26 No. 2 Well. Petitioner proposes to drill said well on a 320-acre unit
27 consisting of the N/2 of Section 20, Township 18 South, Range 14 West,
28 Pickens County, Alabama, at a location 1100 feet from the North line and
29 330 feet from the East line of said Section 20. Said Rule 3(b) requires that
30 wells drilled in said Field be located at least 660 feet from every exterior
31 boundary of the drilling unit, and the proposed location of the referenced
32 well is only 330 feet from the East line of the 320-acre drilling unit for
33 said well.
34

35 12. DOCKET NO. 8-22-06-3

36 Continued petition by MIDROC OPERATING COMPANY, a foreign
37 corporation authorized to do and doing business in the State of Alabama,
38 requesting the State Oil and Gas Board to enter an order finding that the
39 contribution of the separately owned Tracts in the Little Cedar Creek Oil
40 Unit have been shown to be erroneous by subsequently discovered
41 productivity data from a well in the Little Cedar Creek Oil Unit, namely, the

1 Cedar Creek Land and Timber 15-6 Well, Permit No. 14692, said well
2 having a surface location in Section 15, Township 4 North, Range 12 East,
3 Conecuh County, Alabama, in the Little Cedar Creek Field. The Unit
4 Operator has calculated the new Tract participation factors to reflect the
5 altered Tract contribution and requests the Board to approve the revised
6 Tract participation factors of each affected Tract in the Little Cedar Creek
7 Oil Unit in Conecuh County, Alabama.

8
9 The redetermination of Unit Tract participation factors for the Little Cedar
10 Creek Oil Unit, Conecuh County, Alabama, is in accordance with the
11 provisions of the Unit Agreement and Section 9-17-86 of the Code of
12 Alabama (1975).

13
14 This petition is filed as a companion to a petition bearing Docket No. 8-22-
15 06-4 requesting redetermination of Unit Tract participation for the Little
16 Cedar Creek Oil Unit based on subsequently discovered pore volume data
17 from the Cedar Creek Land and Timber 15-6 Well.

18
19 13. DOCKET NO. 9-19-06-1

20 Petition by EL PASO E&P COMPANY, L.P., a Delaware limited
21 partnership, authorized to do and doing business in the State of Alabama,
22 requesting the State Oil and Gas Board to enter an order pursuant to Section
23 9-17-1 et seq., Code of Alabama (1975) to amend Rule 2 of the Special Field
24 Rules for the White Oak Creek Coal Degasification Field, Walker, Jefferson
25 and Tuscaloosa Counties, Alabama to expand the area limits of the White
26 Oak Creek Coal Degasification Field to include the hereinafter described
27 "Expansion Area."

28
29 The proposed Expansion Area consists of approximately 19,680 acres, more
30 or less, described as follows:

31 In Walker County:

32
33 Sections 29, 30, 31, 32, 33, Township 16 South, Range 7 West

34
35 Sections 7, 8, 9, 10, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25,
36 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36,
37 Township 16 South, Range 8 West

38
39 S/2 S/2 Section 14, Township 16 South, Range 8 West

40
41 W/2 Section 24 of Township 16 South, Range 8 West

14. DOCKET NO. 9-19-06-2

Petition by EL PASO E&P COMPANY, L.P., a Delaware limited partnership, authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board to enter an order pursuant to Section 9-17-1 et seq., Code of Alabama (1975) to amend Rule 2 of the Special Field Rules for the Short Creek Coal Degasification Field, Jefferson County, Alabama to expand the area limits of the Short Creek Coal Degasification Field to include the hereinafter described "Expansion Area."

The proposed Expansion Area consists of approximately 15,200 acres, more or less, described as follows:

In Jefferson and Walker Counties, Alabama:

Section 25, Township 17 South, Range 7 West;

SE/4 Section 1; S/2 Section 10; Sections 11, 12, 13, 14;
E/2 Section 15; S/2 Section 17; Sections 20, 21, 22, 23, 24,
25, 26, 27, 28, 29, 30 Township 17 South, Range 6 West;

N/2, SW/4 Section 4; SW/4 Section 6; Sections 7, 8; SW/4, N/2 Section
17;

Sections 18, 19; NW/4 Section 30, Township 17 South, Range 5 West.

15. DOCKET NO. 9-19-06-3

Petition by VENTEX OPERATING CORP., 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 establishing a 160-acre production unit for the Kelly 24-9 #1 Well, Permit No. 14592, said production unit to consist of the South Half of the Northeast Quarter and the North Half of the Southeast Quarter of Section 24, Township 3 North, Range 7 East, Escambia County, Alabama, in the North Smiths Church Field.

The above-described 160-acre wildcat unit was approved as a drilling unit for the Kelley 24-9 #1 Well by Board Order No. 2006-33 issued on March 9, 2006, as an exception to Rule 3(a) of the Special Field Rules for the North Smiths Church Field, and Petitioner now requests that the Board establish said 160-acre unit as the production unit for said well.

16. DOCKET NO. 9-19-06-4

Petition by BLACK WARRIOR METHANE CORP., an Alabama corporation, requesting the State Oil and Gas Board to enter an order approving an exception to Rule 5 of the Special Field Rules for the Brookwood Coal Degasification Field for the open hole completion of the GSPC 08-13-438 Well, Permit No. 14584-C, located in Section 8, Township 20 South, Range 8 West, Tuscaloosa County, Alabama.

This petition was previously granted by Emergency Order No. E-2006-131, issued on August 24, 2006.

17. DOCKET NO. 9-19-06-5

Petition by EL PASO E&P COMPANY, L.P., a Delaware limited partnership, authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board to enter an order reforming the unit for the USX 13-04-408, Permit No. 12433-C, from an 80-acre unit consisting of the West Half of the Northwest Quarter of Section 13, Township 17 South, Range 8 West, Tuscaloosa County, Alabama in the White Oak Creek Coal Degasification Field, to an 80-acre unit consisting of the Northwest Quarter of the Northwest Quarter of Section 13, Township 17 South, Range 8 West and the Northeast Quarter of the Northeast Quarter of Section 14, Township 17 South, Range 8, Tuscaloosa County, Alabama, in the White Oak Creek Coal Degasification Field. Although Petitioner requests the Board to eliminate certain lands from the present spacing unit, Petitioner proposes to drill another coalbed methane well in the lands proposed to be eliminated from the current unit by formation of an additional 80 acre unit comprised of the Southwest Quarter of the Northwest Quarter of said Section 13, Township 17 South, Range 8 West and the Southeast Quarter of the Northeast Quarter of Section 14, Township 17 South, Range 8 West, Tuscaloosa County, Alabama.

18. DOCKET NO. 9-19-06-6

Petition by SKLAR EXPLORATION COMPANY, LLC, a Louisiana limited liability company authorized to do and doing business in the State of Alabama, requesting that the State Oil and Gas Board of Alabama enter an order approving an exceptional location for the Craft-Mack 7-2 No. 1 well, Permit No. 14325, on a wildcat 160-acre unit consisting of the Northeast Quarter of Section 7, Township 4 North, Range 13 East, Conecuh County, Alabama. The surface location of said well is 660 feet from the North line and 1980 feet from the East line of said Section 7 and

1 the bottom hole location is located no closer than 550 feet from the North
2 line of the unit and approximately 1,875 feet from the East line of the unit.
3 Said bottom hole location is located less than 660 feet from the exterior
4 boundary of the unit and is an exception to Rule 400-1-2-.02(2)(b). By
5 Emergency Order No. E-2006-132 dated August 24, 2006, the State Oil
6 and Gas Board approved this exceptional location for no longer than 45
7 days or until the next regularly scheduled meeting of the Board, and this
8 petition will request that the emergency order be made permanent. This
9 petition is filed pursuant to Ala. Code Sections 9-17-1, et seq. (and, in
10 particular, Section 9-17-12, as amended) and Rules 400-1, et seq. (and, in
11 particular, Rule 400-1-2-.02) of the State Oil and Gas Board of Alabama
12 Administrative Code.

13
14 19. DOCKET NO. 9-19-06-7

15 Petition by CDX Gas, LLC, a Delaware limited liability company,
16 authorized to do and doing business in the State of Alabama, requesting
17 the State Oil and Gas Board to enter an order reforming the unit for the
18 SEGCO 15-06-175 well, Permit No. 14683-C, from a 40-acre unit
19 consisting of the Southeast Quarter of the Northwest Quarter of Section
20 15, Township 22 South, Range 4 West, Shelby County, Alabama in the
21 Gurnee Coal Degasification Field, to an 80-acre unit consisting of the East
22 Half of the Northwest Quarter of said Section 15.

23
24 20. DOCKET NO. 4-30-03-7

25 Continued MOTION BY THE STATE OIL AND GAS BOARD OF
26 ALABAMA to consider issuing an order for Vintage Petroleum, Inc.,
27 Hunt Refining Company, and Pruet Production Company to clean up and
28 remove the oil on the lands of Lois Ezell and the adjoining pipeline right-
29 of-way located in Section 29, Township 11 North, Range 3 West, Choctaw
30 County, Alabama. Vintage Petroleum, Inc., operates the Ezell 29-5 Well,
31 Permit No. 1844, on the lands of Lois Ezell, and certain oil pipelines on
32 the pipeline right-of-way adjoining the lands of Lois Ezell. Hunt Oil
33 Company operates an oil pipeline on the pipeline right-of-way adjoining
34 the lands of Lois Ezell. Pruet Production Company operates a natural gas
35 pipeline and a salt-water pipeline on the pipeline right-of-way adjoining
36 the lands of Lois Ezell. The jurisdiction and authority of the Board is set
37 forth in Section 9-17-1 et seq. of the Code of Alabama (1975), as
38 amended.

1 21. DOCKET NO. 8-22-06-15

2 Continued MOTION BY THE STATE OIL AND GAS BOARD OF
3 ALABAMA to notify Operator, Escambia Operating Co. LLC that in
4 accordance with Rule 400-1-2-.03(4) of the State Oil and Gas Board of
5 Alabama Administrative Code the Board may require a higher amount of
6 blanket bond than is specified in Rule 400-1-2-.03(2) relating to blanket
7 bonds. The Motion is an opportunity for Escambia Operating Co. LLC to
8 present evidence to the Board in support of a proposed blanket bond
9 amount regarding the wells that it proposes to operate in Alabama.

10
11 22. DOCKET NO. 9-19-06-8

12 MOTION BY THE STATE OIL AND GAS BOARD OF ALABAMA for
13 S. Lavon Evans, Jr., Operating Co., Inc. to submit to the Board certain
14 documents required by the Board in Order No. 2006-6 dated January 13,
15 2006. In the Order, the Board issued a fine of \$10,000 for violations of
16 certain regulations and ordered that "for all the permitted wells that S.
17 Lavon Evans, Jr., Operating Co., Inc., presently operates, it shall submit
18 within a timely manner to the Board with notice and hearing (a) a written
19 title opinion prepared by a licensed Alabama attorney, (b) a report naming all
20 royalty owners and their interest in the unit, and (c) a statement by a licensed
21 Alabama attorney that the Affidavit of Ownership or Control for each
22 permitted well operated by S. Lavon Evans, Jr., Operating Co., Inc., is
23 accurate." This Motion is set pursuant to the Oil and Gas Laws, Section 9-
24 17-1 et seq., Ala. Code 1975. S. Lavon Evans, Jr. Operating Company,
25 Inc. operates wells in Tuscaloosa, Lamar, Pickens and Jefferson Counties,
26 Alabama.

27
28
29 The meetings of the State Oil and Gas Board are public meetings, and
30 members of the public are invited to attend and present their position
31 concerning this petition(s). Requests to continue or oppose a petition
32 should be received by the Board at least two (2) days prior to the hearing.
33 For additional information, you may contact the State Oil and Gas Board,
34 P. O Box 869999, Tuscaloosa, Alabama 35486-6999, Telephone Number
35 205/349-2852, Fax Number 205/349-2861, or by email at
36 petitions@ogb.state.al.us.

37
38 DR. TEW: The Hearings Reporter has received and compiled proofs of publication of the
39 items to be heard today. The Hearing Officer and the staff heard various items at the Hearing
40 Officer meeting and at this time the Hearing Officer will make his report to the Board.

1 MR. ROGERS: Mr. McCorquodale, Mr. Dampier and Mrs. Pritchett, I have a written
2 report of the items heard by the Hearing Officer and the staff on Tuesday, September 19, 2006.
3 Copies of the report are available for members of the public to review and study. I recommend
4 the report be adopted by the Board.

5 MR. DAMPIER: Move.

6 MRS. PRITCHETT: Second.

7 CHMN. MCCORQUODALE: All in favor say "aye."

8 (All Board members voted "aye")

9 CHMN. MCCORQUODALE: "Ayes" have it.

10 MR. ROGERS: Mr. Chairman, I recommend the report be made a part of the record.

11 CHMN. MCCORQUODALE: That request is granted.

12 (Whereupon, the report was received in evidence)

13 DR. TEW: Mr. McCorquodale, Mr. Dampier and Mrs. Pritchett, the staff would
14 recommend approval of the minutes of the following meetings: August 22, 2006, regular
15 Hearing Officer meeting; August 24, 2006, regular Board meeting; August 24, 2006, emergency
16 Board meeting; August 31, 2006, emergency Hearing Officer meeting; September 13, 2006,
17 special Hearing Officer meeting; September 13, 2006, emergency Hearing Officer meeting.

18 MRS. PRITCHETT: So move.

19 MR. DAMPIER: Second.

20 CHMN. MCCORQUODALE: All in favor say "aye."

21 (All Board members voted "aye")

22 CHMN. MCCORQUODALE: "Ayes" have it.

23 MR. ROGERS: Mr. Chairman and members of the Board, the following items are set for
24 hearing today: Item 11, Docket No. 8-22-06-1, petition by Land and Natural Resource
25 Development, Inc.; Item 18, Docket No. 9-19-06-6, petition by Sklar Exploration Company,
26 LLC; Item 21, Docket No. 8-22-06-15, motion by the Board relating to Escambia Operating
27 Company, LLC and its operations; Item 22, Docket No. 9-19-06-8, motion by the State Oil and
28 Gas Board relating to operations by S. Lavon Evans, Jr. Operating Company, Inc.; a report by

September 21, 2006

1 Dominion concerning its operations in St. Clair County; a Hearing Officer report issued by the
2 Board relating to Lower 15 Oil Corporation, and two emergency petitions, Docket No. 9-8-06-1,
3 petition by Robinson's Bend Operating II, LLC and Docket No. 9-18-06-1, petition by Black
4 Warrior Methane Corporation.

5 CHMN. MCCORQUODALE: Mr. Rogers, due to some time issues let's move Item 21, a
6 motion by the Board regarding Escambia Operating and Item 22, a motion by the Board
7 regarding S. Lavon Evans, Jr. to the end of the docket and hear the other items prior to hearing
8 those.

9 MR. ROGERS: That brings us then to Item 11, Docket No. 8-22-06-1, petition by Land
10 and Natural Resource Development, Inc.

11 MR. WATSON: Mr. Chairman, I have prefiled an affidavit of notice in this matter and
12 would ask that it be admitted into the record.

13 CHMN. MCCORQUODALE: Admitted.

14 (Whereupon, the affidavit was received in evidence)

15 MR. WATSON: This is a request asking the Board to approve an exceptional location
16 for a well to be drilled on a 320-acre unit in the Coal Fire Creek Field in Pickens County,
17 Alabama. This would be a 320-acre unit drilled at an exceptional location. I have one witness
18 and would like to have him sworn in.

19 MR. ROGERS: Will you state your name and address?

20 MR. HIGGINBOTHAM: David Higginbotham, Tuscaloosa, Alabama.

21 (Witness was sworn by Mr. Rogers)

22 MR. WATSON: Mr. Higginbotham, I've described the nature of this petition to the
23 Board, being an exceptional location for a well you propose to drill in the Coal Fire Creek Field.
24 Have you prepared exhibits in support of this request for the exceptional location?

25 MR. HIGGINBOTHAM: Yes I have.

26 MR. WATSON: Do you have on file an affidavit of your qualifications as a petroleum
27 geologist?

28 MR. HIGGINBOTHAM: Yes I do.

September 21, 2006

1 MR. WATSON: Mr. Chairman, I tender Mr. Higginbotham as an expert witness for
2 testifying in this matter.

3 CHMN. MCCORQUODALE: He is so recognized.

4 DAVID HIGGINBOTHAM

5 Appearing as a witness on behalf of Petitioner, Land and Natural Resource Development,
6 Inc., testified as follows:

7 DIRECT EXAMINATION

8 Questions by Mr. Watson:

9 Q. Turn to your Exhibit No. 1. Tell us what that exhibit is and then describe the information
10 shown on the exhibit, please, sir.

11 A. Exhibit No. 1 is a structure contour map on top of the Fayette sand. The contour interval
12 is 50 feet. It is in the Coal Fire Creek Field. Illustrated in the color pink are faults. The
13 block is on the downthrown side of the fault. These are all normal faults approximately
14 60 degrees. Illustrated next in the same color you will see two numbers. For example, if
15 you look in the top of Section 17 it will show 40 feet/-3624, 40 feet/-4164 directly above
16 Permit Number 4326. The permit numbers on this map are indicated in black. Again, the
17 numbers above that in pink relate to the faults and the fault cuts. The scale of this map is
18 1-inch equals 1,000 feet. If we could direct your attention specifically to Section 20,
19 what we are asking for is to get an exceptional location to the rule saying that you've got
20 to be 660 feet off the line. The reason we are asking for that exception is because an
21 exceptional location will significantly reduce the geological risk of a dry hole. I would
22 like to explain why that is. Before I do that though I will indicate that the proposed unit
23 that we are wanting is in the North Half of Section 20 and it is outlined in the color
24 orange. If we can first look at--everything takes place in the Northwest Quarter of
25 Section 20.

26 Q. That's the Northeast Quarter of Section 20.

27 A. I'm sorry, you're right, the Northeast Quarter of Section 20. Look at Permit Number
28 4851. Permit Number 4851 was a well that was drilled by Terra Resources in the 1980's.

September 21, 2006

1 It came in downthrown at the Fayette sand. The top of the Fayette sand in that well bore
2 is at a subsea depth of -2322. Directly below that I have written that there is a 95 foot
3 fault cut in the well bore at a subsea depth of -2462. That fault cut cuts below the Fayette
4 sand, therefore the Fayette sand is downthrown in that well. Usually out here in the
5 Black Warrior Basin downthrown faults do not trap gas. That's why that well was a dry
6 hole. That well did have 14 feet of permeability in the center of the Fayette sand. On the
7 map I have indicated that it has 14 feet of microlog in the Fayette sand. Microlog, we
8 used out here to indicate permeability. That's a standard that has been used in this Basin
9 for 20 something years. So, that well bore had 14 feet of permeable sand as defined by
10 microlog. Munoco Oil Company had the idea that that was a good looking sand if only
11 they could get it upthrown to the fault. So, they drilled a well just to the west of it and
12 that was Permit Number 11868. It turned out that they drilled in the wrong direction
13 because they came in downthrown also as is illustrated by their 105 foot fault cut at a
14 subsea depth of -2876. The top of the Fayette sand in that well was flat to the first well.
15 It was at 2322. What they were trying to do was to get upthrown on the fault. They did
16 not accomplish that objective. Secondly, they also got zero feet of permeability in the
17 Fayette sand. As I have indicated next to the well bore it has got zero feet of microlog in
18 the Fayette sand. Even if they had come in upthrown and gotten a sand that looked like it
19 did in that well bore they would have had a dry hole because there is no permeability.
20 Therefore, what I have done is I have said we can still get upthrown to that same fault at
21 the Fayette sand and encounter that 14 feet of permeability that was in the downthrown
22 well in Permit Number 4851. That's what we want to do. The reason we want an
23 exceptional location is if you look again at the Munoco well, Permit No. 11868, it had
24 zero feet of microlog separation, meaning it had zero feet of permeability. Permit No.
25 4851, the old Terra well, had 14 feet of permeability. Now, somewhere between those
26 two wells is a permeability barrier. The orientation and the strike of that permeability are
27 strictly interpretive. The orientation of that permeability could trend in any number of
28 directions. What we do know is we do know that Permit Number 11868 is tight and has

September 21, 2006

1 no permeability and that Permit Number 4851 has 14 feet of excellent permeability.
2 Therefore, a permeability barrier does indeed exist between the two wellbores. What we
3 plan to do is to go upthrown on that fault and try and encounter the same reservoir as was
4 encountered in Permit Number 4851 and get those 14 feet of permeability. Now, if we
5 drilled a well at a legal location which would be 660 off the line that would be putting us
6 much closer to Permit Number 11868 that had no permeability. Therefore, a well located
7 330 off the line would be closer to the well that had permeability. Therein lies the basis
8 for our exceptional location. We want to be on the upthrown side of the fault and we
9 want to be upthrown closest to the well that had the permeability because if we drilled a
10 legal location and we get upthrown to the fault but have no permeability we are going to
11 have a dry hole.

12 Q. On that same exhibit you show a cross section A-A'. Let's turn to that, Mr.
13 Higginbotham, and explain what you are showing on that cross section.

14 A. Cross section A-A' illustrates the Fayette sand in this particular area. The well that I
15 mentioned, Permit Number 4851, is the well that Terra had drilled. As you can see on
16 this log it has 14 feet of excellent microlog separation which means it has got
17 permeability. If you look just to the left of that, the Munoco well does not have that same
18 section of permeability. It does not have any microlog. At the top of that log I have
19 indicated that the Fayette sand is tight. In the Terra well, Permit No. 4851, the Fayette
20 sand has very high permeability. Next to that log on the right I have indicated that that is
21 the objective zone in the proposed exceptional location which we are trying to get. In
22 summary, the reason for wanting the exceptional location is because if we drill at a legal
23 location there will be a much greater chance of drilling a dry hole because we will be
24 drilling closer to the well that had no permeability. If we drill at an exceptional location
25 there will be less geological risk of a dry hole because we will be drilling closer to the
26 well that had the 14 feet of permeability.

27 MR. WATSON: All right. Mr. Chairman, receive into the record of this hearing
28 Exhibits 1 and 2 to the testimony of Mr. Higginbotham.

September 21, 2006

1 CHMN. MCCORQUODALE: Admitted.

2 (Whereupon, the exhibits were receive in evidence)

3 Q. Mr. Higginbotham, you have very succinctly stated your reasons for the exception.
4 Would granting this exceptional location that you have requested prevent waste and
5 protect correlative rights?

6 A. Yes it would.

7 MR. WATSON: I tender Mr. Higginbotham to you for any questions you have on this
8 item.

9 CHMN. MCCORQUODALE: Are there questions?

10 DAVID HIGGINBOTHAM

11 EXAMINATION BY BOARD/STAFF

12 Questions by Mr. McQuillan:

13 Q. Mr. Higginbotham, this is with regard to your permeability barrier, the orientation. You
14 stated that it could be oriented in a number of different ways. Correct?

15 A. That is correct.

16 Q. From your cross section you show that well Permit Number 4198 has no permeability,
17 right?

18 A. That's correct.

19 Q. In your opinion could you possibly extend your permeability barrier up to the east side of
20 that well which, in fact, the way you have it oriented the map would be pretty much a
21 good direction then, right?

22 A. Absolutely.

23 Q. I guess my question is, is that well too far away to really be significant in this case?

24 A. It's really not too far away to be significant but the nature of the Fayette sand; it's a
25 barrier bar type sand. I think the particular lithofacies and that it's got permeability is an
26 incised tidal channel fill. How far that extends, nobody really knows. There is not
27 enough subsurface to control to say absolutely which way or which way it is not. The

1 fact that the well to the northeast is tight certainly gives credibility to the interpretation
2 that I have drawn the permeability barrier in the most logical way on the map.

3 Q. Yes I agree. In that case a 660 would put the well right on the barrier as you have drawn
4 it?

5 A. Yes sir.

6 MR. MCQUILLAN: Thank you very much.

7 CHMN. MCCORQUODALE: Are there other questions?

8 MR. DAMPIER: Mr. Chairman, I move that the petition be granted.

9 MRS. PRITCHETT: I will second that provided that a directional survey is performed to
10 verify the bottom hole location of the well after it is drilled.

11 CHMN. MCCORQUODALE: All in favor say "aye."

12 (All Board members voted "aye")

13 CHMN. MCCORQUODALE: "Ayes" have it.

14 MR. ROGERS: The next item then is Item 18, Docket No. 9-19-06-6, petition by Sklar
15 Exploration Company, LLC.

16 MR. ARMBRECHT: Mr. Chairman, I'm Conrad Armbricht. I'm here representing the
17 petitioner, Sklar, today. This is a petition to make permanent an emergency order of the Board
18 approving an exceptional location for a well in the Northeast Quarter of Section 7, Township 4
19 North, Range 13 East, Conecuh County, Alabama. This well is just north and east of the Little
20 Cedar Creek Field. As it stands right now it is a wildcat well. We will be back probably in
21 November or December to ask that this well be added to that field. Today all we are concerned
22 with is the permanent order for the exceptional location. We have filed an affidavit which
23 explains that this well drifted slightly to the north when it was being drilled, unintentionally.
24 When a direction survey was run this was discovered and that is when we petitioned and got the
25 emergency order. There was an objection filed by some owners who own in the section
26 immediately to the north of this well in Section 6 which is just above Section 7. If you look at
27 that objection you will see what their real complaint is, not about this well but about the lack of a
28 well on Section 6. I can understand anybody near a field would be concerned that wells were

September 21, 2006

1 being drilled near them but not on their property. Sklar has drilled a well just to the west of
2 Section 6 in Section 1 and that well is a dry hole. Sklar has drilled a well to the east of Section 6
3 sort of in the north part of Section 5 and that well is right now questionable as to whether it will
4 ever produce. Sklar has made an effort to define this field and has been more successful than it
5 wanted to be because it has drilled two dry holes up there and has also drilled a dry hole down in
6 Section 8 to the south of the field. So, we've made an effort. I would like to point out that Sklar
7 owns leases covering 40 acres in Section 6. Sklar is in no position to drill a well with the answer
8 to these peoples problem.

9 CHMN. MCCORQUODALE: Now that you have mentioned that, Mr. Armbricht, I
10 didn't want to interrupt you but we have received some communication from several individuals.
11 Let me ask at this time if anybody is here other than Mr. Armbricht who has an interest in this
12 matter who would want to be heard. If so, we will hear from you now. Let the record reflect that
13 nobody responded.

14 MR. ARMBRECHT: Mr. Chairman, we have filed an affidavit of testimony in this
15 matter. We have also filed two affidavits of notice, one of publication and one of mail notice and
16 we would request that those be made a part of the record for this hearing.

17 CHMN. MCCORQUODALE: Admitted.

18 (Whereupon, the affidavits were received in evidence)

19 MR. ARMBRECHT: I also wrote a letter to the Board requesting that the Board take
20 official notice of some materials in its files, specifically the materials that were filed in
21 connection with the emergency order entered with respect to this well and also the materials in
22 the Board's file relating to this well. I would request that that letter and those materials be made
23 a part of the record for this hearing.

24 CHMN. MCCORQUODALE: That request is granted.

25 (Whereupon, the letter was received in evidence; materials
26 requested in said letter were incorporated by reference)

27 MR. ARMBRECHT: I would also like to request that the materials in the Board's files
28 relating to the two wells, the two dry holes that I mentioned earlier, one is Permit No. 14600-B

September 21, 2006

1 and the other is Permit No. 14484, that is a well in Section 1 and Section 5, I would request that
2 materials in the Board's file be made a part of the record for this hearing.

3 CHMN. MCCORQUODALE: That request is granted.

4 (Whereupon, the Board's files relating to Permit Nos.
5 14600-C and 14484 were incorporated by reference)

6 MR. ARMBRECHT: Mr. Chairman, I have here if need be from Sklar a landman, a
7 geologist and an engineer if there are any questions concerning this petition that you would like a
8 witness to address, otherwise unless there are we would request that the petition be granted based
9 on the materials that I just requested be made a part of the record of this hearing.

10 CHMN. MCCORQUODALE: Mr. Rogers, didn't you have some communication from
11 some individuals in a petition form?

12 MR. ROGERS: Yes sir.

13 CHMN. MCCORQUODALE: We will admit that and make it a part of the record as
14 well.

15 (Whereupon, communication from various individuals
16 in petition form was received in evidence)

17 CHMN. MCCORQUODALE: Did we admit the affidavit that Mr. Armbrrecht handed
18 up?

19 MR. ROGERS: I think we did.

20 CHMN. MCCORQUODALE: Out of an abundance of caution, it will be admitted again.
21 (Whereupon, the affidavit was received in evidence)

22 CHMN. MCCORQUODALE: Let the record also reflect that Mr. Dampier has recused
23 himself in this matter. Are there any questions of Mr. Armbrrecht or any comments about the
24 matter that he has presented?

25 MRS. PRITCHETT: Mr. Chairman, I move that we grant the petition.

26 CHMN. MCCORQUODALE: Second. All in favor say "aye."

27 (Board members McCorquodale and Pritchett voted "aye")

28 CHMN. MCCORQUODALE: "Ayes" have it.

1 MR. ARMBRECHT: Thank you.

2 MR. ROGERS: That brings us to the Dominion matter. Mr. Chairman and members of
3 the Board, in previous Board Orders 2006-115 and 2006-130 the Board ordered among other
4 things that operator Dominion Black Warrior Basin, Inc. shall expeditiously review the
5 information received from the drilling of the Andrews 27-14 No. 3 Well and the Dawson well
6 and other wells in the area to establish a field and special field rules including rules addressing
7 well spacing for the reservoir in which these wells are completed. It further ordered that the
8 operator shall report to the Board at the regular hearing of the Board scheduled for September
9 21, 2006, on the establishment of the special field rules for the reservoir in which the wells were
10 completed. That is before the Board at this time.

11 MR. WATSON: Mr. Chairman, I'm here and have Bob Singleton here, the local
12 manager of Dominion. I'm here to report to you on what Dominion and a team of geologists,
13 landmen and engineers have worked on as late as yesterday. Our second team meeting was
14 conducted for the purpose of addressing the very point that you have raised here this morning,
15 that is the establishment of field rules in this new play in Alabama, the Conasauga shale, in east
16 Alabama. We had some eight members of that team here yesterday on a second meeting. We
17 are preparing to come before this Board at your November 3rd hearing with the Special Field
18 Rules defining a field area, defining the productive Conasauga shale interval in that and to
19 reform wells to production units all as a part of that same hearing. We will be meeting hopefully
20 with your staff prior to that to give them the information that we have put together. This will be
21 the first set of Special Field Rules that this Board would entertain for a shale field development.
22 So, we are approaching it very much like the coalbed rules were approached. It will be a matter
23 that we have ideas and we will share those ideas with the staff and with this Board in due course
24 but our plans now are to be before you on November 3rd.

25 CHMN. MCCORQUODALE: Does anybody have any questions of Mr. Watson? Thank
26 you.

27 MR. ROGERS: The next matter relates to Lower 15 Oil Corporation. Mrs. Pritchett
28 heard as Hearing Officer on behalf of the Board a motion by the Board relating to Lower 15 Oil

September 21, 2006

1 Corporation and submitted a proposed Hearing Officer report. That report went out dated
2 September 5, 2006. At this time any parties that wish to comment on that Hearing Officer report
3 should do so. I will note that we received a letter from Ms. McDowell, Ms. Judith McDowell. I
4 will submit that to the members of the Board. In the letter Ms. McDowell says, "We agree with
5 the Board's report and the proposed order concerning the wells in question."

6 MR. DAMPIER: Mr. Rogers, Mr. McCorquodale has recused himself from this matter.
7 As a matter of course I would like to admit this letter from Ms. McDowell into the record.

8 (Whereupon, the Hearing Officer report and letter from
9 Judith McDowell were received in evidence)

10 MR. DAMPIER: As I understand, nobody is here on this matter. I'm sorry.

11 MR. HUTCHINSON: I'm Tim Hutchinson.

12 MR. DAMPIER: Did you have some objections to report?

13 MR. HUTCHINSON: No, I was just kind of going to give an update of the activity since
14 the last hearing. We have cleaned up the site at the Mattie Clark 1. There is one piece of
15 equipment that needs to be removed at the Mattie Clark 3. The Hutchinson well site has been
16 cleaned up. The tank batteries have been cleaned up substantially except I met with Ralph and
17 Bobby Graham at the site and there were a couple of small places that they wanted additionally
18 cleaned up but I don't have any problem. That should all be completed by the October 15th
19 deadline that is in this report. I don't have a problem with that. Things have changed since the
20 last hearing and we are in agreement to plug and abandon the Stewart well. I don't know if the
21 December 1 deadline is realistic. I've got some issues with the staff about--I submitted a
22 plugging plan and they submitted one that I don't think is in compliance. I think it requires more
23 than the rules require. If we can't get that worked out with the staff we will be back before the
24 Board on that but I intend to be back in November on the title issues on the wells that we were
25 talking about, the Hutchinson well about pooling that. The other well, I've got a brief due at the
26 Court of Civil Appeals Monday on the title issue on the Clark wells that were in the East
27 Gilberttown Unit. Once that gets resolved then we will petition to have the Unit dissolved and
28 this 40-acre spacing for those wells. Like I told you before, that matter is pending in Court. I've

September 21, 2006

1 got a brief due in the Court of Civil Appeals Monday on that issue. I believe that is all the
2 issues. The Gibson well had been cleaned up by the time of the hearing in June. The other well
3 sites have been substantially cleaned and it is just the two tank batteries that need some more
4 work done on them.

5 MR. DAMPIER: Thank you, Mr. Hutchinson. The Board is going to take a brief recess
6 for about five or ten minutes and then we will be back. In the meantime I would like to, if you
7 don't have this letter, give you this letter from Ms. McDowell.

8 MR. HUTCHINSON: I would appreciate that.

9 MR. DAMPIER: The Board is in recess.

10 (Whereupon, the hearing was recessed for five minutes)

11 MR. DAMPIER: Let the record reflect that the Board is back in session. Mr.
12 Hutchinson, I want to thank you for coming today and providing the Board with an update. We
13 are here today just on the Hearing Officer report. I am going to move that the Board accept the
14 Hearing Officer report as written.

15 MR. HUTCHINSON: Can I make one request for a correction in Paragraph 12?

16 MR. DAMPIER: Let me get that before you do, one second.

17 MR. HUTCHINSON: In the second sentence it says Ms. McDowell and Ms. Massengale
18 presented evidence that they were mineral interest owners. Down later on there is a statement
19 that says Ms. Pugh submitted a statement stating that she was a mineral owner. I don't believe
20 there was any--other than Ms. McDowell and Ms. Massengale stating that they were owners I
21 don't believe there was any evidence, and I don't want anything in any record anywhere because
22 they are not owners, indicating that evidence was presented. All I would like it to say instead of
23 presenting evidence is they stated that they were mineral owners.

24 MR. DAMPIER: Were they under oath and testifying when they said that?

25 MR. HUTCHINSON: Yes. They stated that. They didn't present any other evidence.

26 MR. DAMPIER: Okay. Thank you. With that said I move that the Board adopt the
27 Hearing Officer report as written.

28 MRS. PRITCHETT: Second.

1 MR. DAMPIER: All in favor say "aye."

2 (Board members Dampier and Pritchett voted "aye")

3 MR. DAMPIER: "Ayes" have it.

4 (After hearing two emergency petitions, the Board resumed the regular meeting)

5 MR. ROGERS: Mr. Chairman and members of the Board, that would bring us then to
6 Item 21, Docket No. 8-22-06-15, motion by the Board relating to the bond for operator Escambia
7 Operating Company, LLC.

8 CHMN. MCCORQUODALE: Does anybody have anything additional on this issue? I
9 know there was a hearing previously and then there was a meeting with the staff and the
10 Supervisor and certain information has been requested to be provided. Is there anything, Mr.
11 Watson, that Escambia would like to offer today in addition to that? I'm not saying that you
12 need to or have to.

13 MR. WATSON: No sir I understand. The only point I was going to make is that in
14 response to your request we did conduct a meeting with the Supervisor and tried to provide him
15 with the kind of information that he felt like he needed to advise you on this matter.

16 CHMN. MCCORQUODALE: We are going to leave this matter open for a time this
17 morning and we will make some ruling on it later in the meeting.

18 MR. ROGERS: The next item then is Item 22, Docket No. 9-19-06-8. That is a motion
19 by the State Oil and Gas Board for S. Lavon Evans, Jr. Operating Company, Inc. to submit to the
20 Board certain documents required by the Board in Order No. 2006-6 dated January 13, 2006. In
21 that order the Board issued a fine of \$10,000 for violations of certain regulations and ordered that
22 "for all the permitted wells that S. Lavon Evans, Jr. Operating Company, Inc. presently operates,
23 it shall submit within a timely manner to the Board with notice and hearing (a) a written title
24 opinion prepared by a licensed Alabama attorney, (b) a report naming all royalty owners and
25 their interest in the unit, and (c) a statement by a licensed Alabama attorney that the Affidavit of
26 Ownership or Control for each permitted well operated by S. Lavon Evans, Jr. Operating
27 Company, Inc., is accurate." That is what is before the Board today. I would request that a copy
28 of that Board order be admitted into the record.

September 21, 2006

1 CHMN. MCCORQUODALE: It is admitted.

2 (Whereupon, a copy of Board Order No. 2006-6 was
3 received in evidence)

4 CHMN. MCCORQUODALE: Is there anybody here on behalf of S. Lavon Evans, Jr.
5 Operating.

6 MR. TAYLOR: I am.

7 CHMN. MCCORQUODALE: You have heard what Mr. Rogers stated. I'm sure you are
8 aware of the purpose for this matter being on the docket, that is to submit those items identified
9 as A, B and C in the previous order of the Board.

10 MR. TAYLOR: I have those items here.

11 CHMN. MCCORQUODALE: If you would just for the record, identify yourself.

12 MR. TAYLOR: My name is Ron Taylor. I work for S. Lavon Evans, Jr. I have those
13 items here but I also have a request in the form of a Motion that the items requested be held
14 confidential by the Board as they are for the most part covered by attorney-client privilege.

15 CHMN. MCCORQUODALE: Do you want to expand on that a little bit? The reason
16 I'm asking the question is that the things that we have asked for would be the title opinions with
17 regard to ownership of the property and minerals, a report identifying the owners and then just a
18 statement from the attorney, an Alabama licensed attorney, that these things are accurate. It
19 strikes me just as an initial observation that these are all matters of public record at the
20 courthouse.

21 MR. TAYLOR: They are the work of an attorney.

22 CHMN. MCCORQUODALE: He obtains that through the public records is I guess what
23 I am saying.

24 MR. TAYLOR: That's correct.

25 CHMN. MCCORQUODALE: You can file your motion with us and we will consider it.
26 Let's just do that.

27 MR. TAYLOR: I have it right here. May I present it?

September 21, 2006

1 CHMN. MCCORQUODALE: Sure. Absolutely. You are the gentleman I assume that
2 signed this, Ronald R. Taylor?

3 MR. TAYLOR: Yes.

4 CHMN. MCCORQUODALE: Your position, it says Operations Controller. Is that
5 correct?

6 MR. TAYLOR: That is correct.

7 CHMN. MCCORQUODALE: You are not an attorney, I'm assuming?

8 MR. TAYLOR: No sir.

9 CHMN. MCCORQUODALE: Trust me; I'm not holding that against you.

10 MR. TAYLOR: No. I just came as the delivery boy to bring this box of stuff.

11 CHMN. MCCORQUODALE: That may work to your advantage dealing with these
12 three up here. I understand what you are saying. Mr. Rogers, if you will just identify and mark
13 the motion. You are representing to us because obviously we have not seen it yet that the things
14 in the box that you have brought up are those things that the Board had requested in that previous
15 order?

16 MR. TAYLOR: That is correct. I'm here to deliver that.

17 CHMN. MCCORQUODALE: I think there are others here that want to be heard on this
18 matter. So, at the moment, Mr. Taylor, if you don't have anything else to say other than to
19 deliver the package and if you do we will be glad to hear from you but if not I think there are
20 others that want to be heard from here and we will give them an opportunity to do so, if they
21 want to be.

22 MR. TAYLOR: I have no problem with that. I may request that we have the opportunity
23 to have some form of rebuttal.

24 CHMN. MCCORQUODALE: Sure. Absolutely. If you will have a seat you will have a
25 chance to hear from them and then you will have a chance to respond to what they say.

26 MR. TAYLOR: May I give these to you?

27 CHMN. MCCORQUODALE: Yes sir, just hand those up if you would. Why don't you
28 let him hand the stuff that he has brought up here to us and then I think Mr. Taylor that there are,

September 21, 2006

1 prior to hearing from others who are interested, I think there are some questions that the
2 Supervisor and the staff and perhaps the Board would like to ask of you.

3 MR. TAYLOR: I will answer to the best of my ability.

4 MR. MASINGILL: Mr. Taylor, could you identify for us the wells and permit numbers?
5 We obviously have not looked at what you have handed us but could you just give us the list of
6 wells. Do you need the box back to identify them?

7 MR. TAYLOR: We would need the box back, sir, to give you that list. They are the
8 wells that we are currently operating. We are not planning on plugging any of these wells. They
9 are the ones that are currently producing and we are operating. We have several unplugged
10 wells. We have got a workover rig that we plugged the one well and the derrick collapsed on it.
11 We should be back and plugging with the replacement rig for that within the month. Due to the
12 tremendous amount of paper here, we just decided to go with the wells that are operating.

13 CHMN. MCCORQUODALE: He has not been sworn in.

14 MR. MASINGILL: If you could just run through the list where it is identified for the
15 record. I think that would be helpful, Mr. Taylor.

16 CHMN. MCCORQUODALE: Why don't you do this, Mr. Taylor, because we are past
17 now your just being the individual delivering the documents to the point that you are answering
18 some questions. I think in order to do that you probably need to be under oath. Okay?

19 MR. TAYLOR: No problem.

20 MR. ROGERS: Will you state your name and address?

21 MR. TAYLOR: Ronald R. Taylor, Laurel, Mississippi.

22 (Witness was sworn by Mr. Rogers)

23 CHMN. MCCORQUODALE: Are there questions for Mr. Taylor?

24 MR. MASINGILL: Mr. Taylor, would you just go through the wells with which you
25 have handed information up for us.

26 MR. TAYLOR: Certainly. The Holman 34-10, Permit No. 9986-A; Holman 36-10,
27 Permit No. 11797; Williamson 1-1, Permit No. 11865; Hardy 31-12, Permit No. 12118;
28 Cunningham 31-10, Permit No. 12202; Newman 36-9, Permit No. 12282; Collins 12-11, Permit

September 21, 2006

1 No. 12548; Weyerhaeuser 33-15, Permit No. 12974; Weyerhaeuser 4-1, Permit No. 12975;
2 Gearn 14-1, Permit No. 12919; Holman 35-6, Permit No. 13041; Shepherd 35-16, Permit No.
3 13042; Earnest 26-15, Permit No. 13133; Weyerhaeuser 3-7, Permit No. 13260; Alawest 34-13,
4 Permit No. 13311; Champion International 35-13, Permit No. 13384, Earnest 26-14, Permit No.
5 13905.

6 MR. MASINGILL: Thank you.

7 CHMN. MCCORQUODALE: Are there other questions or comments from the Board or
8 the staff?

9 MR. ROGERS: I have this question. Obviously, we will have to look at this but were
10 these title opinions prepared after the wells were drilled and after the affidavit of ownership or
11 control was filed or were they prepared before the affidavit was filed, if you know the answer?

12 MR. TAYLOR: A drilling title opinion--most of these are division order title opinions.
13 Those are run after a well is drilled.

14 MR. ROGERS: My question is, did you have and did you submit a title opinion that was
15 prepared before the well was drilled, before the affidavit of ownership or control was submitted?

16 MR. TAYLOR: No sir, these are for the most part division order title opinions reflecting
17 royalty owners.

18 MR. ROGERS: Thank you.

19 MRS. PRITCHETT: There is a letter from Mr. Tyra stating what title opinions are
20 provided for each of those wells, whether it was a preliminary drilling title opinion, division
21 order title opinion or a supplemental division order title opinion.

22 MR. ROGERS: This means that we need to review this since it was not prefled.

23 MR. DAMPIER: I was just going to comment, Mr. Taylor, we appreciate you bringing
24 these records and documents here but normally you need to prefled materials so that the staff
25 has a chance to look at it. It is required by the rules.

26 CHMN. MCCORQUODALE: Are there other questions or comments? Are there others
27 then that want to be heard or to ask questions of Mr. Taylor? Now is the time.

September 21, 2006

1 MR. PIPES: I'm Wesley Pipes. I'm here for Ms. Frances Evans. I don't know if this is
2 the time to do it but there was a request by Lavon Evans that the materials they produced be kept
3 in confidence. We would object to that. I don't know if you would like for us to address that at
4 this point?

5 CHMN. MCCORQUODALE: Yes. We would like to hear from you about that, if you
6 are prepared to do that now.

7 MR. PIPES: Yes sir. Specifically Ms. Evans objects to not being able to review the
8 materials. They are ordered to be produced by this Board. As you pointed out, even the title
9 opinions were given from public records and public information but even more importantly than
10 that the other two materials that were ordered to be produced can in no way be described as work
11 product or attorney/client communication, specifically the list of royalty owners and the royalty
12 interest. Also, the certification by a licensed Alabama attorney that the affidavits are correct. I
13 don't see how those could ever be characterized as privileged. In this particular case, Ms. Evans
14 is here and she would like to speak at some point but in this particular case I believe there are
15 royalty owners who would like to actually see those materials to see if, in fact, they are accurate
16 with their understanding, their royalty interest and ownership. I would also like to point out that
17 back in November when this started as a result of that, the Board specifically found that Evans
18 had filed false affidavits. My only point would be that even if the Board is inclined to think that
19 the title opinions are somehow privileged, I would say that Evans has waived that. The whole
20 point of the affidavit is to assure the Board that they have 100 percent ownership. That trust was,
21 in effect, violated. I believe that the public and the royalty owners have a right to see what is
22 going on, the see the basis--even the basis of the list of royalty owners and the interest that they
23 have produced. In that vein, we would say that it should all be produced.

24 CHMN. MCCORQUODALE: Let me move then to Mr. Taylor, just specifically on the
25 issue of his motion regarding confidentiality and see if he wants to respond to what you said.

26 MR. TAYLOR: I believe you are opening up a whole new can of worms when you start
27 turning division orders open to the general public. What this Board rules on is going to set a
28 precedent that is going to reverberate throughout the industry.

September 21, 2006

1 CHMN. MCCORQUODALE: Anything further?

2 MR. TAYLOR: No sir.

3 CHMN. MCCORQUODALE: The motion to request confidentiality of the matters that
4 have been produced pursuant to this Board's order is denied. They will not be held confidential.
5 Do you have anything else, Mr. Pipes?

6 MR. PIPES: Ms. Evans would like to speak. I don't know if this is an opportune time
7 for her to do that or not.

8 CHMN. MCCORQUODALE: It can be. This is a little bit informal but we are a little bit
9 informal here.

10 MS. EVANS: Before I speak I would like to say in addition to my problems, I care about
11 all the mineral owners, royalty owners in Alabama. The Bollar lease comprising 9,000 gross
12 acres was signed by my mother, Frances Thomas, without a Pugh clause. It was then held by
13 production by Anderman, Grace and Patrick.

14 CHMN. MCCORQUODALE: Excuse me, Ms. Evans. Let Mr. Rogers put you under
15 oath if you are going to make a statement for the record.

16 MR. ROGERS: Will you state your name and address?

17 MS. EVANS: Frances Evans, 2236 Pelham, Houston, Texas.

18 (Witness was sworn by Mr. Rogers)

19 CHMN. MCCORQUODALE: So that you don't have to start over, I will just remind you
20 that those things that you have said were under oath. Is that fair enough?

21 MS. EVANS: Yes. The Bollar lease comprising over 9,000 gross acres was signed by
22 my mother, Frances Thomas, and it had no Pugh clause. It was HBP by Anderman, Grace and
23 Patrick and then she instituted a suit against these companies. This resulted in a settlement
24 agreement which modified the terms of the original lease. Lavon Evans then drilled six wells on
25 the Bollar lease and did not pay me for two to three years after the first date of production. I
26 received incorrect division orders, check marked insufficient funds. I now receive, still violating
27 the law on late payments, I still receive my monthly checks in the middle of the month for the
28 preceding month. I then wrote Mr. Evans a letter asking for the release of the Old Harmony 33-

September 21, 2006

1 11. I want to quote the letter I received. "I cannot find in our records where we leased the Bollar
2 lease from you." So, I haven't received the release. Mr. Evans has not complied with the Bollar
3 agreement.

4 CHMN. MCCORQUODALE: Would you like to respond to that, Mr. Taylor?

5 MR. TAYLOR: Yes sir, I would. The Bollar lease is a sealed document. We have been
6 operating without the knowledge contained within that document since we started.

7 CHMN. MCCORQUODALE: Could you explain what you mean by that?

8 MR. TAYLOR: Yes sir, we have never seen the lease.

9 CHMN. MCCORQUODALE: You said it is a sealed document. Sealed by whom I
10 guess?

11 MR. TAYLOR: Ms. Evans or the Court under her request.

12 CHMN. MCCORQUODALE: Do you want to shed some light on that, Mr. Pipes?

13 MR. PIPES: I can. What happened was, the Bollar lease was made in 1969 by Ms.
14 Evans parents. In 1983 I believe there was a lawsuit in Lamar County that resulted in a
15 settlement. The settlement agreement was a confidential agreement, however, that agreement
16 has been provided to Evans attorney, Mr. John Tyra. So, I would assume that Evans has access
17 to that agreement. It modifies the terms of the lease, certain aspects.

18 MR. DAMPIER: Mr. Pipes, do you know how to spell the name of that lease? I'm sorry.

19 MS. EVANS: Your working interest had copies of it. Now we are talking about the
20 agreement and you were obligated to follow that agreement and you have not complied with it.
21 The lease is filed of record, the agreement is under seal but it was given to your working interest
22 and they had it.

23 CHMN. MCCORQUODALE: Do you have anything further, Mr. Pipes or Ms. Evans?

24 MR. PIPES: No sir.

25 CHMN. MCCORQUODALE: Is there anybody else that would like to be heard? Tell us
26 who you are and speak into that microphone.

27 MR. DELK: I'm Maurice Delk from Millport, Alabama. I would just like to ask some
28 questions. When I call down there I can't get any questions answered. The lady that is suppose

September 21, 2006

1 to answer them is either out or on the phone or going to call you back but they never do or they
2 are out and in a meeting and are going to call you back. You leave your phone number and they
3 never do.

4 CHMN. MCCORQUODALE: Are you a royalty owner?

5 MR. DELK: Yes sir.

6 CHMN. MCCORQUODALE: Tell us which one of these wells affects you, if you
7 would.

8 MR. DELK: The first one was the Old Harmony well. I didn't know until I was over
9 here sometime back that they produced it for a while and then shut it down. I finally found out
10 from over here how much they produced out of it. Of course, they never paid me anything for it.
11 I didn't even know what came out of it. I'm also in the Weyerhaeuser 33-15. Mr. Evans gets
12 behind like Ms. Evans talked about there with checks, you know. You call down there and you
13 don't know whether they have been mailed out or lost in the mail or whatever and you get the
14 same runaround. It was five months behind and after I had to get a lawyer to write them a letter
15 threatening to sue, they finally paid. I believe I got the check on the 7th day of this month. It was
16 five months behind. Of course, there was no interest to that. I understand Alabama State law
17 says if it is past 60 days they are suppose to pay 12 percent interest on it. Maybe Mr. Taylor
18 might have some answers to why they don't do that.

19 CHMN. MCCORQUODALE: Let me say this to you and to any others here who have
20 similar interest in this. This has come up over the years as you might imagine, that is that royalty
21 owners have come before us and complained that they have not been paid at all or certainly in a
22 timely fashion. This Board does not have the jurisdiction to enter a judgment against an oil
23 company saying you own John Doe \$50,000. We don't have that jurisdiction. The Circuit Court
24 does. Over the years I have encouraged people to retain attorneys and file suits if in fact they
25 feel that they are owed money that has not been paid. The proper form for that is in the Circuit
26 Court of whatever county your property might be involved in. Now, this Board does, however,
27 having said that have a very keen interest in knowing whether or not operators who are operating
28 in this state with our blessing are doing what they are suppose to do to take care of the citizens

September 21, 2006

1 and the royalty owners with whom they are suppose to be dealing. They are supposed to deal
2 with them fairly and honestly. If they do not, even though we do not have the jurisdiction to
3 enter a judgment against them like the Circuit Court does, we do have the authority to determine
4 whether or not they are a prudent operator that ought to be allowed to continue to operate in the
5 State of Alabama. For those reasons, we have an interest in knowing whether or not they are
6 treating you right.

7 MR. DELK: I understand. One question I would like to ask, they pay, you know, the
8 royalty owners get paid from what's metered at the well head. They have a certified company or
9 people that supposedly check these meters to see if they are operating right. Is that right, Mr.
10 Taylor?

11 MR. TAYLOR: The meters are tested and calibrated quarterly. We are paid by the
12 purchaser for the amount of gas that we sell the purchaser. The royalty owner gets his
13 proportionate share of the production from the well in which he has an interest.

14 MR. DELK: How often are those meters calibrated to see if they are accurate?

15 MR. TAYLOR: We calibrate our meters quarterly. The purchaser does it whenever he
16 does his, normally it is quarterly. I don't know if they are required to do it more often but if
17 there is any discrepancy between, any big discrepancy, there is always a little bit between the
18 two sets of meters, then everybody gets to recalibrate again.

19 MR. DELK: Who calibrates your meters? Do you recall when that was last calibrated?

20 MR. TAYLOR: Not off hand, no.

21 MR. DELK: Well I had a certified man look at it. Your field man came over there at the
22 time he was looking at it. The meter may be right. I don't know. You can't tell it with testing
23 equipment because the pipe was completely stopped up, the pipe going to the meter. It
24 apparently hadn't been tested in a while.

25 CHMN. MCCORQUODALE: Did you tell us, in fact, that you had retained an attorney
26 to help you collect your money?

September 21, 2006

1 MR. DELK: Yes sir. He wrote them a letter. I knew y'all didn't have the authority to do
2 that but I was wondering about the meter deal and how they knew what was accurate, what they
3 would know was accurate about it.

4 MR. DAMPIER: You say the pipe leading to the meter was stopped up. Are you saying
5 there was production that was taking place that was not being metered?

6 MR. DELK: Well, I don't know whether it is right or not or how they know that the
7 meter is right. When the man put his equipment on it and tested it you couldn't test it.

8 MR. DAMPIER: Do you mean the man from the State Oil and Gas Board, the field
9 agent?

10 MR. DELK: This was certified.

11 CHMN. MCCORQUODALE: You are talking about your man checking it to see if it
12 was right?

13 MR. DELK: Yes.

14 CHMN. MCCORQUODALE: While he was checking it a representative from the Board
15 happened to come out here.

16 MR. DELK: He came out there and stood there and watched.

17 CHMN. MCCORQUODALE: But the Board representative was not checking this
18 calibration.

19 MR. DELK: No, no. He just drove up there checking the well site while it was being
20 tested. The little pipe about like your little finger--I mean I'm dumb in it--but about like your
21 finger goes up and comes up through your valves and comes up to where it goes up to the
22 metering thing right there and it was completely stopped up. How they know they are accurate,
23 that's what my question was. It may be accurate but how do you know if you can't test it.

24 MR. DAMPIER: This is on the Weyerhaeuser well?

25 MR. DELK: Weyerhaeuser 33-15.

26 MR. DAMPIER: Mr. Taylor, the person that you talked about that does the calibration of
27 the meters, is that an independent company or is that Evans?

September 21, 2006

1 MR. TAYLOR: We do it both ways, an independent company and our people. If the
2 meter appears to be malfunctioning we will take a look at it and clean it.

3 MR. DAMPIER: Have you heard any reports about the metering at this Weyerhaeuser
4 well?

5 MR. TAYLOR: This particular well, no sir.

6 MR. DAMPIER: Any wells that you brought here today, have you had any problems
7 with the metering that you know of?

8 MR. TAYLOR: Not to my knowledge. I made a note of that and I'm going to check into
9 it.

10 MR. DAMPIER: Thank you.

11 MS. ARNOLD: Foster Arnold representing CD Exploration. Given your denial of S.
12 Lavon Evans, Jr. Operating Company's request to keep those title opinions that they submitted
13 thus far confidential, it actually alleviates me with the necessity of making much of our argument
14 today. What that leaves me with is an inquiry as to the number of opinions that they may have to
15 produce in the future. I noticed that the quoted portion from the Board Order is that they
16 produce opinions as to all wells permitted that the operating company presently operates, not just
17 producing. The reason I bring this up is the following. Obviously, your denial of the
18 confidentiality order on the ones that they are producing that they have submitted thus far means
19 that CDX obviously has the right to go in and look at those and see if they are entitled to be paid.
20 However, it is a little bit broader issue for CDX. They owned a significant amount of lease
21 acreage in the Wiley Dome area which they farmed out to Wausau Development who has
22 entered--that's an Evans company--which has entered into an operating agreement with S. Lavon
23 Evans, Jr. Operating Company on many of those wells. Under that farmout there are certain
24 obligations ranging from indemnity provisions to plug and abandon wells properly that aren't
25 producing and don't have any hopes of producing, etc. It's a relevant issue to CDX as to
26 confirmation of the ownership on various wells that may not be producing as to which S. Lavon
27 Evans, Jr. Operating Company is operator so that they can determine whether it is a well that
28 they should be enforcing their requirements that wells be plugged and abandoned under that

September 21, 2006

1 farm-out. I noted that they didn't prefile their well list they have submitted those opinions for
2 and I know that Marvin and Jay and the rest of the Board's staff are very thorough and I feel sure
3 they will be going back through that list and determining whether additional title opinions and
4 certifications should be filed. We did want to make you aware of that because this farm-out
5 exists, the issues are a little bit broader for CDX in determining that they have got the ownership
6 of all operator wells listed and confirmed with the Board and that those be made available to
7 them as well.

8 CHMN. MCCORQUODALE: Are there any other questions or comments from
9 anybody? Do you have anything else you want to add in response either to what Ms. Arnold just
10 said or anyone else, Mr. Taylor?

11 MR. TAYLOR: Yes. In response to Ms. Arnold and CDX request for that information,
12 two days ago, pardon me if I get the name wrong, but Ms. Tonya Carlson, who is sitting next to
13 Foster Arnold over there, asked me by telephone specifically for that information that is on the
14 division orders. I had prepared the information on the four wells that she asked me about three
15 days ago or two days ago, whichever. Yesterday it was ready to go out in the mail and she calls
16 up and asks for two more. She has that information in her hands. I gave it to her this morning.
17 It's not like we don't work with people. It's like they have to communicate.

18 MS. ARNOLD: And we appreciate their efforts to work with us in bringing us certain
19 information that they did turn over to CDX this morning with regard to a limited number of
20 wells. They by no means include all of the wells, the units for which include lands that are
21 purported to be covered by the farm-out leases, covered under the farm-out agreements that are
22 the subject of that contract matter between the operating company and CDX. There are various
23 issues that they are working on through other legal courses right now but in the sense of the
24 ownership and control issue and whether they do have full ownership and control so as to
25 comply with the Board order on all operated wells is still relevant despite the fact that he did turn
26 over an excerpted amount of information from title opinions on a very limited number of wells.

27 CHMN. MCCORQUODALE: Are there any other comments or questions from anyone?

September 21, 2006

1 MR. SCHLOSSER: My name is Fred Schlosser. I'm from Lamar County, near Vernon.
2 You answered one of my questions. My main concern for attending the meeting was to find out
3 why it takes so long to get royalty checks, months and months and in one case over a year.
4 While I'm here I would like to mention, it's really no immediate concern of mine but the Derrick
5 well which I did have an interest in when it was operating, there are a number of needy people in
6 the area who have not even received orders and no checks at all. The well has been closed for I
7 guess a year or more. I would like that on the record, please.

8 CHMN. MCCORQUODALE: Now that you bring it up and I think Ms. Evans made
9 some reference to it and the other gentleman made a reference to it, in fact, to the point of hiring
10 an attorney. Mr. Taylor would you like to address that? You don't have to but it just gives you
11 an opportunity to address why it is that S. Lavon Evans Operating Company is apparently, at
12 least with regard to how these people have dealt with you, been very delinquent in making
13 payments to them. Do you have any explanation for that or would you like to offer one?

14 MR. TAYLOR: I wish I could. I do not write the checks. I do not sign the checks. If I
15 did anything it would be sheer conjecture and I would rather not.

16 MR. DAMPIER: Mr. Taylor, on your affidavit you listed something; I think it is
17 Operations Manager or something like that.

18 MR. TAYLOR: Operations controller.

19 MR. DAMPIER: What actually do you do day-to-day? What is an operations controller?

20 MR. TAYLOR: I pretty well fill in the blanks, kind of a jack of all trades and master of
21 none.

22 CHMN. MCCORQUODALE: Maybe you need to start writing the checks.

23 MR. TAYLOR: Only Mr. Evans does that.

24 CHMN. MCCORQUODALE: Mr. Evans himself does that?

25 MR. TAYLOR: Yes sir.

26 MR. SCHLOSSER: I might mention a most recent experience. I believe it was April
27 29th I received two checks. One was for November dated in January and the other was for
28 December. Just within the past two weeks I received one check up through June, so we are more

September 21, 2006

1 or less current at the time. It's aggravating to talk to other neighbors who are up-to-date
2 constantly. The lady that I talked to in the office says, well we have a tier of payments and you
3 are not on the list that gets paid first, which doesn't make sense to me.

4 CHMN. MCCORQUODALE: It doesn't to me for what it's worth.

5 MR. DAMPIER: Could you spell your name?

6 MR. SCHLOSSER: Schlosser.

7 MR. DAMPIER: And your address again?

8 MR. SCHLOSSER: It's Vernon, Alabama.

9 CHMN. MCCORQUODALE: Are there other questions?

10 MRS. PRITCHETT: Mr. Taylor, I have a couple of questions for you. The Board's
11 order did provide that S. Lavon Evans was supposed to provide written title opinions for all
12 permitted wells that S. Lavon Evans, Jr. Operating Company presently operates. That means at
13 the time of the order. That would have been 31 wells. S. Lavon Evans, Jr. Operating Company
14 has submitted 17 title opinions, just barely over half of what the Board ordered to be produced.
15 S. Lavon Evans, Jr. Operating Company did not contact this Board prior to today and let us know
16 that there was a problem with providing those title opinions or that those title opinions would not
17 be provided or ask the Board's permission to bring those at a later time. Can you tell me what
18 happened and why those 14 title opinions were not provided and when you intend to provide
19 them?

20 MR. TAYLOR: What happened was that we provided the ones that we are currently
21 operating. The ones that are missing obviously have been shut-in and are not producing.

22 MRS. PRITCHETT: But they are permitted.

23 MR. TAYLOR: They are not operating so there is a matter of maybe a lack of
24 understanding of the Board's order. We did not have a list to go by so we didn't know what to
25 provide. We are only producing twelve wells right now and yet we did provide 17 because we
26 thought we were going the extra mile. If you would provide us with a list of the ones you would
27 like we will go ahead and dig through our files and find those title opinions.

September 21, 2006

1 MRS. PRITCHETT: For the record those are the Alawest 2-3 well, the Holman 34-10
2 No. 2 well, the Holman 34-15 well, the Bane 36-14 well, the U.S. Steel Corporation 21-13 well,
3 the Gartman 2-4 well, the Bolton 1-4, well, the Alawest 1-12 well, the Weyerhaeuser 2-1 well,
4 the Langston 10-3 well, the W.H. Smith Estate 17-1 well, the McNees 3-12 well, the Christian 3-
5 8 well and the Champion International 3-10 well. I will ask the staff to provide you with a copy
6 of that.

7 MR. TAYLOR: Thank you.

8 MS. ARNOLD: If I may, Foster Arnold again for the record. Mr. Taylor has noted that
9 most of the opinions if not all that he has turned in today are division order title opinions. I'm
10 sure Mr. Pipes would agree with me that there is a different level of detail that is included within
11 a division order title opinion that is issued prior to payment of the proceeds on a well versus a
12 preliminary drilling title opinion where the ownership issues are worked out. Based on what I
13 have heard from him as to when a party wants to inquire as to what percentage interest they may
14 own in a well, and I put emphasis on this, why, the why would very potentially be left out of the
15 division order title opinion.

16 MR. DAMPIER: Mr. Taylor, I'm just curious after hearing this testimony today about
17 the late payments on these royalty checks that you are going to check out and find out what is
18 going on, is the company in any type financial straits or having any difficulty at this time?

19 MR. TAYLOR: Not to my knowledge.

20 CHMN. MCCORQUODALE: The Board will be in recess.

21 (Whereupon, the hearing was recessed for ten minutes)

22 CHMN. MCCORQUODALE: Let the record reflect that the State Oil and Gas Board is
23 back in session.

24 MRS. PRITCHETT: Mr. Chairman, I move that we continue Item No. 22 to the next
25 hearing.

26 MR. DAMPIER: Second.

27 CHMN. MCCORQUODALE: All in favor say "aye."

28 (All Board members voted "aye")

September 21, 2006

1 CHMN. MCCORQUODALE: "Ayes" have it. Mr. Taylor, so that you can take the word
2 back, the rationale for that is that we don't really know what all we have until we look at it.
3 Okay? I think there are some concerns that have been expressed here today that the Board shares
4 and those are at least twofold, No. 1 being the expressions of several people here about not being
5 able to get their checks on time although as I stated earlier we don't have jurisdiction to make
6 you do that. We have got jurisdiction to do some other things. We have a concern that people
7 are not getting paid in a timely fashion or in some instances perhaps not at all. You have
8 explained to us that you don't know the answer to that, that Mr. Evans would be the one that
9 would know the answer to that. I would suggest that Mr. Evans come give us the answer to that
10 next month. Beyond that the question was asked of you, is there a financial problem somewhere
11 with this company that is causing these other problems and you also answered that you didn't
12 know the answer to that. My guess is that Mr. Evans knows the answer to that also; one more
13 reason why we think he probably ought to be here next time. Okay?

14 MR. TAYLOR: Yes sir.

15 CHMN. MCCORQUODALE: We thank all of you for coming. That brings us back to
16 Item 21, the motion by the Board regarding the bond on Escambia Operating Company, LLC.

17 MR. DAMPIER: Mr. Chairman, I move that we take Item 21 under advisement.

18 MRS. PRITCHETT: Second.

19 CHMN. MCCORQUODALE: All in favor say "aye."

20 (All Board members voted "aye")

21 CHMN. MCCORQUODALE: Mr. Watson, it is the intention of the Board to give you an
22 answer very quickly but we want to study that financial information a bit more before doing that.
23 It will be forthcoming today or tomorrow, I mean right away. Thank you. Any other business to
24 come before the Board? We stand adjourned.

25 (Whereupon, the hearing was adjourned at 12:04 p.m.)

REPORTER'S CERTIFICATE

STATE OF ALABAMA

COUNTY OF TUSCALOOSA

I, Rickey Estes, Hearing Reporter in and for the State of Alabama, do hereby certify that on Thursday, September 21, 2006, in the Board Room of the State Oil and Gas Board Building, University of Alabama Campus, Tuscaloosa, Alabama, I reported the proceedings before the State Oil and Gas Board in Regular Session; that the foregoing 42 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 kin nor counsel to the parties to said cause, nor in any manner interested in the results thereof.


Rickey Estes
Hearing Reporter